VIS
Credit Rating Company Limited

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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)

RS. MILLION	FY23	FY24	HY25
Net Sales	2,837	5,439	3,046
PBT	310	927	770
PAT	66	340	216
Paid up call	8,170	8,170	8,170
Equity (incl. surplus on PEE)	8,208	8,550	8,766
Total Debt	3,201	4,647	5,278
Debt Leverage	0.69	0.91	0.99
Gearing	0.39	0.54	0.60
FFO	1,213	1,941	2,597
FFO/Total Debt (x)*	0.38	0.42	0.49
NP Margin	2.3%	6.3%	7.1%

TOWER POWER (PVT) LIMITED

Chairman & Chief Executive: Mr. Mobashir A. Malik

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		Reaffirmed	
RATING DATE	April 24, 2025		February 21, 2024	

RATING RATIONALE

The assigned ratings reflect TowerCo's medium to low business risk profile, supported by the capital-intensive nature of the sector, long-term contract durations with limited termination risk, and built-in escalation clause for Infrastructure Provisioning Fees (IPF). The TowerCo sector is poised for growth, driven by increasing demand for 4G services and the anticipated rollout of 5G technology.

TPL's financial risk profile shows a positive trajectory, with growing profitability driven by higher base IPFs and escalation rates. The ratings incorporate the Company's balanced capital structure and adequate debt coverage, even after the mobilization of short-term borrowings—transitioning from a previously short-term debt-free balance sheet.

The company's liquidity profile remains stable, underpinned by improving Funds from Operations (FFO) and a moderate cash conversion cycle, supported by the absence of inventory days with construction outsourced to ATL. Moving forward, maintaining growth in net margins, sustaining liquidity, and preserving a stable capital structure will be key factors for the assigned ratings.

COMPANY PROFILE

Tower Power (Pvt) Limited ('TPL' or 'the Company') is a wholly owned subsidiary of Associated Technologies (Pvt) Ltd, operating within the TowerCo. Sector. In FY23, Associated Technologies (Pvt) Ltd transferred the operational segment focused on telecom passive infrastructure services to its subsidiary TPL. As a result, TPL's main business activity is to own, maintain and lease telecom towers to Mobile Network Operators (MNOs) under the Telecommunication Tower Provider (TTP) License granted by Pakistan Telecommunication Authority (PTA).

INDUSTRY PROFILE & BUSINESS RISK

The TowerCo sector primarily involves the construction, maintenance, and leasing of telecom towers to Mobile Network Operators (MNOs) under a build-to-suit model, wherein towers are developed and leased based on the specific requirements of telecom companies. Consequently, the sector's growth remains closely linked to the demand for data services. In recent years, the strategic shift of MNOs toward infrastructure sharing, following the implementation of the Passive Telecom Infrastructure Policy, has contributed to significant growth for both the MNOs and the TowerCo sector.

As of 2024, Pakistan's telecom tower network consists of an estimated 47,200 towers. Of these, 37,000 are owned by Mobile Network Operators (MNOs), while the remaining are owned by TowerCos. Among the MNO-owned towers, Jazz holds the largest share with 10,700 towers which is in process of being acquired by Engro Corporation at a value of ~USD 563 Mn. This acquisition aims to enhance tower management, reduce operational costs, and improve services.

Within the portfolio held by TowerCo. sector, the market share is primarily distributed among four key players: Engro Enfrashare, Edotco, Tower Power Ltd., and Tawal Telecom. Engro Enfrashare holds approximately half of the market share, followed by Edotco with nearly 34% as of 2024.

Estimated Market Share

Company	2024	2023	2022	2021
Engro Enfrashare	51%	51%	50%	48%
Edotco.	34%	34%	42%	43%
Tower Power	13%	14%	7%	8%
Tawal Telecom	2%	1%	1%	1%

A key performance metric for TowerCos is the tenancy ratio, which indicates the average number of tenants per site. A higher tenancy ratio translates to stronger operational earnings for the sector. Currently, Pakistan's industry-wide tenancy ratio, with an average tower age of five years, stands at approximately 1.3x. This is notably lower than the global average of 2.2x.

The growth in Pakistan's tower industry is primarily driven by demand from two major players—Jazz and Zong—which together add around 1,300 to 1,500 towers annually. Management expects this demand to continue for the next three years. Additionally, by 2027-2028, the rollout of 5G is anticipated to begin, further boosting demand due to the need for a more densely distributed tower network to support the 5G technology. Growth is also anticipated due to the sale and leaseback model, where Mobile Network Operators (MNOs) are expected to divest their tower portfolios to TowerCos, similar to the ongoing transaction between Jazz and Engro Corporation. This arrangement enables MNOs to sell and lease back their passive telecom infrastructure while redirecting funds toward investments in active infrastructure and technology. This strategy unlocks the potential for transferring approximately 26,300 remaining towers, the largest share of the country's tower portfolio, to TowerCos over time.

Telecom Tower Providers (TTPs) in Pakistan face considerable operational challenges, particularly in relation to energy and fuel costs. In rural areas, a significant number of telecom towers rely on diesel generators due to limited access to the electricity grid, resulting in elevated fuel expenses. However, the growing adoption of solarization at tower sites has helped mitigate some of these cost pressures.

Overall, the TowerCo sector is characterized by a medium-to-low business risk profile, attributed to its capital-intensive nature, long-term contractual lock-ins, limited termination risks, and sustained demand growth. This demand is primarily driven by an increasing population, rising mobile phone penetration, and the need for expanded broadband coverage. The sector's growth outlook remains positive, supported by the rising demand for 4G services and the anticipated rollout of 5G technology.

Operational Update

During FY24, the company has added 146 new towers to its portfolio incurring a capital expenditure of PKR 2.2 Bn, with portfolio of 973 towers. In HY25, further additions of 69 towers were made to the portfolio, bringing total figure to 1042 towers.

