RATING REPORT

Associated Technologies (Pvt.) Limited

REPORT DATE:
September 25, 2023

RATING ANALYSTS:
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RATING DETAILS				
	Latest Rating		Previous Rating	
Rating Category	Long-term	Short-term	Long-term	Short-term
Entity	A-	A-2	A-	A-2
Rating Date	*September 25. 2023*		*June 3. 2022*	
Rating Outlook	Stable		Stable	
Rating Action	*Reaffirmed*		*Initial*	

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)

Applicable Rating Criteria: Corporates (May 2023):
https://docs.vis.com.pk/docs/CorporateMethodology.pdf

APPLICABLE RATING SCALE(S)

VIS Issue/Issuer Rating Scale:
https://docs.vis.com.pk/docs/VISRatingScales.pdf

Associated Technologies (Pvt.) Limited

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 Limited (ATL) was incorporated in October, 1987 as a private limited company under the repealed Companies Ordinance, 1984.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 is situated at 21-L, Model Town Extension, 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: 9MFY23: Rs. 4.4b; FY22: Rs. 922.3m; FY21: Rs. 148m.

Tier-1 Equity: 9MFY23: Rs. 6.4b;

RATING RATIONALE

Associated Technologies (Pvt.) Limited (ATL) is a family-owned business with 100% shareholding vested with Mr. Mobashir A. Malik and family. During FY23, the Company's operational expertise altered with one business segment (provision of telecom site services) completely being transferred to a wholly-owned subsidiary. Consequently, ATL is now primarily engaged in the manufacturing and fabrication of steel towers and turn-key construction projects. The manufacturing plant is located on Multan Road, Lahore while the head office is situated in Model Town Extension, Lahore.

Key Rating Drivers

Business Operations

Till end-September'22, the Company's operations were divided into the following three main segments.

- Fabricated Steel Products: involves the manufacturing and sale of steel structures primarily to public sector DISCOs and telecommunication companies.
- Construction Contracts: scope of operations pertains to civil works and tower erection for Cellular Mobile Operators (CMOs).
- Site Services: includes provision of Build-to-Site (B2S) cellular tower services on a sharing-basis which generate revenue in the form of infrastructure provisioning services fee from CMOs.

According to management, the **spin-off of the Site Services segment into a wholly owned subsidiary, namely, Tower Power (Pvt.) Ltd. (TPL), was completed on September 30, 2022**. Resultantly, the entirety of ATL's tower portfolio, which included **666 towers**, along with related assets, liabilities and customer contracts were transferred to TPL. The subsidiary, consequently, issued shares corresponding to net assets of Rs. 8.1b, as per the business transfer agreement. Total assets registered by the subsidiary amounted to Rs. 9b which include a re-measurement gain of Rs. 4.3b. Total liabilities amounted to Rs. 910.3m out of which Rs. 894.2m pertains to long-term financing while the remainder relates to liabilities for employees' benefits. **Owing to procedural delays on the part of associated banks, the loan portfolio that was planned to be transferred to TPL is currently registered on ATL's books. However, a corresponding current receivable from TPL has been recorded by the Company to fully offset the long-term loan.** As per management, the long-term finances will be fully shifted to TPL's books by end-1HFY24. Materialization of the same will be important.

Following is a brief of the transfer arrangement between the two companies:

Rs in m	NET COST	FAIR VALUE ADJUSTMENT	TOTAL
Assets			
666 BTS sites	4,711	4,255	8,965
Furniture & Fittings	2	0	2
Computer & Equipment	1	0	1
Total Assets	**4,714**	**4,255**	**8,968**
Liabilities			
Loan from National Bank of Pakistan	615	0	615
Loan from Dubai Islamic Bank	219	0	219
Loan from Dubai Islamic Bank	60	0	60
Employees Liabilities/Gratuity	16	0	16
Total Liabilities	**910**	**0**	**910**
Net Assets	**4,714**	**4,255**	**8,058**

