RATING REPORT

Associated Technologies (Pvt.) Limited

REPORT DATE:
June 3, 2022

RATING ANALYSTS:

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RATING DETAILS		
Rating Category	**Initial Rating**	
	Long-term	**Short-term**
Entity	A-	A-2
Rating Outlook	Stable	
Rating Action	Initial	
Rating Date	*Jun 3, 2022*	

COMPANY INFORMATION

Incorporated in 1987	**External auditors:** Naveed Mukhtar & Co. Chartered Accountants
Private Limited Company	**Chairman/CEO:** Mr. Mobashir A. Malik
Key Shareholders (with stake 5% or more):	
Mr. Mobashir A. Malik & Family – 100%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Corporates (August 2021)
https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf

OVERVIEW OF THE INSTITUTION

Associated Technologies (Pvt.) Limited (ATL) was incorporated in October, 1987 as a private limited company under the repealed Companies Ordinance, 1984. Principal activities of the company include manufacturing, fabrication of steel towers and construction of civil works. Head office of the company are situated at 142 D, Model Town, Lahore.

Profile of Chairman/CEO

Mr. Mobashir A. Malik also serves as Chairman & Chief Executive Officer (CEO) of the company. He has done Masters in Mechanical Engineering from Texas A&M University, USA and carries around 35 years of work experience in management and engineering including association with ATL since its inception.

Financial Snapshot:

Net Profit: HY22: Rs. 94m; FY21: Rs. 148m; FY20: 26m.

Net Equity: HY22: Rs. 5.5b; FY21: Rs. 5.3b; FY20: Rs. 5.1b.

RATING RATIONALE

Associated Technologies (Pvt.) Limited (ATL) was incorporated in October, 1987 as a private limited company under the repealed Companies Ordinance, 1984. Principal activities of the company include manufacturing and fabrication of steel towers and construction of civil works. ATL is a family-owned business with 100% shareholding vested with Mr. Mobashir A. Malik & family. Head office of the company is situated at 142 D, Model Town, Lahore.

Key Rating Drivers

Production capacities

Since its inception, ATL has manufactured and supplied telecommunication towers and developed infrastructure in the sectors of energy, hydropower and telecommunication along with installation of over 14,000 Base Transceiver Station (BTS) sites for all the telecommunication operators in Pakistan. The company's factory located at 21-km Multan Road, Lahore where fabrication of galvanized steel components is carried out. The facility is ISO 9001, 14000 & 18000 certified and has fabrication capacity of around 14,000 tons per annum and galvanization capacity of 25,200 tons per annum. Within the fabrication unit, the company has the capacity to produce 6,480 tons of tower legs and 4,860 tons of tower braces per annum. Capacity utilization was recorded at 71.4% during FY21.

Business operations

Operations of the company are divided into three segments, namely Fabricated Steel Products, Construction Contracts, and Site Services.

Fabricated Steel Products is the largest segment which accounted for two-third of revenues during FY21. The segment is responsible for manufacturing and sale of steel structures to both public and private sector clients such as electricity distribution companies (DISCOs), Huawei Technologies Pakistan (Pvt.) Limited, Zhonxing Telecom (ZTE), and CM Engineering (Pvt.) Limited. etc. Following table shows details of contracts executed over the past five years:

Customer Name	Scope	Contract Value	Start Date	End Date
GEPCO/WAPDA	Tower Legs	Rs. 242.3m	March 2015	March 2015
FESCO/WAPDA	Tower Legs	Rs. 24.1m	February 2016	February 2016
TESCO/WAPDA	Tower Legs	Rs. 27.8m	February 2016	February 2016
IESCO	Tower Legs & Accessories	Rs. 110m	September 2016	September 2016
MEPCO/WAPDA	Tower Legs & Accessories	Rs. 305.9m	December 2016	December 2016
NTDC/WAPDA	Tower Legs	Rs. 175m	March 2017	March 2017
QESCO	Tower Legs	Rs. 181.4m	June 2017	June 2017
HESCO	Tower Legs/Beams	Rs. 394.1m	November 2019	November 2019
NTDC	Supply of Tower	Rs. 297m	September 2020	September 2020
NTDC	Supply of Tower	Rs. 351m	December 2020	December 2020
IESCO	Tower Legs	Rs. 373m	April 2021	April 2021
IESCO	Tower Legs & Accessories	Rs. 371m	May 2021	May 2021
QESCO	Supply of Tower	Rs. 308m	October 2021	October 2021

Construction Contracts is currently the second major segment of the company, with scope of activities ranging from site civil work to tower erection for the Cellular Mobile Operators (CMOs).

