RATING REPORT

Smartlink Technologies

REPORT DATE:
October 14, 2021

RATING ANALYSTS:

Tayyaba Ijaz
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RATING DETAILS		
Rating Category	**Initial Rating**	
	Long-term	**Short-term**
Entity	BBB	A-2
Rating Outlook	*Stable*	
Rating Action	Initial	
Rating Date	*October 14, 2021*	

COMPANY INFORMATION	
Incorporated in 2017	**External auditors:** A. Sattar & Co. Chartered Accountants.
Partnership	**Managing Partners:** Mr. Yasir Altaf Mr. Muhammad Ahmad Butt Mr. Muhammad Zubair Mr. Umar Farooq Dar Mr. Ali Farooq Dar
Key Shareholders (with stake 5% or more):	
Mr. Yasir Altaf – 27% Mr. Muhammad Ahmad Butt—27% Mr. Muhammad Zubair-- 19% Mr. Umar Farooq Dar—18% Mr. Ali Farooq Dar—9%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria: Industrial Corporates (May 2019)
https://docs.vis.com.pk/docs/Corporate-Methodology-201904.pdf

Smartlink Technologies

OVERVIEW OF THE INSTITUTION

Smartlink Technologies was incorporated in 2017 under the Partnership Act, 1932. The firm is principally engaged in the distribution of mobile phones and Eco products. The registered office is located at 23-K Commercial Area, Block K, Model Town, Lahore.

Financial Snapshot

Tier-1 Equity: end-FY21: Rs. 643.9m; end-FY20: Rs. 446.9m; end-FY19: Rs. 378.6m.

Assets: end-FY21: Rs. 2.2b; end-FY20: Rs. 829.6m; end-FY19: Rs. 576.4m.

Profit After Tax: FY21: Rs. 189.1m; FY20: 68.3m; FY19: Rs. 36.6m.

RATING RATIONALE

Smartlink Technologies (SLT) is a partnership firm principally involved in the distribution of smartphones through online platforms and physical stores in Pakistan. All the partners are actively involved in firm's operations. SLT has non-exclusive distribution agreement with Xiaomi, one of leading global consumer electronics and smart manufacturing company. Whereas SLT is the only distributor in Pakistan running exclusive stores and online website of this brand. Ratings derive comfort from secured distribution margins with exchange risk borne by Xiaomi, and the ability of the firm to capture some retail margins as well via exclusive website and physical stores. Sales more than doubled in FY21 on the back of higher volumetric sales and some increase in average product prices. Increase in sales was in tandem with overall increase in demand of smartphones and laptops during Covid-19 owing to work from home and e-learning trends. Ratings also incorporate positive prospects for overall smartphone industry of Pakistan, in view of increase in internet penetration, younger demographics and economic growth. Implementation of major reforms by Pakistan Telecommunication Authority (PTA) to regulate the sector has also driven growth in the organized smartphone distribution.

Liquidity of the firm has remained adequate in terms of coverages. Given the firm has to maintain hundred percent cash margin on import of mobile phones, working capital requirements have increased notably in the outgoing year in line with increase in scale of operations, leading to higher leverage indicators. However, commencement of local manufacturing of Xiaomi smartphones in Pakistan, expected in the ongoing year, would bode well for the distributors. While SLT currently holds four major distribution agreements, its dependence primarily on one principal, limits the business risk diversity. A private limited company has been incorporated and financial statements of the newly incorporated company have not yet been drawn on the basis of transfer of assets and liabilities from the firm to private limited company, which is expected soon. Ratings will remain dependent on maintenance of distribution agreement with Xiaomi and scaling up of operations while maintaining leverage indicators and coverages at a comfortable level.

