VIS
Credit Rating Company Limited

RATING REPORT

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APPLICABLE METHODOLOGY(IES):
VIS Entity Rating Criteria Methodology – Industrial Corporates:
(https://docs.vis.com.pk/docs/CorporateMethodology.pdf)

Rating Scale:
(https://docs.vis.com.pk/docs/VISRatingScales.pdf)

TRANSSION TECNO ELECTRONICS (PVT) LIMITED

Chairman & Chief Executive: Mr. Iqbal Ahmed Allawala & Mr. Asif Allawala

RATING DETAILS

RATINGS CATEGORY	LATEST RATING		PREVIOUS RATING	
	Long-term	Short-term	Long-term	Short-term
ENTITY	**A-**	**A2**	A-	A2
RATING OUTLOOK/ WATCH	**Stable**		Stable	
RATING ACTION	**Reaffirmed**		Upgrade	
RATING DATE	**May 7, 2025**		April 19, 2024	

RATING RATIONALE

Transsion Tecno Electronics ('TTE' or 'the Company'), a joint venture between Tecno Pack Telecom (Private) Limited (The Holding Company) and Transsion Technology Limited, is engaged in the manufacturing of mobile phones under three different brand names. The assigned ratings take into account medium business risk of undertaking manufacturing the Transsion brands – Infinix, Tecno and Itel. The Company faced severe pressure on its profitability during FY23 as plant operations were closed during 2HFY23 on account of import restrictions placed on raw material procurement. However, since resumption of production in May'23, the Company was able to meet a resurgence in customer demand. Nevertheless, profit margins remained low and cash flows were strained in the ongoing year as the Company's took on additional debt to finance higher working capital requirements and maintain its position as the leading mobile phones assembler in Pakistan. Management is engaged in addressing pressure on profit margins by implementing cost-reduction measures and leveraging the favorable environment of declining interest rates.

COMPANY PROFILE

TTE, incorporated in 2019, 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. The Company presently is undertaking manufacturing for 3 mobile phone brands namely Infinix, Tecno and Itel in the local market. The registered office and manufacturing facilities of the Company are located in Karachi. Power requirement in the day shift is met largely from an in-house solar power source while the evening shift is met through sanctioned load from K-Electric.

INDUSTRY PROFILE & BUSINESS RISK

In 2024, the global smartphone market rebounded 7%, shipping 1.22b (FY23: 1.13b) units. The domestic mobile phones sector faces medium risk due to volatility in off-take while dependence on imported components is exacerbated by currency fluctuation risk. The sector faced shortage in supply of parts for production, therefore, demand waned in 2022 and 2023. However, in FY24, amidst ease in import controls and improvement in economic indicators, demand rebounded and companies were engaged in aggressive marketing to gain market share. Thereby, in 2024, local production surged by 47% with smartphones outpacing 2G phones production for the first time mainly due to ease in import restriction during the year.

Table: Annual production of mobile phones in Pakistan

Local production/assembly of mobile phones *(millions)*				
	2021	**2022**	**2023**	**2024**
2G phones	14.6	13.2	13.0	12.7
Smartphones	10.1	8.8	8.3	18.6
Total	**24.7**	**21.9**	**21.3**	**31.4**

Source: PTA

Smartphones comprise 65% of the market while 35% are 2G phones users, as per PTA. A new sales tax of 18-25% for FY24-FY25 led to a hike in prices, nevertheless, market demand remained largely stable. Infinix led the market share at 17%, followed by Samsung (15%) and Vivo (13%) in FY24. TTE brands collectively held 28% share (FY23: 17%) during FY24 in the local market. Market share in the local market is presented in the table below:

Table: Mobile phones market share in Pakistan

	1Q2024	**2Q2024**	**3Q2024**	**4Q2024**
Infinix	**16%**	**17%**	**17%**	**17%**
Samsung	15%	16%	14%	15%
Vivo	13%	13%	13%	14%
Oppo	12%	11%	10%	9%
Tecno	**7%**	**8%**	**9%**	**9%**
Xiaomi	6%	7%	7%	8%
Itel	**2%**	**2%**	**2%**	**2%**

