RATING REPORT

Associated Technologies (Private) Limited

REPORT DATE:

January 17, 2025

RATING ANALYSTS:

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RATING DETAILS				
Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A-	A2	A-	A2
Outlook/Rating Watch	Stable		Stable	
Rating Action	Reaffirmed		Reaffirmed	
Rating Date	*January 17, 2025*		*September 25, 2023*	

COMPANY INFORMATION	
Incorporated in 1987	**External auditors:** Naveed Mukhtar & Co. Chartered Accountants
Private Limited Company	**Chief Executive Officer:** Mr. Mobashir A. Malik
Key Shareholders (with stake 5% or more):	
Mr. Mobashir A. Malik (80.6%)	
Ms. Sadia Malik (19.4%)	

APPLICABLE METHODOLOGY(IES)
Applicable Rating Criteria: Corporates: **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 Limited (ATL) was incorporated in October, 1987 as a private limited company under the repealed Companies Ordinance, 1984.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 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.

RATING RATIONALE

Company Profile.

Associated Technologies (Pvt) Limited ("ATL" or "the Company") operates primarily within steel fabrication and construction contracts as a family-owned entity. In FY23, a significant restructuring occurred, whereby an operational segment focused on telecom passive infrastructure was successfully transferred to its wholly owned subsidiary, Tower Power (Pvt) Ltd. As a result, ATL is now exclusively engaged in the fabrication and erection of steel towers. The registered office of the company is situated at 21-L, Model Town, Lahore, while its manufacturing unit is located at 21 KM, Multan Road, Chohang, Lahore, Pakistan.

The bifurcation of the company's operations is categorized as follows:

1. Fabrication of steel towers and structures, catering to telecommunication and power sectors
2. Construction contracts related to civil works and tower erection.
3. Site services, including the lease of telecommunication passive infrastructure, which has been transferred to Tower Power (Pvt.) Ltd. (TPL) effective from 1st October 2022. This transfer included the related assets and liabilities, along with bank financing, which has also been reassigned to the subsidiary in exchange for share-based payments.
4. Solar projects which include installation services of solar panels and equipment. This is a newly added segment launched in FY25; therefore, its revenue will be reflected in financial results of the ongoing fiscal year.

Table 1: Group Companies

Company	Relation	ATL's Holding	Nature of business/ Operational Update
Tower Power (Pvt) Ltd.	Subsidiary	100%	Provides passive infrastructure services to Mobile Network Operators
Kandiah Hydro Power (Pvt) Ltd	Subsidiary	99%	Government awarded project; however, it is currently non-operational. Entire investment worth PKR 990,000 in Kandiah Hydro Power (Pvt) Ltd. was impaired and provided for during FY23.
***Mehar Hydropower (Pvt) Ltd**	Associate	20%	Government awarded project; however, it is currently non-operational
***Inaara Impact Ventures (Pvt) Ltd**	Associate	40%	Deals in product prototyping and infrastructure development. Currently non-operational
Micronet Broad band (Pvt) Ltd	Investment	15.84%	The Parent Company of Nayatel. Provides internet services. ATL earns stable dividends from this investment

(*) Remaining shareholding of these companies is held by the company directors, Mobashir Ahmed Malik and Sadia Malik.

Table 2: Utilization of Steel Towers

Capacity Utilization of Steel Towers			
	FY22	**FY23**	**FY24**
Installed Capacity (mln kg)	21.0	21.0	21.0
Actual Production (mln kg)	4.2	9.3	10.6
Capacity Utilization (%)	20.0%	44.3%	50.6%

In FY23, capacity utilization increased from 20% in FY22 to 44.3%, mainly attributed to the post-Covid-19 recovery and the establishment of company's subsidiary, TPL, which enabled the acquisition of additional tenders and higher order volumes. Furthermore, during FY24, capacity utilization increased to 50.6% as a result of an overall increase in the order demand from new government projects and contracts from TPL - which makes up a significant portion (~75%) of ATL's FY24's revenue.

There are positive anticipations for the future, as the company has a considerable backlog of approximately 200 additional towers, valued at PKR 2.13 billion (out of a total backlog of PKR 2.48 billion for FY25) from its subsidiary. The remaining order backlog comprises contracts from telecom providers and the company's newly added segment of solar projects, which includes installation services of solar panels and equipment. Within this segment, the company has already secured two projects for the Faisalabad Development Authority and the Lahore Cantonment Board.

Sector Brief

The steel tower fabrication industry primarily addresses the infrastructure requirements of two main sectors: telecommunications and power. Both sectors are expected to experience growth due to favorable developments. For instance, the expansion of 4G and the anticipated rollout of 5G spectrum are likely to drive demand for new telecom towers, as 5G technology necessitates a denser network of towers due to its higher frequency bands. Additionally, broadband penetration in Pakistan, although lower compared to regional peers, has increased significantly in recent years, rising from 36.5% in FY20 to 52.3% in FY23. This trend indicates potential for further growth. Demand for network providers is expected to rise further, supported by a population growth rate of 2% as of 2023, according to World Bank data.