Site Services segment was established in 2018 in response to infrastructure sharing understanding between the CMOs. The segment provides Build-to-Site (B2S) services with the aim to build the company-owned portfolio of cellular towers and earn rental income from CMOs. Scope of activities ranges from winning site quota from CMOs, survey of locations identified by client, leasing of land for site development, site civil construction, tower erection, power arrangements and backup plans and site operations & maintenance. Business risk is mitigated by long-term framework agreements with CMOs having locking period of at least 10 years – 12 years and fixed revenue plus annual escalation.

The company has recently established a special purpose vehicle (SPV) with the name of Tower Power (Pvt.) Limited, a wholly-owned subsidiary of ATL which will be responsible for ownership, operations, and maintenance of company-owned tower portfolio. All the assets of B2S segments will be transferred to Tower Power upon the receipt of no objection certificates (NOCs). Meanwhile, ATL will remain involved in site construction, tower installation, and power arrangements.

The company initially started with a portfolio of 50 towers, and has witnessed healthy growth over the past one and a half years on account of accelerated shift towards shared towers by CMOs in order to save hefty capex. Resultantly, the company's number of operational sites have increased to 529, as of March 30, 2022. Jazz is the largest customer of the company with 323 sites at end-March'2022, followed by Telenor 79, Zong 64, and Ufone 63.

Build-to-Site (B2S) Segment	FY20	FY21	9MFY22
Number of Operational Sites	96	321	529
Sites Under Construction	-	-	92
Sites to be Constructed			289
Total			910

The company's B2S segment also has a backlog of 381 sites, including recently awarded 255 sites from Jazz and Zong. Out of total backlog, 92 sites are under construction and work on remaining is expected to start soon.

The company has also submitted bids for three tower supply projects including two with the NTDC for cumulative contract value of Rs. 190m and one project with the Frontier Works Organization (FWO) for which the company is only bidder for a contract value of Rs. 1.65b. The management is expecting award and execution of these projects in 1QFY23.

Client Name	Scope of Work	Contract Value (Rs. Mil)	Start Date	End Date
NTDC	Supply of Transmission Lines Tower	113.7	1QFY23	1QFY23
NTDC	Supply of Transmission Lines Tower	76.4	1QFY23	1QFY23
FWO	Supply of Transmission Lines Tower	1,648.6	1QFY23	2QFY23

Asset Mix

Total assets of the company augmented to 6.79b (FY21: Rs. 6.32b) by end-HY22, with non-current assets accounting for three-fourth of overall mix. Property, plant, & equipment stood at Rs. 3.02b (FY21: Rs. 2.40b), mainly comprising telecom sites on leasehold land of Rs. 2.79b (FY21: Rs. 2.26b) as the company added new sites for a capex of Rs. 584m (FY21: Rs. 1.42b) during HY22. Investment properties held at fair value amounted to Rs. 3.14b (FY21: Rs. 3.28b) which include undeveloped land lots in different locations. Around two-third of these properties have been held in the name of directors, though ownership rights rest with the Company. Revaluation of investment properties is carried out after every three years. Long-term investments of Rs. 120m (FY21: Rs. 120m) represent equity stake in subsidiary & associated undertakings. Subsidiary companies include Tower Power and Kandiah Hydropower (Pvt.) Limited (KHL). Associated undertakings include 15.8% stake in Micronet Broadband (Pvt.) Limited, 20% stake in Mehar Hydropower (Pvt.) Limited, and 40% in Inaara Impact Ventures (Pvt.) Limited. Long-term loans & advances comprised loan of Rs. 310m (FY21: Rs. 310m) given to KHL and has no repayment date, Rs. 184m (FY20: Rs. 184m) advances given for purchase of investment property, and employees of Rs. 16m (FY20: Rs. 24m) at end-HY22.

Stock-in-trade decreased to Rs. 367m (FY21: Rs. 518m) on account of delivery of contracts; these mainly comprise steel bars, imported zinc, tower legs and beams, etc. Trade receivables also decreased to Rs. 524m (FY21: Rs. 631m) on account of clearance of payments; credit risk emanating from the same is considered manageable as all the clients are either government-owned entities or blue-chip telecom companies. Credit period for Fabricated Steel Products segment ranges from 30 days to 60 days, 30 days to 90 days for B2S segment, and around 70% advance payment is taken for site construction contracts and remaining 30% after the delivery of site. Prepayments and advances amounted to Rs. 504m (FY21: Rs. 456m) which mainly included supplier advances of Rs. 383m (FY21: Rs. 278m) and advances tax of Rs. 40m (FY21: Rs. 100m) at end-HY22. Cash & bank balances stood at Rs. 268m (FY21: Rs. 248m).