Key Rating Drivers

Industry Overview: Pakistan smartphone industry has been going through major transformations for the past few years. To regulate the smartphone market, Pakistan Telecommunication Authority (PTA) introduced Device Identification Registration Blocking System (DIRBS) in 2019 to discourage and control trading of illegal, substandard and stolen mobile devices. This initiative has not only benefited the country in economic terms due to imposition of PTA tax, it has also resulted in curbing smuggling of mobile devices. GoP has also introduced a comprehensive mobile manufacturing policy to encourage and attract manufacturers to establish their units in Pakistan. Further, PTA issued Mobile Device Manufacturing (MDM) regulations in January, 2021. Till now, 26 companies have been issued MDM authorization enabling them to manufacture mobile devices in Pakistan. The PTA has also given license to 29 companies for local manufacturing out of which 17 plants are currently operational. Several smartphone manufacturers have already setup their assembly plants in Pakistan, which includes renowned brands of Tecno, Infinix, Gfive and Realme. According to PTA, the production of mobile phones by local manufacturing plants have surpassed the number of mobile imports in the country in Jan-Jul'2021. Total number of certified compliance mobile phone devices was 20.6 million in 7MCY21 including Completely Built Up (CBU) imported 8.3m and locally manufactured/assembly devices 12.3m vis-à-vis 37.6 million in CY20 including 24.5m of imported CBU and 13.1m locally manufactured/assembly devices.

Pakistan has 40.6m smartphone users as of May, 2021 and is ranked lowest in South Asia region in terms of smartphone penetration rate of 18.4%, as compared to that of 32.4% and 31.8% in Bangladesh and India, respectively. In Pakistan, mobile phone manufacturing companies are working with different distributor companies. The distributor companies distribute the mobile phones from their partner company(ies) to retailers and wholesalers and provide after sale services and official warranty.

Xiaomi is one of the leading smartphones and Artificial Intelligence and Internet of Things (AIoT) brands in Pakistan. Although the company do not sell much of its high-end phones in the country, its presence is highly noticeable in the budget phones category. According to Canalys (a leading global technology market analyst firm), top smartphone vendors in Pakistan include Transsion, Vivo, Samsung, Oppo and Xiaomi.

Company Overview: SLT is one of the leading distributor of mobile phones, and other technology products through online platforms and physical stores in Pakistan. Xiaomi (the Principal) partnered with SLT in November 2016 and is its only official partner in Pakistan. All the firm's partners are actively involved in its day to day operations. Mr. Ahmad Butt heads the E-commerce and Marketing and Mr. Yasir Altaf is the head of import and wholesale division. Mr. Ali Dar is the head of E-Stores; Mr. Umar Dar is the head of administration while Mr. Muhammad Zubair oversees sales in the Karachi region. A private limited company has been incorporated and financial statements of the newly incorporated company have not yet been drawn on the basis of transfer of assets and liabilities from the firm to private limited company, which is expected soon. The board of directors comprises all business partners while percentage shareholding remained largely the same.

SLT has import cum distribution agreement with Xiaomi which is auto renewed every year. The firm has ten after-sale service centers and has been awarded gold distributor for aftersales services in Pakistan by the Principal. Given warranty claims for Xiaomi smartphones are less than 0.2%, SLT is the only distributor providing three-year warranty in Pakistan. One-year warranty includes complete support from Xiaomi and for the remaining two years, SLT is responsible for all the related costs. As per management, SLT has around 35% market share in terms of Xiaomi while market share of the firm in context of positioning in overall smartphone market is relatively low.

In FY21, SLT entered into area distribution agreement with Infinix. The areas assigned to SLT are exclusive and the firm is serving Sheikhupura, Kasur, Hafizabad and some surrounding areas. The outreach or areas for distribution are enhanced based on the firm's performance. SLT has also been assigned exclusive distribution of Infinix smartphones in Hafeez Center, Lahore. The firm has recently signed retail agreements with Apple Inc. and Hikvision for Hikstorage (video processing and data management technologies) and Ezviv brands (smart home security devices) in the ongoing year.