Source: Statcounter Global Stats
(**in bold: TTE brands**)

- *Others not included in the table are Apple, QMobile, Honor, ZTE, Huawei, Realme*

Moreover, locally produced phones met 95% of demand in 2024 in the face of government boost for localization. The upcoming Mobile Device Manufacturing and Export Policy MDMEP 2024-27 aims to boost exports and further promote localization in the sector. Meanwhile, potential implementation of 5G network coupled with expansion of telecom towers are expected to drive smartphone adoption in the coming years. The assigned rating incorporates TTE's business risk profile as a mobile phone assembler for Transsion Technology Limited (China). Product/brand portfolio profile is diversified, given that the Company undertakes manufacturing for three different brands. Infinix is positioned within the mid-range segment, Tecno occupies the low-to-mid-range segment, offering devices at a more accessible price point. Itel aims for the most budget-conscious consumers with its entry-level offerings.

TTE's role is limited to manufacturing smartphones against a fixed assembly fee on every smartphone whereas marketing, selling and finance cost is paid by Transsion Technology Limited. 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. The Company'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.

Product Profile & Capacity

Prior to Jul'24, the Company utilized two production facilities in Korangi Industrial Area, Karachi. However, the Company have since moved operations to a single plant for mobile phone production, having vacated the other plant, which they were renting. The combined production capacity (annually) increased in FY24 due to increase in number of hours worked combined with the Company's ongoing enhancement on production capacity at their primary production facility. Consequently, annual capacity utilization improved to FY24: 49% (FY23: 15%, FY22: 73%). Moving forward, production levels are expected to decrease largely due to demand rationalization.

FINANCIAL RISK

Capital Structure

Gearing ratio was up to 2.10x (end-FY23: 0.08x) at end-FY24. Moreover, debt leverage increased to 6.06x (end-FY23: 5.01x) at end-FY24 due to a combination of higher borrowings and trade payables. Gearing and debt leverage decreased to 1.87x and 3.99x by end-1HFY25 mainly on account of lower trade payables. Financial risk is partially mitigated by the Company retaining substantial cash balances thereby resulting in an improvement in net gearing by end-1HFY25.

Profitability

Unit sales saw a significant drop in FY23 before rebounding sharply in FY24 due to increased demand and eased raw material imports, leading to a notable growth in net sales. Gross margin declined in FY24, reflecting higher import costs not fully passed on, while operating expenses reduced significantly. Financial charges increased substantially, but despite a low net margin of 2.9%, net profit saw a significant increase in FY24. Net sales dropped in 1HFY25 and gross margin fell to

0.9% due to high production overheads. Elevated finance costs further reduced net margin to 0.3%. Profitility is expected to improve due to higher offtake as the Company focuses on cost-optimziation in the ongoing year.

Debt Coverage & Liquidity

Cash flows were under duress from pressure on margins. FFO to total debt coverage and DSCR declined in FY24 mainly due to higher long-term borrowings. DSCR further decreased to 1.55x in 1HFY25 owing to notably lower profits. Liquidity metrics however, witnesssed improvement as current ratio increased slightly to 1.22x (Jun'24: 1.15x, Jun'23: 1.17x) by Dec'24 while cash conversion cycle remained favorable in period under review.

REGULATORY DISCLOSURES — Appendix I

Name of Rated Entity	Transsion Tecno Electronics (Pvt) Limited
Sector	Mobile Phones
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook/Watch	Rating Action
RATING TYPE: ENTITY				
May 7, 2025	**A-**	**A2**	**Stable**	**Reaffirmed**
April 19, 2024	A-	A2	Stable	Upgrade
June 16, 2023	BBB+	A2	Stable	Maintained
April 13, 2023	BBB+	A2	Rating Watch – Developing	Maintained
August 29, 2022	BBB+	A2	Stable	Initial

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.
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Due Diligence Meetings Conducted

Name	Designation	Date
Mr. Jamil Ahmed	CFO	24-Feb-2025