FY22: Rs. 6.1b FY21: Rs. 5.3b

Asset base

Property, plant and equipment (PPE) witnessed a significant decline to Rs. 130.6m at end-March'23 (FY22: Rs. 4.6b, FY21: Rs. 2.4b) owing largely to the transfer of telecom site assets to TPL, amounting to about Rs. 4.3b. Additionally, long-term investments increased notably to Rs. 8.3b (FY22: Rs. 195.5m, FY21: Rs. 119.7m) on the account of 100% shareholding in TPL which issued shares of Rs. 8.1b following the execution of the spin-off. Remainder of long-term investments constitute of shareholding in another wholly-owned subsidiary, namely, Kandiah Hydro Power (Pvt.) Ltd., and several associated undertakings. The Company also has sizeable investment properties amounting to Rs. 2.7b (FY22: Rs. 2.6b, FY21: Rs. 3.b) which are held in the name of several company directors and agents in order to avoid any litigation and documentation issues had they been held under the Company's name. However, ATL possesses all the proprietary and ownership rights. Moreover, l**ong-term loans and advances increased to Rs. 641.3m at end-9MFY23 (FY22: Rs. 285.8m) on account of financing extended largely to TPL for working capital requirements, as per management.**

Long Term Investment (Rs. In m)	Shareholding	FY21	FY22	9MFY23
Kandiah Hydo Power (Private) Limited	99%	1	1	1
Tower Power (Private) Limited	100%	1	77	8,170
Micronet Broad Band (Private) Limited	16%	104	104	104
Mehar Hydropower (Private) Limited	20%	10	10	10
Inaara Impact Ventures (Private) Limited	40%	4	4	4
TOTAL		**120**	**196**	**8,289**

Around 53% of the total asset base comprises long-term investments in subsidiaries and associates at end-Mar'23. 52% of the asset base is contributed by investment in TPL at end-Mar'23. Given TPL in its nascent stage of operations, ATL's management does not project dividend income from the same over the medium-term.

Business Risk

The TowerCo industry started with the establishment of the first TowerCo in 2014. Market share of the industry is divided among 4 major companies namely Engro Infrashare, Edocto Pakistan (Pvt) Ltd, Awal Telecom and Associated Technologies (Pvt.) Limited (now the portfolio is held by Tower Power (Pvt) Limited). Recently, TPL Properties (through TPL REIT Management Company Ltd) has shown interest in forming a consortium with TASC Towers – a UAE-based TowerCo to enter the market as well. As of end-FY22, the TTP licenses approved by the PTA have been secured by 17 companies nationwide. As at end-1Q23, there were approximately 42,000 towers installed in the country, of which approximately 6,000 are being managed by the TowerCo industry. The market share for TowerCo industry for 2022 (in terms of towers) in Pakistan is presented below.

Market share			
Company name	**2021**	**2022**	**2023**
Engro Enfrashare	48%	50%	51%
Edotco	43%	42%	34%
Associated Technologies (now the portfolio is held by Tower Power (Pvt.) Limited)	8%	7%	14%
Awal Telecom	1%	1%	1%

Demand outlook of the TowerCo industry is positive, anticipated to be fueled by a growth in data usage, localization of smartphone manufacturing and other government-level policy initiatives. The approximate tenancy ratio for Pakistan is 1.3x, which is significantly lower than the 2.2x average worldwide. The figure in question illustrates portfolio inefficiencies in towers deployment, which could be decreased by expanding tower sharing transactions. Additionally, with tele-density and annual mobile subscribers showing an uptrend to 84.6% and 194.6m, respectively, at end-CY22 (CY21: 81.7%, 184.3m), demand emanating from the telecommunication industry is expected to remain robust in the medium to long-term.