Sales and Profitability

Net revenue of the company increased to Rs. 2.29b (FY21: Rs. 1.37b) during FY21, mainly on account of growth in Fabricated Steel Products and Site Services segments, partially offset by decline in Construction Contracts. Increase in revenue from Fabricated Steel Products segment to Rs. 1.49b (FY20: Rs. 476m) was mainly led by higher contracts obtained from DISCOs during the year. Decline in revenue from Construction Contracts to Rs. 428m (FY20: Rs. 729m) owing to CMOs' shift towards tower sharing model was partially offset by increase in revenue from Site Services segment to Rs. 370m (FY20: Rs. 169m) on account addition of 225 new sites during FY21.

Segment Revenue (Rs. m)	FY19	%	FY20	%	FY21	%	HY22	%
Steel Product	885	55.3	476	34.6	1,492	65.2	262	24.4
Construction Contracts	676	42.3	729	53.1	428	18.7	310	28.9
Site Services	38	2.4	169	12.3	370	16.2	501	46.7
Total	**1,600**	**100.0**	**1,374**	**100.0**	**2,289**	**100.0**	**1,072**	**100.0**

In line with the higher production levels 7,305 tons (FY20: 5,358 tons) and increase in steel bar prices, the company recorded cost of sales of Rs. 1.67b (FY20: Rs. 1.18b) during FY21. Gross margin improved to 27.2% (FY20: 13.8%) during FY21, as the impact of decline in gross margins of Fabricated Steel Products and Site Services to 14.1% (FY20: 16.1%) and 31.7% (FY20: 33.8%) on account of notable increase in steel prices and higher depreciation/fuel & power charges, respectively, was more than offset by increase in gross margin of Construction Contracts segment to 69.0% (FY20: 7.7%) during FY21. The volatility in gross margins of Construction Contracts segment is function of mismatch in

Increase in administrative expenses to Rs. 137m (FY20: Rs. 81m) was due to inflation adjustment in staff salaries and new hiring during the year. Other expenses were reported higher at Rs. 262m (FY20: Rs. 35m) owing to impairment loss of Rs. 104m (FY20: nil) pertaining to pre-feasibility study of an 11MW hydro power project (the management is optimistic about the tariff determination and subsequent progress on the project) and assets disposal loss of Rs. 104m (FY20: Rs. 4m) during FY21. The company incurred financial charges of Rs. 24m (FY20: Rs. 30m). Accounting for taxation, the company reported net profit of Rs. 148m (FY20: Rs. 26m), translating into improved net margin of 6.5% (FY20: 1.9%) during FY21.

For FY22, the company is target revenue of Rs. 2.62b, out of which Rs. 1.07b has already been realized during HY22. Out of remaining Rs. 1.55b, the amount of Rs. 255m will come from will come from order backlog pertaining to Construction Contracts for Telenor and Zong and Site Services to Jazz and Rs. 1.3b will come a contract with Jazz entailing supply of solar systems at 160 sites (the company has already received advance payment of Rs. 822m while remaining will be released upon the completion of project by end-June'2022. Gross profit is projected at Rs. 583 as the company is targeting slightly conservative gross margin of 22.2% for FY22. Net profit is projected at Rs. 270m for the ongoing year out of which Rs. 94m has already been realized during HY22.

Liquidity

The company's liquidity position is considered adequate and is supported by internal cash flows generation. The company generated higher funds from operations (FFO) of Rs. 573m (FY20: Rs. 79m) during FY21 and Rs. 174m during HY22. The company's capacity to meet its financial obligations is considered adequate as reflected in the debt service coverage ratio (DSCR) 4.55x (FY21: 1.74x) and FFO-to-total debt ratio of 0.23x (FY21: 0.45x) at end-HY22. Going forward, the

DSCR is expected to moderate on account of commencement of repayment of long-term loans during FY23. Short-term borrowings coverage stood at 3.04x (FY21: 3.46x) at end-FY21, as the company utilizes supplier credit in order to fund majority of current assets. Resultantly, current ratio remained at marginal levels of 1.04x (FY21: 1.00x) at end-HY22. With extended supplier credit, the company's cash conversion cycle has remained negative on a timeline basis and stood at -159 days (FY21: -159 days) during HY22.

