RATING REPORT

Transsion Tecno Electronics (Pvt) Limited

REPORT DATE:
April 19, 2024

RATING ANALYSTS:
Saeb Muhammad Jafri
saeb.jafri@vis.com.pk
Abdul Kadir
kadir@vis.com.pk

RATING DETAILS				
	Latest Rating		Previous Rating	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity Rating	A-	A-2	BBB+	A-2
Rating Date	*April 19, 2024*		*June 16, '23*	
Rating Outlook	Stable		Stable	
Rating Action	Upgrade		Maintained	

COMPANY INFORMATION	
Incorporated in 2019	**External Auditors:** A.F. Ferguson & Co. Chartered Accountants
Private Limited Company	**Chairman:** Mr. Iqbal Ahmed Allawala **Chief Executive Officer:** Mr. Asif Ahmed 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 Methodology – Industrial Corporates https://docs.vis.com.pk/docs/CorporateMethodology.pdf

RATING SCALE(S)
VIS Issue/Issuer Rating Scale: https://docs.vis.com.pk/docs/VISRatingScales.pdf

Transsion Tecno Electronics (Pvt) Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

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 Ahmed 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)

Company Profile

Transsion Tecno Electronics (Private) Limited ('TTEPL' or 'the Company') is a company incorporated in Pakistan as a private limited company under the Companies Act, 2017 on 12 March 2019. The Company's main area of operations is manufacturing, development and designing of mobile phones and their accessories to cater local as well as international markets.

The Company is a joint venture between Tecno Pack Telecom (Private) Limited (The Holding Company) and Transsion Technology Limited, a company duly incorporated under the laws of Hong Kong having registered office at Room 604, 6F South Tower, World Finance Centre, Harbour City, 17 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong.

Operational Performance

The company has two production facilities located in Karachi. During FY23 capacity utilization declined sharply on account of unavailability of raw material and the plant remaining closed. This is attributed to import constraints faced by all industries in Pakistan to varying extent in FY23. As per management the Company's capacity utilization during 8MFY24 has depicted significant recovery from its low in FY23.

Relocation Plan

A 24-acre parcel of land formerly owned by Pakistan Steel Mills (PSM) has been acquired by the Company, as approved by the PSM board during their June 2023 meeting. The acquisition was completed at a rate of PKR 42 mln per acre. The Company intends to relocate its existing operations to this new site and utilize it for renewable energy generation as well as the production of new Hi-technology products. This acquisition and relocation will be entirely financed through internal cash generation.

Incorporation of a New Subsidiary

The Company's board has decided to incorporate a new company as a subsidiary of TEPL named Transsion Tecno Motors Pvt. Limited ('TTMPL' or 'the Subsidiary'). The principal activity of the Subsidiary will be to assemble/manufacture E-Bikes and E-Cars as well as related accessories. Authorized share capital of the Subsidiary will be PKR 100 mln and par value of PKR 100 per share. The paid-up share capital of the Subsidiary will be the same. Directors of TTEPL will 1 ('one') share each against cash in TTMPL.

Key Rating Drivers

Medium to high business risk profile characterized by heightened exposure to cyclicality and exchange rate risk. However, medium level of competition among top players in the sector, as well as low regulatory risk ease the risk profile. Ratings are supported by the Company's strong market presence.

VIS categorizes the mobile phone industry's business risk profile as medium to high, marked by significant exposure to cyclicality and exchange rate fluctuations due to local assembly with limited localization. Moderate competition among top players, with most market share held by key players, and low regulatory risk contribute further to the industry's overall risk profile. Duty protection in the form of additional customs and regulatory duties provides price advantage to local players. However, the local manufacturers compete on the lower end of the pricing spectrum. Ratings are supported by the strong presence of the Company in the local industry, with a significant market share among major players.

Topline recovered in 8MFY24 with ease in import restrictions and commencement of normal operations. While gross margins erode, as newer inventory translates into higher input costs.

In FY23, there was a 61.8% decline in net sales attributed to raw material shortages and plant closures resulting from government-imposed import restrictions. However, gross margins increased to 10.6% (compared to 1.3% in FY22), primarily due to inventory gains. This improvement was reflected in net margins, which stood at 2.8% (compared to 0.6% in FY22).

In 8MFY24, TTEPL observed a rise in sales volume compared to the previous year, as SKD materials availability improved due to eased import restrictions. However, gross margins deteriorated to 7.2% in 8MFY24, as higher cost of newer inventory resulted in increased input costs. TTEPL faced challenges in transferring these costs to customers due to high competition in its price segment. Nonetheless, with the local currency maintaining relative stability in 8MFY24 compared to FY23, exchange losses were muted, leading to improved operating and net margins of 6.5% and 4.4%, respectively.

Capitalization profile characterized by high leverage with minimal gearing due to advance payment model.

The equity base continued its upward trend due to profit retention at the end of FY23, which persisted during the first 8MFY24. TTEPL maintains minimal total debt levels, primarily comprising long-term lease liabilities. The Company maintains nil short-term borrowings as the advance payments model suffices for working capital needs. As a result, gearing levels have remained low, standing at 0.0x at the end of 8MFY24 (FY23: 0.1x, FY22: 0.2x). Leverage, however, is elevated due to advance payments from customers, offset by inventory and advances to suppliers, thereby mitigating risk exposure. The leverage ratio was reported at 4.4x (FY23: 5.0x, FY22: 2.7x) in 8MFY24.

Healthy coverage profile, with minimal obligations and improving operational cashflows.

As a result of its nominal debt profile and continued improvement in operational margins, even in constrained operations in FY23. The Company maintains a healthy coverage profile with a debt service coverage ratio of 24.1x (FY23: 12.0x, FY22: 5.4x).

Adequate liquidity profile.

The Company has maintained an adequate liquidity profile with a 5-year average current ratio of 1.1x. The current ratio peaked in FY22 at 1.3x before settling at 1.2x in FY23, remaining unchanged stable 8MFY24, at adequate levels.

<u>Considerations for Future Reviews</u>

Going forward, ratings will remain sensitive to the Company's ability to improve its capitalization profile, specifically its elevated leverage ratio, while further enhancing its profitability profile. Moreover, maintenance of the liquidity profile to be commensurate with assigned ratings will also be an important consideration for future reviews.

REGULATORY DISCLOSURES — Appendix I

Name of Rated Entity	Transsion Tecno Electronics (Pvt) Limited
Sector	Mobile Phones
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	see table below
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.
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Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
19-April-24	A-	A-2	Stable	Upgrade
16-June-23	BBB+	A-2	Stable	Maintained
13-April-23	BBB+	A-2	Rating Watch – Developing	Maintained
29-Aug-22	BBB+	A-2	Stable	Initial

Due Diligence Meetings Conducted

Name	Designation	Date
Jamil Ahmed	CFO	April 8, 2024