RATING REPORT

Tower Power (Private) Limited

REPORT DATE:
October 05, 2022

RATING ANALYSTS:

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RATING DETAILS		
Rating Category	**Initial Rating**	
	Long-term	**Short-term**
Entity	A-	A-2
Rating Outlook	Stable	
Rating Action	Initial	
Rating Date	*October 05, 2022*	

COMPANY INFORMATION	
Incorporated in 2019	**External auditors:** Grant Thorton Anjum Rehman Chartered Accountants
Private Limited Company	**Chairman/CEO:** Mr. Mobashir A. Malik
Key Shareholders (with stake 5% or more):	
Associated Technologies (Private) Limited (100%)	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria Methodology – Industrial Corporates (August 2021) **https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf**

OVERVIEW OF THE INSTITUTION

Tower Power (Private) Limited (TPL) was incorporated in 2019 as a private limited company. TPL is a tower company (TowerCo) engaged in constructing, maintaining, and operating telecommunication infrastructure. The Company holds Telecommunication Tower Provider (ITP) license granted by Pakistan Telecommunication Authority (PTA). The registered office of the company is situated in Islamabad.

Profile of CEO: Mr Mobashir A. Malik joined Associated Technologies as Director Technical in 1996, and moved up the ladder to become CEO in 2003. Under his leadership, the corporation has executed various network expansion projects for telecom service providers. In addition to this role, he also serves as a director for Nayatel (Pvt.) Limited and Pattern in Chief for Human Foundation.

RATING RATIONALE

Established in November 2019, Tower Power (Private) Limited (TPL) is a wholly owned subsidiary of Associated Technologies (Private) Limited (ATL). ATL has business interests in the areas of steel manufacturing, renewable energy production, and manufacturing of telecom infrastructure. Considering the growth potential of its TowerCo business, ATL has decided to separate this business unit to ensure dedicated professional team, separate resources and books of accounts. ATL is in process of transferring all the Towerco related Assets including Towers, Software, hardware, Land leases, Equipment and employees to TPL. In addition, all the Towerco related liabilities including Bank Loans are also being transferred to TPL. This Business Transfer Agreement was signed in August'22. Head office of the company is situated in Islamabad.

Operations of TPL will be based on the Built-to-Suit Model. As part of the same, the company enters into contracts with telecom operators wherein telecom towers are constructed, owned and operated by TPL for them against a monthly rental fee that includes IPF [infrastructure provisioning fee] and Energy charges [Cost to energize the tower equipment]). Towers are constructed according to the requirements of the client, and may range from 30m to 60m in height. Tenants are permitted to install their antennas and other equipment on site. For some towers, a second tenant is also added for a relatively lower fee. At present, the company has agreements with all 4 service providers (Jazz, Telenor, Zong, Ufone) and 634 operational towers, with close to 400 additional towers expected to be added to the portfolio by the end of 2023.

Sector Brief

- The idea of TowerCo companies in Pakistan is relatively new, as the first such company was established in 2014. The market share is distributed among 4 entities, of which 2 are large-sized companies, 1 is medium-sized company and 1 is small-sized company.

Number of Towers	2020	Market Share	2021	Market Share
Engro Enfrashare	1,265	40%	2,030	48%
E.Co	1,606	51%	1,776	42%
Associated Technologies/Tower Power	230	7%	380	9%
Awal Telecom	58	2%	69	2%
	3,159		**4,255**	

- As of December 2021, there were approximately 40k towers installed in the country, around 10% of which were being managed by the TowerCo industry.
- With increasing number of cellular users and rising trend of internet data usage, 15,000 towers are expected to be added over the next five years. Hence, the demand outlook for the industry is positive, offering an opportunity for companies to achieve consistent growth momentum.
- Tenancy ratio of Pakistan is calculated at around 1.3x, which is much lower than the global average of 2.2x. The number is indicative inefficiencies in tower portfolios, which

can be reduced through increased tower sharing arrangements. Going forward, the ratio is expected to reach a figure of 1.45x in the next three years.

- A major risk factor for the industry is the volatility in interest rates, as usually a major proportion capital expenditure is financed using debt. Hence, profitability of the company is sensitive to interest rate changes. Furthermore, persistent uncertain law and order forces in certain regions especially Balochistan, restricts the growth potential of the industry to a certain extent.
- Volatility in international steel prices also poses risk on the industry given sizeable requirement of the same to construct towers. With increasing cost of towers, the leverage profile of the companies elevate simultaneously.
- TPL's competitive strength lies in the rich experience and backward integrated facility of its parent organization (ATL), which has constructed more than 14,000 towers over the years. ATL will continue to act as an EPC contractor to construct towers for TPL in the foreseeable future. Fabrication of steel for towers will also be performed in-house, which will help to control costs.

A sustainable revenue model, with a potential for consistent growth, going forward.

Revenue model of the company consists of two components in the monthly rentals- Infrastructure Provision fee (IPF) and charge for energy consumption. TPL relies on WAPDA for power supply and has backup in the form of batteries installed. For some off-grid sites, generators are used. However, over time, solar panels have been installed at more than 90% of the sites. With being the only provider having self-sufficiency in terms of power availability at majority of the sites yields cost savings and competitive advantage against other players; since the site is operational at all times. In case of excess power generation, electricity is supplied to WAPDA via reverse metering.

Revenue visibility is on the higher side given a lock-in period of 10-12 years with each telecom operator ensuring a sustainable stream of revenue over the long-term. In the case of early termination of contract, fee has to be paid for the entire lock-in period. An escalation rate for each MNO is also decided, on the basis of which fee is revised annually. In certain macroeconomic led situations when deemed necessary, the management has the ability to negotiate with the tenant for a mid-year increase in rentals.