Capitalization

Paid up capital of the company remained unchanged at Rs. 10m at end-HY22. Tier-I equity augmented to Rs. 5.49b (FY21: Rs. 5.26b) with the retention of profits during the year and is also supported by interest-free sponsor loan of Rs. 295m (FY21: Rs. 155m). The company's utilization of short-term borrowings stood at Rs. 293m (FY21: Rs. 332m) at end-HY22. Total long-term debt increased to Rs. 1.25b (FY21: Rs. 945m) with the mobilization of additional term finance of Rs. 313m (FY21: Rs. 787m) during the period in order to fund the capex related the company-owned towers. The company has two term finance facilities; I) the sanctioned limit of NBP facility is Rs. 615m out of which Rs. 559m (FY21: Rs. 400m) has been utilized till end-HY22, carries markup of 3-month KIBOR plus 2% per annum, repayable in 24 equal quarterly installments starting from July'2022, and II) the sanctioned limit of DIB facility is Rs. 615m out of which Rs. 553m (FY21: Rs. 379m) has been utilized till end-HY22, carries markup of 3-month KIBOR plus 2% per annum, repayable in 24 equal quarterly installments starting from June'2022. The company has also mobilized long-term loan of Rs. 158m (FY21: Rs. 158m) from its UAE-based sister concern 'GIM Enterprises' to support expansion B2S segment; the loan carries markup of 3-month LIBOR plus 2.0% per annum and cannot be repaid before the bank loans. With sizeable equity base, gearing and leverage ratios remained on the lower side at 0.28x (FY21: 0.24x) and 0.57x (FY21: 0.59x), respectively, at end-HY22. Going forward, while remaining within manageable levels, leverage indicators are expected increase as the company is planning to mobilize long-term loan of Rs. 4.5b in order to fund its growth plans for B2S segment.

Associated Technologies (Pvt.) Limited — Annexure I

FINANCIAL SUMMARY (amounts in PKR millions)				
BALANCE SHEET	FY19	FY20	FY21	HY22
Property Plant and Equipment	1,005	1,250	2,403	3,019
Investment Properties	3,098	3,277	3,279	3,143
Long-Term Investments	120	120	120	120
Long Term Loan & Advances	730	647	519	511
Stock in Trade	379	516	518	367
Trade Debts	208	197	631	524
Loans and Advances	73	129	456	504
Refund Due from Govt.	197	200	183	164
Cash and Bank Balances	216	326	248	268
Total Assets	**6,026**	**6,663**	**8,357**	**8,620**
Trade and other Payables	819	1,278	1,704	1,468
Short Term Debt	195	88	332	293
Long-Term Debt *(Inc. current maturity)*	0	168	945	1,251
Deferred Liabilities	84	70	120	119
Total Liabilities	**1,098**	**1,604**	**3,101**	**3,130**
Tier-I & Total Equity	**4,928**	**5,059**	**5,256**	**5,490**
INCOME STATEMENT	FY19	FY20	FY21	HY22
Net Sales	1,570	1,374	2,289	1,072
Gross Profit	302	190	622	251
Profit Before Tax	249	73	238	132
Profit After Tax	138	26	148	94
FFO	154	79	573	174
RATIO ANALYSIS	FY19	FY20	FY21	HY22
Gross Margin (%)	19.3	13.8	27.2	23.4
Net Margin (%)	8.8	1.9	6.5	8.8
Net Working Capital	60	4	1	67
Current Ratio (x)	1.1	1.00	1.00	1.04
FFO to Long-Term Debt (x)	-	0.47	0.61	0.28*
FFO to Total Debt (x)	0.79	0.31	0.45	0.23*
Debt Service Coverage Ratio (x)	20.22	3.58	25.32	4.55
Gearing (x)	0.04	0.05	0.24	0.28
Debt Leverage (x)	0.22	0.32	0.59	0.57

**Annualized*

ISSUE/ISSUER RATING SCALE & DEFINITIONS Annexure II

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

Rating Watch: VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.vis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details.www.vis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES	**Annexure III**
Name of Rated Entity	Associated Technologies (Pvt.) Limited
Sector	Engineering
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings
Rating History	

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
		RATING TYPE: ENTITY		
03-Jun-2022	A-	A-2	Stable	Initial

Instrument Structure	N/A
Statement by the Rating Team	VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.
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Due Diligence Meetings Conducted

	Name	Designation	Date
1.	Mr. Mubashir Malik	CEO	12th Apr & 13th May, 2022
2.	Mr. Imran Ashraf	COO	12th Apr & 13th May, 2022
3.	Mr. Rana Zeeshan	Manager Accounts	12th Apr & 13th May, 2022