

## RATING REPORT

### Commтел

**REPORT DATE:**

April 13th, 2020

**RATING ANALYST:**

Madeeh Ahmed

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Rating Category	Latest Rating	
	Long-term	Short-term
Entity	BB	A-3
Rating Outlook	Stable	
Rating Date	April 13, 2020	

#### COMPANY INFORMATION

**Incorporated in 2010**

**External auditors:** Azim & Co. Chartered Accountants

**Partnership concern**

**Chairman:** -

**Key Shareholders (with stake 5% or more):**

**CEO:** Mr. Asher Faisal Khan

Mr. Asher Faisal Khan – 90%

Mr. Ahmer Faisal Khan – 10%

#### APPLICABLE METHODOLOGY (IES)

**VIS Entity Rating Criteria** (April 2019)

<https://s3-us-west-2.amazonaws.com/backupsqvis/docs/Corporate-Methodology-201904.pdf>

**Commтел**

OVERVIEW OF THE INSTITUTION	RATING RATIONALE
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Commтел is a partnership concern registered in 2010

Commтел is a family-owned business which principally is engaged in IT solutions. The company has a presence in four countries USA, EU, UAE and Pakistan. Head office of the company is based in Karachi, whereas representation offices are present in three different cities namely: Lahore, Islamabad, and Peshawar with a total staff of 140 personnel.

The Company's Financial Statements are audited by Azim & Co. Chartered Accountants

Pakistan	United Arab Emirates	European Union
System Integration	Information Security	Design Servicing
Telepresence and Unified Communication	Enterprise Mobile Development	Social Media Management Services
Information Security	United States of America	Mobile Application Development
Infrastructure including Wired and Wireless	Product Development	
Surveillance	Venture Funding Startup, Pakistan	
Data Centers	Social Media Management Services	
Customized Software Development	Mobile Application Development	
Specialized Government Projects		

The company caters to the customized needs of private and government sectors via partnerships with renowned multi-national companies such as Cisco Systems, Intel Security Solution Provider, Lenovo Business Partners, IBM and many more. Commтел has security clearance from General Head Quarters (G.H.Q), Military Agency, Civil Agency, Joint Staff Head Quarters (J.S.H.Q) and Pakistan Air Force (PAF).

**Sales and Profitability**

Net Sales of the company have declined by 17% to Rs. 1.4b (FY18: Rs.1.7b; FY17: Rs. 0.8b) during FY19. The decline in sales can be mainly associated with rupee devaluation and economic slowdown resultantly reducing Commтел orders. The top ten client concentration is on the higher end which stood at 86.0% (FY18: 78.8%; 93.6%) during FY19. The company obtains Government orders via tenders and most of the private contracts are through referrals. Long term contracts which span out for more than one year, their sales are realized on the proportion of contract completed each year.

GP Margin of the company has declined to 31.2% (FY18: 32.4%; FY17: 30.8%) due to the aforementioned reasons. Similarly, bottom line of the company reduced on the back of a decline in gross profit of the company coupled with an increase in taxed amount. Going forward, margins are expected to improve on the back of improvement in demand-supply dynamics.

**Liquidity indicators**

Fund From Operations (FFO) has depicted a downward trending owing to a decline in the company's profitability. FFO of the company amounted to Rs. 205.8m (FY18: Rs. 324.4m; FY17: Rs. 333.9m) during FY19. Overall liquidity profile of the company is on the conservative side as depicted by Debt Service Coverage Ratio (DSCR) which stood at 13.8x (FY18: 21.7x; FY17: 93.5) at end-FY19. Trade debts of the company have increased significantly, as indicated by trade debt to sales ratio which stood 75.1% (FY18: 48.7%; FY17: 35.5%) at end-FY19. The current ratio of the company is considered satisfactory as it remains above 1.0x (FY19: 2.7x; FY18: 2.2x; FY17: 4.3x).

**Capitalization:**

Equity base of the company stood at Rs. 798.8m (FY18: Rs. 619.0m; Rs. 315.9m) at end-FY19, a sizeable increase in the same can be associated with profit retention. As of end-FY19, the company has no borrowing on its books, unlike the previous year where its short term borrowing stood at Rs. 1.1m at end-FY18. The leverage ratio of the company has reduced to 0.6x (FY18: 0.8x; FY17: 0.3x) at end-FY19. Going forward, gearing and leverage ratios are expected to stay at similar levels.

Financial Summary (amounts in PKR millions)	Appendix I		
	FY17	FY18	FY19
<b><u>BALANCE SHEET</u></b>			
Property Plant and Equipment	17.8	15.5	13.8
Other non-current assets	-	-	-
Stock-in-Trade	51.2	-	-
Trade Debts	273.4	858.1	1,098.5
Cash & Bank Balances	22.3	45.7	56.4
<b>Total Assets</b>	<b>406.2</b>	<b>1,122.1</b>	<b>1,271.6</b>
Trade and Other Payables	60.3	470.9	436.2
Long Term Debt (including current maturity)	-	-	-
Short Term Debt	27.2	1.1	-
<b>Total Debt</b>	<b>27.2</b>	<b>1.1</b>	<b>-</b>
<b>Total Liabilities</b>	<b>90.3</b>	<b>503.1</b>	<b>472.8</b>
Paid Up-Capital	270.8	315.9	619.0
<b>Total Equity (without surplus revaluation)</b>	<b>315.9</b>	<b>619.0</b>	<b>798.8</b>
<b><u>INCOME STATEMENT</u></b>			
Net Sales	769.8	1,761.4	1,462.8
Gross Profit	237.1	569.9	456.0
Profit Before Tax	162.2	393.1	277.4
Profit After Tax	91.4	324.4	203.3
<b><u>RATIO ANALYSIS</u></b>			
Gross Margin (%)	30.8%	32.4%	31.2%
Net Profit Margin	11.9%	18.4%	13.9%
Current Ratio (x)	4.3	2.2	2.7
Net Working Capital	298.1	603.5	784.9
FFO	333.9	326.7	205.3
FFO to Total Debt (%)	1226.7%	28826.3%	N/A
FFO to Long Term Debt (%)	N/A	N/A	N/A
Debt Servicing Coverage Ratio (x)	93.5	21.7	13.8
ROAA (%)	24.3%	42.5%	17.0%
ROAE (%)	31.2%	69.4%	28.7%
Gearing (x)	0.1	0.002	-
Leverage (x)	0.3	0.8	0.6

**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](http://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](http://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](http://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						Appendix III
<b>Name of Rated Entity</b>	Commtel					
<b>Sector</b>	Information Technology					
<b>Type of Relationship</b>	Solicited					
<b>Purpose of Rating</b>	Entity Rating					
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>	
	<b>RATING TYPE: ENTITY</b>					
	04/13/20	BB	A-3	Stable	Initial	
<b>Instrument Structure</b>	N/A					
<b>Statement by the Rating Team</b>	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.					
<b>Probability of Default</b>	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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<b>Due Diligence Meetings Conducted</b>	<b>Name</b>		<b>Designation</b>	<b>Date</b>		
	1	Mr. Tahir Iqbal	Senior Finance Executive	03/10/2020		