With reference to revenue mix, around more than 50% of sales will be attributable to Jazz, in line with its position in the market followed by equal contribution by other three MNOs. Geographic concentration mix depicts that Punjab and KPK will continue to account for the majority of towers, while some growth will be experienced in Sindh, going forward. Over the next three years, the company plans to add 300, 400 and 500 towers each year to its portfolio. This will help to achieve a noticeable growth in topline and establish a stronger position in the industry.

Province	Tower Distribution
AJK	10%
FBR	2%
KPK	33%
PRA	45%
Sindh	11%

	FY23	FY24	FY25	FY26
Total towers at year end	1,034	1,334	1,734	2,234
Towers to be added during the year	474	300	400	500

Projected profitability indicators contingent on timely installation of planned towers.

Due to the nature of the business model, TPL's gross margins are on the higher side as operational costs for tower are relatively low in comparison to the fee charged. Solar power generation at sites is expected to further in this regard by offering a cheaper alternative to electricity supply from the grid. Moreover, the company charges for approximately 2,000 units per month from each tenant irrespective of the consumption, which helps to maintain margins. Due to the incremental borrowings over time to fund expansion plan, finance cost is projected to rise and may drag the overall profitability profile in view of rising interest rate environment. However, an increase in tenancy ratio and stability in admin costs is likely to ease the pressure on bottom-line. Meeting projected profit levels is contingent on timely installation of planned towers.

Adequate projected liquidity coverages for the assigned ratings, however with increasing debt repayments, debt servicing capacity is projected to decline on a timeline basis. Further, with expansion plans on board, capitalization indicators are forecasted to follow an upward trend.

In line with industry norms, management plans to finance a significant proportion of capacity expansion plans (around 80%) using debt, with the rest being funded by internal cash flow generation and equity injection. Consequently, with additional towers planned to be installed over the next five years, the quantum of debt is expected to depict a noticeable rise over time. Consequently, debt servicing coverage ratio is projected to decline over the rating horizon. Maintaining the same within manageable levels will be important from a ratings perspective.

Operating cycle of the company depicts that tenants are invoiced in arrears and are required to pay within 30-45 days with flexibility in payment period. Hence, the plan is to manage working capital requirements without availing short-term borrowing facilities over the rating horizon. This, coupled with the projected growth in profits going forward, will help to ensure sufficient cash flow coverage against debt servicing.

Given rising quantum of projected debt levels, gearing and leverage indicators are expected to follow an upward trend, however lying within internal limit of 2.5x. Meeting projected capitalization levels in accordance with internal limits as well as parameters for the assigned ratings along with 100% projected profit retention is considered important from a ratings perspective.

Corporate Governance Framework depicts room for improvement.

Board of Directors consists of only two members who are family members. There are no board committees or independent directors. Financial statements of the company are audited by Grant Thorton Anjum Rehman Chartered Accountants, which is a QCR rated firm. The company has a separate internal audit department. Its main role is to keep an eye on all procedures, particularly financial matters, and to ensure all policies and due processes are being followed. Any diversion or concealment is recorded and reported. The department is expected to have a direct reporting line with the audit committee (formation under process), consisting of senior management of the company.

On the IT front, a customized ERP software will be implemented. It will have modules for vouching, receivables, payables, finance, and HR. major reports to be generated using the system include bank reconciliations, aging of payables, aging of receivables, employee payroll, and inventory stock ledgers. Moreover, the company will partner with technology providers such as Oracle and Microsoft to obtain multiple software and hardware solutions.

Financial Summary (Rs. in milllions)			(Appendix I)
Balance Sheet	**FY23 (P)**	**FY24 (P)**	**FY25 (P)**
PPE	7,683	9,939	13,200
Trade Debts	210	284	383
Cash & Bank Balances	1,514	2,167	2,723
Total Assets	9,407	12,389	16,306
Trade and Other Payables	94	121	146
Long Term Debt	4,804	6,681	8,995
Short Term Debt	-	-	-
Total Debt	4,804	6,681	8,995
Paid Up Capital	4,102	4,695	5,539
Total Equity	4,508	5,624	7,349
Income Statement			
Net Sales	2,549	3,455	4,663
Gross Profit	1,402	1,987	2,890
Profit Before Tax	489	631	1,127
Profit after Tax	406	524	881
Ratio Analysis			
Gross Margin	55.0%	57.5%	62.0%
Net Margin	15.9%	15.2%	18.9%
Net Working Capital	1135	1267	1375
Current Ratio	2.93	2.07	1.79
FFO	936	1,232	1,841
FFO to Total Debt	19%	18%	20%
FFO to Long Term Debt	19%	18%	20%
Debt Servicing Coverage Ratio	2.19	1.47	1.30
Gearing	1.07	1.19	1.22
Leverage	1.09	1.20	1.22
ROAA	4%	5%	6%
ROAE	9%	10%	14%

RATING SCALE & DEFINITION Appendix II

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: JCR-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.jcrvis.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.jcrvis.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.

'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.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-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

Name of Rated Entity	Tower Power (Private) Limited
Sector	Telecommunication
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	
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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Due Diligence Meetings Conducted	

Rating History:

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
05-10-2022	A-	A-2	Stable	Initial

Due Diligence Meetings Conducted:

Name	Designation	Date
Mr. Imran Ashraf	Chief Operating Officer	23 May, 2022
Mr. Khalil Ahmad	Financial Controller	23 May, 2022
Mr. Rana Zeeshan	Manager Accounts	23 May, 2022
Mr. Farhan Masood	Deputy Manager Accounts	23 May, 2022