

## RATING REPORT

### Transsion Tecno Electronics (Pvt) Limited

**REPORT DATE:**

April 13, 2023

**RATING ANALYSTS:**

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**RATING DETAILS**

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity Rating	BBB+	A-2	BBB+	A-2
Rating Date	April 13, '23		August 29, '22	
Rating Outlook	Rating Watch - Developing		Stable	
Rating Action	Maintained		Initial	

**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
<b>Key Shareholders (with stake 5% or more):</b>	
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 1998.

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

#### Corporate Profile

Transsion Tecno Electronics (Private) Limited (TTE) 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, development and designing of mobile phones, telecommunication & electronic goods and accessories to cater local and international markets. The Company presently is undertaking toll manufacturing 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 at PECHS Block 6, Karachi.

#### Ratings placed on 'Rating Watch – Developing' status due to plant closure amidst import restrictions

The revision in outlook is on account of closure of Company's production plant owing to ongoing import restrictions which has resulted in shortage of vital raw materials and components, particularly, semi-knocked down (SKD) mobile kits. As per management, the Company has channeled the working capital liquidity towards profit bearing deposits, income from which is being used to partially cover fixed operating costs.

As per management, successful opening of Letters of Credit (LC) and the resumption of plant operations is contingent of on materialization of the Staff Level Agreement (SLA) with the IMF. The ratings also take into account the company's minimal long-term debt and non-reliance on short-term borrowings as working capital needs are met through customer advances and trade payables.

During 1HFY23, the company's total topline declined by 51.5% on an annualized basis to Rs. 16.9b (FY22: Rs. 69.7b, Rs. 56.7b) owing to lack of raw material availability. However, gross margin improved to 6.1% (FY22: 1.3%; FY21: 3.4%) as higher costs were passed onto customers while net margin also increased to 3.4% (FY22: 0.6%; FY21: 1.7%) owing to lower financing costs and higher other income due to profits from bank deposits. Additionally, the company's low debt level and rise in equity base due to internal capital generation resulted in gearing decreasing to 0.11x (FY22: 0.19x; FY21: 0.24x), however, leverage remained sizeable at 6.1x (FY22: 2.7x; FY21: 8.62x) owing to high trade payables and advances from customers.

While continuation of plant closure remains a key concern, ratings draw comfort from low-leveraged balance sheet. VIS will continue to monitor developments pertaining to plant operations and management of operating expenses.

**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 Eelctronics (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>				
	13-April-23	BBB+	A-2	Rating Watch – Developing	Maintained
	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>		
	NA				