Non-exclusive distribution agreement: Initially, SLT was an exclusive distributor of Xiaomi in Pakistan, however, the principal added three more distributors, namely AirLink Communication Limited, Muller & Phipps and PhoneZo. However, Xiaomi is more reliant on SLT given that the firm is running its official stores and website, mistore.pk, in Pakistan. As per management, mistore.pk is amongst the largest websites in Pakistan in terms of revenue and online daily traffic. SLT is the only distributor in Pakistan selling more than 120 Xiaomi products, other than smartphones, which include Eco products, like air purifier, vacuum cleaners, LED Television air fryer and many other smart gadgets. Mistore.pk is being used as a platform for Xiaomi's eco business as well. As per management, the Principal does not intend to add more distributors in Pakistan. The firm is virtually not exposed to any exchange rate risk on import of products and has secured fixed distribution margins as determined by the Principal in terms of purchase and selling price.

Xiaomi has direct competition with Infinix, Tecno and ITEL in terms of comparative price range offered by these brands as all of these are largely skewed towards mass market in Pakistan. However, due to local manufacturing, these brands have had a competitive edge over Xiaomi. Xiaomi Corporation has also announced to launch its local assembly unit in Pakistan in the ongoing year after which its smartphone prices are expected to decline. This would benefit distributors as the import duty difference between CBU and Semi-Knocked Down (SKD)/Completely Knocked Down (CKD) for local manufacturing is 20-25%.

Ecommerce team and information technology: SLT has in-house ecommerce team of twelve members including two web developers, two employees for strategic monitoring, one creative head, a graphic designer and six employees for posting, order execution and call center. The firm also recruits two candidates on paid internship, for Search Engine Optimization (SEO) and content writing every month. In addition, the firm avails services of Alchemative, a software house specializing in ecommerce and digital transformation solutions in Pakistan. The firm has ERP system in place and all divisions are interconnected through the same.

E-commerce portfolio	
Own Channel	Mistore.pk
E-commerce Partners	Daraz, goto
New E-Commerce Market Places	Bank Alfalah, Hum Mart
Easy Financing Partner	Silk Bank
Integrated Payment Gateway (IPG) Partner	Alfapay, easypaisa, SimSim (FINCA), Fonepay, Jazz Cash

Distribution network: SLT has a strong distribution network with a countrywide coverage through 705 retailers and 351 wholesalers. Distribution network is divided into central, north and south regions. Major cities in Punjab are divided into four central regions which contributes 45% to the firm's topline. North 1 region covers regions of Islamabad, Rawalpindi, Jhelum, the surrounding belt and Abbottabad and contributes 18% to the sales. North 2 region covers rest of the Khyber Pakhtunkhwa and contributes 12% to the sales. South 1 region covers Karachi, which contributes 20% to the topline while South 2 region covers rest of the Sindh areas with 5% contribution. Sales incentives are paid on cash recovery and not on stock sold to discourage credit sale. A credit period of 7 to 15 days is provided to dealers while new dealers have to deposit a security cheque of one-fourth of the stock value. A credit period of 45 days is provided to corporate clients including Carrefour and Metro. Xiaomi has set policies for sales incentives for dealers so that there are no discrepancies in commissions offered by distributors. A fine is imposed on distributors for violation of set rules for the first two incidents while agreement is terminated upon third time violation.

Currently, Mi Exclusive stores are located at premium locations of Emporium Mall and Packages Mall in Lahore, Giga store in Rawalpindi/Islamabad and Peoples Colony in Faisalabad. Apart from sale staff on stores, the firm has also formed eight region-wise sale teams of regional sales manager, area sales managers and territory sales managers, sales executives, sales operations executives at the head office and a national sales manager. The firm is considering expanding its exclusive mi stores network and have a separate team for analyzing customers' footfall. SLT plans to launch its new store in Centaurus Mall, Islamabad soon. SLT also has an all brands store in Gujranwala while another online all brands store by the name of 'mymart' is also expected to be launched soon.

Asset base increased in line with scale of operations: Operating fixed assets stood higher at Rs. 80.0m (FY20: Rs. 45.4m; FY19: Rs. 44.4m) mainly due to increase in intangible assets (ERP system) to Rs. 32.8m (FY20: Rs. 5.7m; FY19: Rs. 5.2m). Operating fixed assets also comprised infrastructure related to Mi stores amounting to Rs. 37.5m (FY20: Rs. 30.7m; FY19: Rs. 30.1). Long-term security deposits amounted to Rs. 10.1m (FY20: Rs. 6.8m; FY19: Rs. 9.4m). Non-current assets also include preliminary expenses of Rs. 80m (FY20 & FY19: Nil) which were mainly related to new Mi stores, reconstitution of partnership, amount paid as goodwill to quitting partners and expenses related to incorporation of company as a private limited company. These expenses would be amortized over a period of four years.