Given that the primary client base includes public sector electricity distribution companies, demand is directly linked to growth in the country's population size, urbanization rates, industrial expansion and tower replacement market.
In the outgoing financial year 2023, there has been notable contraction in demand as import restrictions, currency devaluation, policy rate hikes and soaring inflation contributed to a challenging business environment. This can be seen through decline in the large-scale manufacturing (LSM) index by 5.6% YoY in 8MFY23. For ATL, demand has largely emanated from TPL after the completion of the segment spin-off arrangement which has resulted in higher client concentration risk. Furthermore, on the supply-side front, import difficulties and severe rupee depreciation hampered procurement of key raw materials for production. Consequently, with deterioration in demand and supply dynamics, overall business risk is currently elevated. Ratings remain underpinned on management's forecast in demand uptick going forward owing to backlog in government projects and improvement in macroeconomic conditions following the finalization of the government's agreement with the IMF.

Capacity Utilization

During FY22, capacity utilization for fabrication of steel towers declined by more than half to 19.8% (FY21: 48.8%) owing to slowdown in tendering business amidst adverse macroeconomic conditions. Further deterioration in the same during 9MFY23 continued to suppress demand, with utilization levels at around 20% for FY23, as per management. In FY23, production activity was primarily geared towards TPL, for which the Company constructed about 183 towers, and small-sized projects were fulfilled for National Transmission & Despatch Company (NTDC). As per management, ATL has currently secured contracts with MEPCO (amounting to Rs. 440m) and FESCO (amounting to Rs. 94.7m) with a further two projects in the pipeline. Going forward, utilization levels are projected to increase in the upcoming year with anticipated uptick in demand from DISCOs following loosening of import restrictions after the IMF agreement and planned construction of an additional 185 towers for TPL during FY24. Breakdown of capacity utilization levels can be seen below:

Capacity Utilization of Steel Towers			
	FY21	**FY22**	**FY23**
Installed Capacity (mln kg)	21.0	21.0	21.0
Actual Production (mln kg)	10.2	4.2	4.2
Capacity Utilization (%)	**48.8%**	**19.8%**	**20.0%**

Revenue growth over the rating horizon contingent on tower addition plans of TPL; margins expected to hover in the lower range as compared to historic levels as the site services segment which yielded the highest margins has been transferred to the subsidiary.

During FY22, net revenue augmented by 30.8% YoY to Rs. 3b (FY21: Rs. 2.3b). This was primarily due to growth in revenue from Site Services to Rs. 1.6b (FY21: Rs. 369.7m) with the addition of 308 new telecom sites as major CMOs shifted towards the tower sharing model. However, this shift also resulted in decline in income generated from Construction Contracts to Rs. 360.8m (FY21: Rs. 427.6m) while limited tendering from DISCOs led to a drop in net sales from the Fabricated Steel segment to Rs. 1.1b (FY21: Rs. 1.5b) in FY22. Overall sales mix in FY22 was dominated by Site Services at 52% (FY21: 16.2%), followed by Fabricated Steel Products at 36% and Construction Contracts at 12% (FY21: 65.2%, 18.7%).

During 9MFY23, the topline was reported at Rs. 2.5b, representing a 12.6% annualized increase. This was driven largely by growth in the Fabricated Steel segment to Rs. 1.8b on the account of construction of about 183 new towers for TPL. With transfer of site services business to the subsidiary in Oct'22, sales mix of the Company changed with fabrication of steel products comprising the major portion of revenue base in 9MFY23 reported at 70% whereas contribution from site services declined to 27% due to inclusion of only one quarter of B2S revenue. Client concentration risk is on the higher side with around 76% of the revenue in FY23 was generated by TPL tower erection contracts. Going forward, the management envisages the same to be moderated as demand picks up from other distribution companies and tender business following loosening of import restrictions and stabilization of macroeconomic indicators in the upcoming year. Going forward, as per management, sales mix will be largely skewed towards the fabrication business segment. Furthermore, ratings remain dependent on materialization of TPL's sales

plan (addition of 185 towers in FY24 and 116 towers in FY25) over the rating horizon with the same being a major revenue contributor to ATL. Breakdown of revenue can be seen below:

	FY21	%	FY22	%	9MFY23	%
Steel Product	1,491.6	65.2%	1,077.1	36.0%	1,774.0	70.1%
Construction Contracts	427.6	18.7%	360.8	12.0%	62.8	2.5%
Site Services	369.7	16.2%	1,556.9	52.0%	692.2	27.4%
Total	**2,288.8**	**100.0%**	**2,994.9**	**100.0%**	**2,529.0**	**100.0%**

TPL Projections	FY23	FY24 (P)	FY25 (P)
Tower sites	849	1034	1150
Tower Additions projected by TPL	183	185	116
Capex incurred/plan to be incurred (Rs. In m)	2,363	2,389	1,498
Cost per tower (Rs. In m)	13	13	13
ATL revenue projected (Rs. In m)	3,110	3,265	3,428
TPL concentration in ATL Revenues	**76%**	**73%**	**44%**

Revenue growth over the rating horizon is contingent on tower addition plans of TPL. Given high client concentration, expansion of the client base is important from a rating's perspective in order to offset any unprecedented slowdown in tower requirements.

Gross margins rose notably to 41.4% (FY21: 27.2%) in FY22 on the account of the increase in the proportion of the Site Services segment the in sales mix. The segment's high gross margin of 57.6% (FY21: 31.7%) in FY22 is attributable mainly to decline in depreciation charges as a percentage of sales. The fabricated steel segment also witnessed an uptick in gross margins to 16.9% (FY21: 14.1%) in FY22 as higher input costs were passed onto clients. However, decrease in gross margins to 44.7% in FY22 (FY21: 69%) of the Construction Contracts division was attributable to inability to pass-on the impact of rising raw material costs. Along with support from higher gross margins, net margins witnessed a notable jump to 30.8% during FY22 (FY21: 6.5%) being also attributable to higher other income of Rs. 418.4m (FY21: Rs. 37.9m) comprising one-off re-measurement gain on investment properties (Rs. 294m; around 70%) and income generated from interest and dividends. Additionally, other expenses decreased to Rs. 124.5m (FY21: Rs. 262m) as no exchange losses were incurred in FY22, further supporting bottom-line. Growth in the aforementioned was greater than the increase in administrative and financial expenses. Excluding the one-off re-measurement gain, the net margin stood at 21% which was still notably higher compared to FY21.

Gross margins for 9MFY23 declined sharply to 23.6% with the transfer of the high-margin business segment to TPL. Net margins on the other hand, grew significantly to 174.2%. However, this includes a sizeable re-measurement gain on the B2S telecom site portfolio of Rs. 4.3b. Excluding this sum, net margin stood at 6% (FY22: 21%) during 9MFY23 which represents a steep drop vis-à-vis FY22. This is in conjunction with elevated operating expenses due to inflationary pressure and uptick in financing charges in line with higher debt drawn for TPL. With transfer of major quantum of debt to TPL in FY24, lower financial charges are expected to keep projected net margins at healthy levels. Meeting projected profit margins will be important to sustain ratings.

Sufficient liquidity indicators

The Company reported a decline in Funds from Operations (FFO) to Rs. 192.0m in 9MFY23 (FY22: Rs. 1.1b, FY21: Rs. 572.7m) in conjunction with subdued profitability performance. Albeit the liquidity coverages remaining within manageable levels for assigned ratings, FFO-to-Total debt and FFO-to-Long-Term debt reduced to 0.12x and 0.14x, respectively (FY22: 0.6x, 0.73x; FY21: 0.45x, 0.59x) in 9MFY23. Debt-service coverage ratio (DSCR) in this period also decreased to 1.14x (FY22: 6.82x, FY21: 25.32x) but remained comfortable. Eliminating the impact of debt principal payment for TPL liability against which a receivable has been created, adjusted DSCR was sufficient at 1.81x in 9MFY23.