Population growth and expansion are anticipated to influence not only network providers but also the power sector. A significant contribution is expected from this sector following the privatization of Distribution Companies (DISCOs) in line with government initiatives, as well as new Independent Power Producers (IPPs) under the CPEC project. These developments are projected to result in increased investment in infrastructure improvements and upgrades to the grid and technology.

Additionally, considering that a substantial portion of ATL's revenue is derived from contracts with Tower Power (Pvt) Ltd, which operates in the TowerCo industry, the competitive landscape of this sector is shaped by 17 telecom tower providers in Pakistan, according to PTA data. The market share is primarily distributed among Engro Enfrashare, Edotco, Associated Technologies (now, under its subsidiary Tower Power Pvt Ltd.), and Tawal Telecom.

Table 3: Estimated Market Share

Estimated Market Share				
Company	**2024**	**2023**	**2022**	**2021**
Engro Enfrashare	51%	51%	50%	48%

Edotco.	34%	34%	42%	43%
Associated Technologies/ Tower Power	13%	14%	7%	8%
Tawal Telecom	2%	1%	1%	1%

The discussed industries are closely linked to the steel sector, as steel constitutes a significant portion of the cost associated with tower fabrication. In FY24, domestic steel production experienced a decline due to an economic slowdown driven by high inflation and elevated interest rates, resulting in a YoY decrease of 5.31% in LSM steel production (despite which ATL saw an increase in its utilization and net sales). Consequently, steel prices increased by approximately 74% over the past two years. Furthermore, Associated Technologies Pvt Ltd. (ATL) primarily sources its steel locally however, other equipment like nut bolts, batteries and solar panels are imported from China, making the company slightly susceptible to the impacts of rupee devaluation and import restrictions. However, it is anticipated that these risks may diminish compared to previous years, as import policies relax, exchange rates stabilize, and interest rates decline.

Key Rating Drivers

Topline continued its growth trajectory

The revenue recognition pertaining to each segment of ATL is as follows:

I. **Steel product:** includes revenue billed for fabrication of steel towers for telecom and power sector.
II. **Site services:** includes revenue billed for tower erection and installation services.
III. **Construction contracts:** includes telecom tower construction projects exclusively for Telenor and Zong.

Table 4: Segment Wise Revenue Breakdown

Segments	FY21	FY22	FY23	FY24
Steel Product	65%	36%	72%	91%
Construction Contracts	19%	12%	2%	0.2%
Site Services	16%	52%	26%	8%
Total	**100%**	**100%**	**100%**	**100%**

In FY24, the company's overall sales experienced a 17% Y/Y increase, primarily driven by revenue growth in the steel product segment, which rose by 48% Y/Y. This growth is linked to substantial inflows from DISCOs and NTDC projects and notable contributions (~ 75% in total revenue) from contracts with Tower Power (Pvt.) Ltd.

On the other hand, the construction contracts segment recorded an 86% Y/Y decline in revenue, attributed to a shift in demand following the government's approval of the Telecom Infrastructure Sharing Framework in November 2023. Consequently, the revenue for this segment relates to outstanding contracts anticipated to finalize in FY25, which may lead to the elimination of this revenue segment. However, there are expectations for this segment to be sustained due to a contract with Zong worth PKR 200-300 Mn.

Similarly, revenue from site services decreased by 62% YoY, due to operational changes in this segment. FY23 includes some revenue from previously existing segment of passive infrastructure provisioning, which was transferred to ATL's subsidiary during the same year.

Overall, gross margins sustained around 9.2% in FY24 (FY23: 10%) while operating margins, improved to 15.8% compared to 11.9% in SPLY, due to higher unrealized gain on revaluation of investment properties. However, net profit margin declined from 10.9% to 8.0% in FY24, owing to a tax rebate worth PKR 290Mn recorded in FY23, opposed to PKR 54 Mn tax incurred during FY24.

Adequate liquidity indicators with favorable working capital cycle. Coverages came under pressure; albeit taking comfort from ample cash to meet financial obligations

Company's overall liquidity position remained stable during the year with an adequate current ratio recording at 1.00x for both years (5-year average also standing at 1.00x). On the other hand, cash conversion cycle was recorded at -147 days for FY23 and -159 days for FY24, given company enjoys favorable payable terms from local suppliers. However, the company's receivable days vary by order type. For DISCOs and NTDC projects, no down payment is required, and orders are delivered within three months. Payment is typically received 30 days after delivery. In the case of TPL, an advance payment may be made, although the majority of receivables is secured within one month.

During FY23, company reported adjusted Funds from Operation (FFO) of PKR -0.26Mn due to high finance cost of PKR 344Mn which decreased by 18% during FY24 to PKR 282Mn, improving adjusted FFO to PKR 54 Mn for the period under review. Resultantly, FFO-to-long term debt came out at 0.05x and FFO-to-total debt also improved, though stood low at 0.04x for FY24.