Stock in trade stood higher at Rs. 584.3m (FY20: Rs. 164.7m; FY19: Rs. 87.6m) at end-FY21 in line with increase in scale of operations. Trade debts of Rs. 506.4m (FY20: Rs. 281.5m; FY19: Rs. 398.0m) were outstanding at end-FY21. Advances, deposits and prepayments increased to Rs. 80.5m (FY20: Rs. 25.8m; FY19: Rs. 8.0m) due to higher advances paid to local suppliers, which include Infinix and some other brands sold on all brand stores. SLT has also recorded lien marked by bank amounted to Rs. 755m (FY20: Rs. 182.9m; FY19: Nil) against letters of credit at end-FY21 as the mobile distribution companies have to import stock on 100% cash margin. Cash and bank balances amounted to Rs. 99m (FY20: Rs. 22.2m; FY19: Rs. 29.1m).

Robust growth in topline in the outgoing year: Sales grew by more than double to Rs. 7.0b (FY20: Rs. 3.0b; FY19: Rs. 2.0b) in FY21. Around 98% of the revenue pertained to Xiaomi smartphones;

REDME Note 9 & 10, MI 10T, 9T, POCCO F2, F3 and X3 are the most popular models sold by the firm. Other income amounted to Rs. 33.2m (FY20: Rs. 16.7m; FY19: Rs. 47.6m) mainly constitutes margin received from listing Eco products of Xiaomi on Mi website and income from after sale services. In August 2021, Xiaomi Corporation made the Fortune Global 500 list for the third time, ranking 338th, up 84 places compared to 2020. According to 2QCY21 global smartphone market share report by Canalys, Xiaomi has achieved a 17% market share, surpassing Apple and ranked No. 2 in global smartphone industry in terms of unit shipments. Xiaomi exhibited highest growth of 83% in 2Q CY21 in number of shipments vis-à-vis worldwide smartphone shipments growth of 12%.

The firm sold 202.2K smartphones (FY20: 88.2K; FY19: 57.1K) in FY21 while average rate per smartphone was Rs. 34,621 (FY20: Rs. 33,445; FY19: Rs. 34,166). Wholesale and retail difference was recorded higher at Rs. 268.3m (FY20: Rs. 94.7m; FY19: Rs. 63.0m) and represents margin paid to wholesalers which has increased to 3.7% (FY20: 3.1%; FY19: 3.1%). Around 80% of the revenue emanated from wholesale channels (FY20: 78%; FY19: 80%) while the rest pertained to retail sales through exclusive website and physical stores. Direct cost was recorded higher at Rs. 6.2b (FY20: Rs. 2.5b; FY19: Rs. 1.6b) and largely comprised inventory cost. Gross margins witnessed a decrease on timeline basis to 11.6% (FY20: 15.0%; FY19: 19.3%). According to the distribution agreement, margins tend to decrease with higher sales volume. As product reputation is built with higher product volumes, Xiaomi reduces its gross margins.