Total stock-in-trade increased to Rs. 1.4b at end-March'23 (FY22: Rs. 706.7m, FY21: Rs. 517.7m). Finished goods constituted Rs. 781.9m (FY22: Rs. 332.6m, FY21: Rs. 485.2m) of this amount out of

which Rs. 560m were related to a supply contract for a renewable energy project with TPL. Remaining inventory consisted of raw materials, the majority of which is planned to be utilized for the construction of 90 towers for TPL by end-Sept'23. Trade receivables stood at Rs. 563.6m at 9MFY23 (FY22: Rs. 957.4m, FY21: Rs. 631.2m) which are mainly due from related party-TPL. Current ratio depicted an increase to 1.3x at end-March'23 (FY22: 1x, FY21: 1x) largely on the account of higher inventory levels and receivables from TPL against long-term debts amounting to Rs. 894.2m. Short-term borrowing coverage is also healthy at 7.67x at end-9MFY23 (FY22: 5.3x, FY21: 3.82x). Moreover, net operating cycle remained negative due to low payable turnover as a result of extended credit terms with suppliers.

Sound capitalization profile

Total equity of the Company increased notably at end-March'23 to Rs. 10.7b (FY22: Rs. 6.1b, FY21: Rs. 5.3b) largely owing to re-measurement gain on the tower sites portfolio rather than internal profit retention. Excluding the impact of the same, tier-1 equity grew to Rs. 6.4b (FY22: Rs. 6.12b, FY21: Rs. 5.3b) at end-Mar'23. The same is inclusive of interest-free long-term loans from directors (payable at the discretion of the Company) obtained to meet funding requirements was reported at Rs. 113.5m (FY22: Rs. 101m, FY21: Rs. 155m). Total borrowings rose to Rs. 2.1b at end-Mar'23 (FY22: Rs. 1.8, FY21: Rs. 1.3b) on the account of higher long-term borrowings amounting to Rs. 1.8b (FY22: Rs. 1.4b, FY21: Rs. 976.1m) as the Company incurred a further Rs. 600m loan for the procurement of raw materials for the renewable energy project with TPL. Short-term borrowings remained comparatively lower at Rs. 249.5m (FY22: Rs. 313.8m, FY21: Rs. 300.6m) as working capital requirements are mostly met through supplier credit and advance payments from customers. Gearing and leverage levels were reported at 0.33x and 0.79x, respectively (FY22: 0.29x, 0.82x; FY21: 0.24x, 0.59x). Going forward, capitalization levels are expected to further strengthen with the transfer of loan portfolio in the ongoing year which will result in long-term financing declining to about Rs. 460.7m at end-FY24, according to management.