Albeit lower finance cost and positive FFO in FY24, the Debt servicing coverage ratio (DSCR) clocked at 0.76x in FY24 (FY23: 0.75x) remaining lower than 1x. However, the Company has sufficient cash balance which when accounted for strengthens its debt coverage profile, bringing the adjusted DSCR to 2.99x in FY24 and 1.25x in FY23.

Gearing remains at lower levels

Company's long-term debt reduced by 11% during the year from PKR 1,157 Mn to PKR 1,035 Mn by end-FY24. However, a 46% YoY increase was noted in short term borrowings to PKR 436 Mn (FY23: PKR 299 Mn) mainly on the back of higher procurement of inventory during the year. Despite this, Company's net debt reduced significantly by 71% to PKR 326 Mn down from PKR 1,114 Mn in FY23.

Overall, it has largely kept its capitalization at healthy levels, with gearing ratio remaining stable at 0.14x at end'FY24, whereas leverage ratio increased from 0.42x in at end'FY23 to 0.53x at end'FY24, owing to a substantial rise (47%) in trade payables with ATL securing credit at favorable terms from local suppliers, bringing up total liabilities.

As per the management, there are no expectations of additional long-term borrowings during the rating horizon, however, existing long-term loan will be novated to TPL under the business transfer arrangement within the 1st quarter of 2025. Meanwhile short-term borrowings are deemed sufficient to support working capital. Consequently, capitalization indicators are expected to display gradual improvement during the rating horizon.

Associated Technologies (Private) Limited Appendix I

FINANCIAL SUMMARY (*amounts in PKR millions*)					
BALANCE SHEET	**FY20A**	**FY21A**	**FY22A**	**FY23A**	**FY24A**
Property, Plant and Equipment	1,250	2,403	4,622.7	124.7	122.0
Investment Properties	3,277	3,279	2,645	2,493	2,196
Long-term Investments	120	120	196	8,425	8,427
Stock-in-Trade	516	517.7	706.7	698.2	927.4
Trade Debts	197	631.2	957	1,029	1,300
Cash & Bank Balances	326	248	382	229	985
Total Assets	**6,663**	**8,357**	**11,116**	**15,133**	**16,745**
Trade and Other Payables	1,278	1,704	2,869	2,812	4,121
Short Term Borrowings	-	228.1	228.3	299.1	436.1
Long-Term Borrowings *(Inc. current matur)*	168	976	1,443	1,157	1,035
Total Liabilities	**1,604**	**3,101**	**4,992**	**4,431**	**5,752**
Sponsor Loan *(Equity)*	105	155	101	81	40
Tier-1 Equity (Excluding re-measurement gain)	5,059	5,256	6,124	10,598	10,887
Total Equity	**5,059**	**5,256**	**6,124**	**10,702**	**10,993**
Paid-Up Capital	10	10	10	10	10
INCOME STATEMENT	**FY20A**	**FY21A**	**FY22A**	**FY23A**	**FY24A**
Net Sales	1,374	2,289	2,995	3,441	4,027
Gross Profit	190	622	1,240	344	369
Profit Before Tax	73	238	1,208	84	377
Profit After Tax	26	148	922	374	323
FFO	101	586.8	1,126.9	(0.26)	54.1
RATIO ANALYSIS	**FY20A**	**FY21A**	**FY22A**	**FY23A**	**FY24A**
Gross Margin (%)	13.8%	27.2%	41.4%	10.0%	9.2%
Net Margin (%)	1.9%	6.5%	30.8%	10.9%	8.0%
FFO to Long-Term Debt (x)	0.60	0.60	0.78	(0.00)	0.05
FFO to Total Debt (x)	0.60	0.49	0.67	(0.00)	0.04
Current Ratio (x)	1.00	1.00	1.00	1.00	1.00
Debt Servicing Coverage Ratio (x)	4.34	11.15	3.83	0.75	0.76
Adjusted DSCR (x)	15.06	15.68	4.99	1.25	2.99
Gearing (x)	0.03	0.23	0.27	0.14	0.14
Debt Leverage (x)	0.32	0.59	0.82	0.42	0.53
Net Debt	(158)	925	1,102	1,114	326
Inventory + Receivables/Short-term Borrowing (x)	N/A	5.04	7.29	5.77	5.11
ROAA (%)	0.4%	1.8%	8.3%	2.5%	1.9%
ROAE (%)	0.5%	2.8%	15.1%	3.5%	2.9%
Cash Conversion Cycle (days)	(131)	(147)	(251)	(147)	(159)

REGULATORY DISCLOSURES — Appendix II

Name of Rated Entity	Associated Technologies (Private) 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				
17-Jan-25	A-	A2	Stable	Reaffirmed
25-Sept-23	A-	A2	Stable	Reaffirmed
3-June-22	A-	A2	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.
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.
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information.

Due Diligence Meetings

Name	Designation	Date
Rana Zeeshan	Manager Accounts	22/10/2024