Administrative expenses increased to Rs. 142.0m (FY20: Rs. 93.4m; FY19: Rs. 99.9m) in FY21 mainly due to increase in salaries to Rs. 78.7m (FY20: Rs. 52.4m; FY19: Rs. 56.3m) on account of annual salary adjustments and higher average headcount. It also included amortization of preliminary expenses of Rs. 20m (FY20 & FY19: Nil). Rent, rate and tax amounted to Rs. 31.1m (FY20: Rs. 30.8m; FY19: 30.5m) and largely comprised rental expenses related to Mi stores. Selling and marketing expenses were also recorded higher at Rs. 252.7m (FY20: Rs. 183.6m; FY19: Rs. 133.6m) in FY21 primarily owing to higher incentives to sales staff amounting Rs. 203.2m (FY20: Rs. 145.5; FY19: Rs. 92.9m). Other expenses increased to Rs. 31.7m (FY20: Rs. 16.2m; FY19: Rs. 9.6m) which pertained to employee related expenses and other miscellaneous expenses. Financial charges increased to Rs. 52.7m (FY20: Rs. 19.6m; FY19: Rs. 41.5m) due to higher average borrowings. With notable increase in gross profits, rationalized operating expenses and some decrease in effective tax rate, net profit was reported higher at Rs. 189.1m (FY20: Rs. 68.3m; FY19: Rs. 36.6m), with increase in net margin on a timeline basis to 2.7% (FY20: 2.2%; FY19: 1.8%) in FY21.

The management expects the topline to increase at a CAGR of 7% over the next 3 years. Global shortage of semi-conductor chips has put some pressure on production of mobile phones and auto mobile industry which may impact the revenues of SLT as well. Profit margins are expected to increase following the commencement of local production of Xiaomi smartphones which would help them to save cost on SKD imports as compared to CBU imports. In additions, expansion of retail network would also help the firm to capture higher retail margins.

Adequate liquidity in terms of coverages: Funds from operations (FFO) increased to Rs. 218.6m (FY20: Rs. 69.9m; FY19: Rs. 38.2m) in FY21 on account of higher profitability and some increase in non-cash adjustments. However, FFO to total debt decreased slightly to 0.23x (FY20: 0.30x; FY19: 0.21x) due to higher outstanding borrowings. Debt service coverage also remained sizeable at 4.61x (FY20: 4.57x; FY19: 1.92x) in presence of minimal long-term repayments.

SLT has current ratio of 1.33x (FY20: 1.77x; FY19: 2.64x). Given attractive incentives for cash sales, receivables turnover has improved on a timeline basis. Resultantly, net operating cycle of the company has improved to 24 days (FY20: 54 days; FY19: 94 days). Trade debts as a percentage of net sales have also decreased noticeably in the last two years (FY21: 7%; FY20: 9%; FY19: 20%). Receivables aging is also satisfactory as around 99% of the trade debts are outstanding for less than one month. Coverage of short-term borrowings via trade debts and stock in trade remained adequate at 1.17x (FY20: 1.91x; FY19: 2.70x).

Higher working capital requirements amidst increase in scale of operations: Tier-1 equity increased to Rs. 643.9m (FY20: Rs. 446.9m; FY19: Rs. 378.6m) by end-FY21 mainly on the back of equity injection of Rs. 268.1m (FY20 & FY19: Nil) by the new partners. Profit distributed amounted to Rs. 185.2m (FY20 & FY19: Nil) while Rs. 75m (FY20 & FY19: Nil) of capital was repaid to outgoing partners in FY21. The firm does not record any surplus on revaluation of operating fixed assets. Due to partnership, capital structure implies an inherent volatility. Debt profile of the company majorly comprises short-term borrowings. Smartphones are amongst one of the many items on which State Bank of Pakistan (SBP) has imposed 100 percent cash margin requirement for opening of letter of credit. Working capital requirements of SLT have also increased in line with scale of operations. Resultantly, short-term borrowings of the firm increased sizably to Rs. 932.9m (FY20: Rs. 234.1m; FY19: Rs.180.2m) by end-FY21. SLT obtained a long-term facility of Rs. 24.6m (FY20 & FY19: Nil) under SBP refinance scheme for payment of salaries and wages. Trade creditors stood higher at Rs. 542.5m (FY20: Rs. 80.1m; FY19: Rs. 1.3m) at end-FY21 largely in line with operations. Gearing increased to 1.49x (FY20: 0.52x; FY19: 0.48x) and debt leverage increased to 2.41x (FY20: 0.86x; FY19: 0.52x) by end-FY21. Meanwhile, after adjusting the short-term borrowings with lien marked by banks, gearing and leverage stood at 0.31x and 1.24x (FY20: 0.11x and 0.45x; FY19: 0.48x and 0.52x), respectively.