FINANCIAL SUMMARY *(amounts in PKR millions)*								
BALANCE SHEET	**FY19**	**FY20**	**FY21**	**FY22**	**9MFY23**	**FY23 (P)**	**FY24 (P)**	**FY25 (P)**
Property, Plant and Equipment	1,005	1,250	2,403	4,622.7	130.6	138.6	145.6	152.8
Investment Properties	3,098	3,277	3,279	2,645	2,678	2,678	2,812	3,037
Long-term Investments	120	120	120	196	8,289	8,289	8,289	8,289
Stock-in-Trade	379	516	517.7	706.7	1,351	1,350	1,226	1,389
Trade Debts	208	197	631.2	957	564	513	605	635
Prepayments and Advances	73	129	456	511	389	413	433	455
Cash & Bank Balances	216	326	248	387	386	410	431	452
Other Assets	927	848	702	1,096	1,917	1,214	733	817
Total Assets	**6,026**	**6,663**	**8,357**	**11,121**	**15,703**	**15,005**	**14,674**	**15,226**
Trade and Other Payables	819	1,278	1,704	2,869	2,705	2,225	2,380	2,488
Short Term Borrowings	195	88	300.6	313.8	249.5	456.9	342.7	291.3
Long-Term Borrowings *(Inc. current matur)*	-	168	976	1,443	1,841	1,329	461	395
Other Liabilities	84	70	120	371	246	246	221	201
Total Liabilities	**1,098**	**1,604**	**3,101**	**4,997**	**5,041**	**4,256**	**3,405**	**3,376**
Sponsor Loan *(Equity)*	-	105	155	101	114	135	150	180
Tier-1 Equity (Excluding re-measurement gain)	4,928	5,059	5,256	6,124	6,407	6,428	6,443	6,473
Total Equity	**4,928**	**5,059**	**5,256**	**6,124**	**10,662**	**10,683**	**10,698**	**10,728**
Paid-Up Capital	10	10	10	10	10	10	10	10
INCOME STATEMENT	**FY19**	**FY20**	**FY21**	**FY22**	**9MFY23**	**FY23 (P)**	**FY24 (P)**	**FY25 (P)**
Net Sales	1,570	1,374	2,289	2,995	2,529	3,110	3,265	3,428
Gross Profit	302	190	622	1,240	596	926	905	974
Profit Before Tax	249	73	238	1,208	4,467	4,691	698	762
Profit After Tax	138	26	148	922	4,406	4,581	495	541
FFO	154	79	572.7	1,051.5	192.0	317.8	565.7	609.7
RATIO ANALYSIS	**FY19**	**FY20**	**FY21**	**FY22**	**9MFY23**	**FY23 (P)**	**FY24 (P)**	**FY25 (P)**
Gross Margin (%)	19.3%	13.8%	27.2%	41.4%	23.6%	29.8%	27.7%	28.4%
Net Margin (%)	8.8%	1.9%	6.5%	30.8%	174.2%	147.3%	15.2%	15.8%
Net Margin- Excluding one-off gains (%)	8.8%	1.9%	6.5%	21.0%	6.0%	10.5%	15.2%	15.8%
Net Working Capital	60	4	1	2	928	677	304	500
FFO to Long-Term Debt (x)	-	0.47	0.59	0.73	0.14	0.24	1.23	1.54
FFO to Total Debt (x)	0.79	0.31	0.45	0.60	0.12	0.18	0.70	0.89
Current Ratio (x)	1.06	1.00	1.00	1.00	1.31	1.25	1.11	1.18
Debt Servicing Coverage Ratio (x)	20.22	3.58	25.32	6.82	1.14	1.26	10.40	11.27
Adjusted DSCR (x)- Excluding Debt Repayment of TPL	20.22	3.58	25.32	6.82	1.81			
Gearing (x)	0.04	0.05	0.24	0.29	0.33	0.28	0.12	0.11
Debt Leverage (x)	0.22	0.32	0.59	0.82	0.79	0.66	0.53	0.52
Inventory + Receivables/Short-term Borrowing (x)	3.01	8.15	3.82	5.30	7.67	4.08	5.34	6.95
ROAA (%)	2.3%	0.4%	2.0%	9.5%	1.8%	35.1%	3.3%	3.6%
ROAE (%)	2.8%	0.5%	2.9%	16.2%	3.2%	54.5%	4.6%	5.1%
Cash Conversion Cycle (days)	(78)	(131)	(147)	(251)	(167)	(168)	(94)	(102)

**Annualized*

REGULATORY DISCLOSURES Annexure II

Name of Rated Entity	Associated Technologies (Pvt.) Limited
Sector	Engineering
Type of Relationship	Solicited
Purpose of Rating	Entity & Instrument Ratings
Rating History	
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.
Probability of Default	VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.
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Due Diligence Meetings Conducted	

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
September 25, 2023	A-	A-2	Stable	Reaffirmed
June 3, 2022	A-	A-2	Stable	Initial

Due Diligence Meetings Conducted

Name	Designation	Date
Imran Ashraf	COO	July 6th, 2023
Rana Zeeshan	Manager Accounts	
Farhan Masood	Deputy Manager Accounts	