

## RATING REPORT

### Transsion Tecno Electronics (Pvt) Limited

**REPORT DATE:**

August 29, 2022

**RATING ANALYSTS:**

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Rating Category	Initial Rating	
	Long-term	Short-term
Entity	BBB+	A-2
Rating Outlook	Stable	
Rating Date	Aug 29, 2022	

#### COMPANY INFORMATION

Incorporated in 2019

**External Auditors:** Rao & Company Chartered Accountants

Private Limited Company

**Chairman:** Mr. Iqbal Ahmed Allawala  
**Chief Executive Officer:** Mr. Asif Allawala

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

Tecno Pack Telecom (Private) Limited – 60%  
Transsion Technology Limited – 40%

#### APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Corporate Rating Methodology (August 2021)

<https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf>

## Transsion Tecno Electronics (Pvt) Limited

### OVERVIEW OF THE INSTITUTION

Transsion Tecno Electronics is a private limited company incorporated in 2019. The Company is one of the leading smartphone assemblers in Pakistan. The Company has three brands in their smart phones category.

#### Profile of CEO

Mr. Asif Allawala is the CEO of the Company since the incorporation.

He is working with Tecno group since 1994.

He is also a Director and CEO of other group companies. He has secured a Masters of Business Administration (MBA) degree from United States of America (USA)

### RATING RATIONALE

Transsion Tecno Electronics (Private) Limited ("TTE" or "the Company") was incorporated in 2019. TTE is a joint venture between Tecno Pack Telecom (Private) Limited (The Holding Company) and Transsion Technology Limited. The Company's main area of operations is manufacturing of Mobile phones to cater local and international markets. The Company presently is involved in mobile phone assembly for 3 mobile phone brands namely Infinix, Tecno and Itel in the local market. TTE has 2 factories located at Korangi Industrial Area, Karachi while its corporate office is located 255A, Block 6, PECHS, Karachi.

#### Rating Drivers

##### Assigned rating incorporates strong sponsor profile of TTE

The assigned rating incorporates a strong sponsor profile of TTE's 2 sponsors, Tecno Pack Telecom Limited and Transsion Technology Limited (China).

- Tecno Group is comprised of multiple corporate entities, operating five manufacturing plants with 4000+ group employees. The entities include Tecno Pack Telecom (Pvt) Ltd, Tecno Auto Glass Ltd (JV with Pak Suzuki Motor Co.), Transsion Tecno Electronics Pvt Ltd (JV with Transsion Holdings China) and Tecno Pack Electronics (Pvt) Ltd. The Tecno Group has a combined revenue of Rs. 60b in 2021~22.
- Transsion Technology was founded in 2006 in Hong Kong and is now on 4th in global smart phone ranking in terms of market share (1st in Africa & Pakistan, 2nd in Bangladesh and 4th in India as at 2020). Transsion has registered a Total revenue of RMB 37.8b (USD 5.7b) in 2020 and a Net Profit of RMB 2.7b (USD 405m).

##### Ratings incorporate business risk profile of TTE

The assigned rating incorporates TTE's business risk profile as a mobile phone assembler for Transsion Technology Limited (China). Business risk profile is diversified, given that the Company undertakes assembly for 3 different brands. Furthermore TTE's role is limited to assembling Smart phones against a fixed commission on every smartphone whereas marketing, selling and finance cost is paid by Transsion Technology. The contract with Transsion Technology requires compliance with pre-defined benchmarks and is valid until 2029. Actual operational performance and conformance with quality standards has remained compliant with pre-defined benchmarks.

TTE receives advance payment from customers with pre-defined lead times for deliveries. Semi-Knocked Down (SKD) kits are sent from Transsion factories in China, which are then assembled at TTE plants in Karachi. TTE's operational overheads are limited to labor and fixed overheads of running the assembly plant. Furthermore, as assembly fee per unit is USD-denominated, the same provides a partial hedge against inflation. TTE's business risk, as a mobile phone assembler for Transsion, is viewed as Low to Medium.

##### Ratings incorporate positive demand dynamics of the sector and dominant market positioning of Transsion Technology product suite

Transsion Technology has a leading market share of 32.5% (all 3 brands) as of Q42021 followed by Samsung with 30.4%. Given the growth of cellular subscribers in Pakistan, demand outlook for the sector is considered positive.

**Ratings underpinned by conservative financial risk profile and sound cash flow coverage indicators**

The assigned ratings incorporate a conservative financial risk profile of TTE as reflected by its debt free balance sheet (barring a small lease liability). TTE's gearing of 0.15x, as at Dec'21, is viewed to be on the lower side. Going forward, gearing will continue to decline with the drop in lease liabilities during the rating horizon. The leverage is elevated, albeit the same is account of advances from customers, which is fully matched by inventory and advances to suppliers. As such, credit risk exposure on the balance sheet is considered minimal. The assigned rating incorporates sound cash flow coverage indicators and conservative debt projections, going forward.

**ISSUE/ISSUER RATING SCALE & DEFINITIONS**

**Appendix II**

**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>	Transsion Tecno Electronics (Pvt) Limited					
<b>Sector</b>	Mobile Phones					
<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>					
	29-Aug-22	BBB+	A-2	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>	
	Mr. Aamir Allawala	Director			June 28, 2022	
	Mr. Asif Allawala	CEO				
	Mr. Jamil Ahmed	CFO				