The firm has obtained long-term lease facility of Rs. 28.5m for vehicles in the ongoing year. Apart from this, the management does not intend to mobilize any new long-term borrowings in the foreseeable future. Leverage indicators are expected to decrease after the Principal starts its manufacturing operations in Pakistan as the company would not need to maintain cash margin for the import of smartphones and can procure locally.

Smartlink Technologies — Annexure I

FINANCIAL SUMMARY *(amounts in PKR millions)*

BALANCE SHEET	FY19	FY20	FY21*
Operating Fixed Assets	44	45	80
Long-Term Preliminary Expenses	-	100	80
Stock-in-Trade	88	165	584
Trade Debts	398	281	506
Lien Marked by Banks	-	183	755
Other Assets	17	34	91
Cash and Bank Balances	29	22	99
Total Assets	**576**	**830**	**2,195**
Trade and Other Payables	1	80	543
Short-Term Borrowings	180	234	933
Long-Term Borrowings *(Inc. current maturity)*	-	-	25
Accrued and Other Liabilities	16	68	51
Total Liabilities	198	383	1,551
Paid-Up Capital of Partners	311	311	504
Tier-1/Total Equity	**379**	**447**	**644**

INCOME STATEMENT	FY19	FY20	FY21 *
Net Sales	1,997	2,966	7,034
Gross Profit	386	446	821
Finance Cost	41	20	53
Profit Before Tax	102	136	342
Profit After Tax	37	68	189
FFO	38	70	219

RATIO ANALYSIS	FY19	FY20	FY21*
Gross Margin (%)	19.3	15.0	11.7
Net Margin (%)	1.8	2.2	2.7
Net Working Capital	325	295	492
Current Ratio (x)	2.64	1.77	1.32
FFO to Long-Term Debt	-	-	8.89
FFO to Total Debt	0.21	0.30	0.23
Debt Servicing Coverage Ratio (x)	1.92	4.57	4.61
ROAA (%)	6.5	9.7	16.6
ROAE (%)	10.1	16.5	46.1
Gearing (x)	0.48	0.52	1.49
Debt Leverage (x)	0.52	0.86	2.41
Adjusted Gearing (x)	0.48	0.11	0.31
Adjusted Leverage (x)	0.52	0.45	1.24
Inventory + Receivable/Short-term Borrowings (x)	2.70	1.91	1.17

**Unaudited*

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.

<table>
<tr><th colspan="2">REGULATORY DISCLOSURES — Annexure III</th></tr>
<tr><td>Name of Rated Entity</td><td>Smartlink Technologies</td></tr>
<tr><td>Sector</td><td>Miscellaneous Non-Manufacturing</td></tr>
<tr><td>Type of Relationship</td><td>Solicited</td></tr>
<tr><td>Purpose of Rating</td><td>Entity Ratings</td></tr>
<tr><td>Rating History</td><td>
<table>
<tr><th>Rating Date</th><th>Medium to Long Term</th><th>Short Term</th><th>Rating Outlook</th><th>Rating Action</th></tr>
<tr><td colspan="5">RATING TYPE: ENTITY</td></tr>
<tr><td>14-Oct-21</td><td>BBB</td><td>A-2</td><td>Stable</td><td>Initial</td></tr>
</table>
</td></tr>
<tr><td>Instrument Structure</td><td>N/A</td></tr>
<tr><td>Statement by the Rating Team</td><td>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.</td></tr>
<tr><td>Probability of Default</td><td>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.</td></tr>
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<tr><td>Due Diligence Meetings Conducted</td><td>
<table>
<tr><th>Name</th><th>Designation</th><th>Date</th></tr>
<tr><td>Mr. Muhammad Ahmad Butt</td><td>Managing Partner</td><td>August 13, 2021</td></tr>
<tr><td>Mr. Yasir Altaf</td><td>Managing Partner</td><td>August 13, 2021</td></tr>
<tr><td>Mr. Ghulam Mustafa</td><td>CFO</td><td>August 13, 2021</td></tr>
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