	Jun'23	Jun'24	Dec'24
No. of Towers	**827**	**973**	**1042**

FINANCIAL RISK

Balanced Capital Structure

The Company maintains a manageable capitalization profile, debt levels increased by 30% YoY to PKR 3.8 Bn in FY24 from PKR 2.9 Bn in FY23.

As of end-FY24, the Company's gearing and leverage ratios stood at 0.54x and 0.91x, respectively, increasing from 0.39x and 0.69x in the previous year. During HY25, gearing and leverage ratios increased further to 0.60x and 0.99x, primarily due to the mobilization of PKR 1 Bn working capital lines, whereas the Company had no short-term borrowings earlier.

The management projects settlement of short-term borrowings while some addition in long-term debt for capital expenditure purposes going forward. The Company plans to add 300-330 new towers with an estimated cost of PKR 3.45 Bn, annually. Of this total, 70% (PKR 2.415 Bn) is expected to be financed through debt.

Strong Profitability

TPL's client base reflects the oligopolistic nature of telecom market, with Jazz being Company's top client.

During FY24, the Company reported a YoY increase of 91.7% in its topline, reaching PKR 5.4 Bn from PKR 2.8 Bn in FY23. This growth was primarily driven by the expansion of the Company's tower portfolio, with the addition of 146 new towers. Revenue also increased from sale of solar equipment to Jazz amounting to PKR 701 Mn (FY23: 400 Mn) during the year.

Consistent with industry trends, the Company maintains healthy gross margins as revenue per tower surged by 65% (FY24: PKR 4.9 Mn, FY23: PKR 2.9 Mn) leading to an improvement in gross margins from 35% to 39.3%. This growth was also supported by an increase in the tenancy ratio from 1.13 to 1.17 and an effective ~7.0% escalation in the Infrastructure Provisioning Fee (IPF) during the year. The expansion in tower portfolio also enabled the Company to revise and implement a higher base IPF for newly added towers, further supporting gross margins.

Despite this improvement, the Company's gross margins in FY24 remained lower than few peers, due to more off-grid sites which incur higher fuel costs. However, by HY25, gross margins had improved substantially to 47.5% primarily due to a higher base IPF and escalation rate.

Administrative expenses nearly doubled during FY24, largely driven by an increase in salary & wage expenditures. Additionally, finance costs increased by 70% YoY due to a 45% rise in debt amidst higher average interest rates. Despite these cost pressures, the Company's profitability improved, with the operating margin and net margins increasing to 37.1% (FY23: 32.8%) and 6.3% (FY23: 2.3%) respectively. The reduction in effective tax rate (FY23: 79%, FY24: 63%) also contributed to higher net income.

These trends have continued into HY25, with gross margins improved further to 47.5% with tenancy recording at 1.18 and net margins reaching 7.1%, exceeding FY24 levels. Looking ahead, further improvement in margins along with declining interest rates scenario, are projected to support profitability.

Adequate Debt Coverage & Liquidity Profile

Funds from Operations (FFO) increased significantly by 60% from PKR 1.21 Bn to PKR 1.94 Bn, driven by improved profitability while the current ratio remained stable at 1.4x. An adjusted cash conversion cycle was calculated including contract assets (value of services provided but unbilled at period end) as it possesses some characteristics of receivables, which strengthened, recording at -1 day from 13 days in FY23 mainly due to decline in receivable days. The long lock-in periods associated with MNO contracts ensure a stable and predictable cash inflow.

Total receivables decreased to PKR 645 Mn (FY23: PKR 776 Mn) as of end-FY24. Age analysis reflects no amount being impaired as at Jun'24, with all receivables recovered within 90 days credit period. Trade payables on the other hand, increased to PKR 853 Mn (FY23: PKR 646 Mn), 84.4% of which pertains to TPL's parent company - Associated Technologies Ltd, against the construction of telecom towers.

With improved FFO and despite higher outstanding debt, coverage ratios improved with FFO to total debt increasing from 0.38x to 0.42x in FY24. Meanwhile, the Debt Service Coverage Ratio (DSCR) remained satisfactory, staying above 1x, though it declined from 2.26x to 1.68x over the year.

As of HY25, FFO remained strong, reaching PKR 1.29 Bn. However, the current ratio declined slightly to 1.26x, down from 1.41x in FY24 mainly due to increase in borrowings. The adjusted cash conversion cycle weakened to 22 days, owing to reduction in payable days (FY24: 94 days, HY25: 75 days). Coverages improved due to high annualized FFO, with FFO to total borrowing at 0.49x, and FFO to long term debt at 0.61x for HY25.

Financial Summary (Rs. in millions)			(Appendix I)
Balance Sheet	**FY23**	**FY24**	**HY25**
PPE	10,808	12,150	12,293
Trade Debts	776	645	685
Cash & Bank Balances	255	424	1,067
Total Assets	13,838	16,340	17,482
Trade and Other Payables	646	853	655
Long Term Debt	2,959	3,452	3,056
Sub-Ordinated Debt	-	400	400
Short Term Debt	-	-	1,000
Total Debt	3,201	4,647	5,278
Paid Up Capital	8,170	8,170	8,170
Total Equity	8,208	8,550	8,766
Income Statement			
Net Sales	2,837	5,439	3,046
Gross Profit	990	2,138	1,446
Profit Before Tax	310	927	770
Profit after Tax	66	340	216
Ratio Analysis			
Gross Margin	34.9%	39.3%	47.5%
Net Margin	2.3%	6.3%	7.1%
Net Working Capital	461	759	738
Current Ratio	1.44	1.41	1.26
Adjusted Cash Conversion cycle*	13	(1)	22
FFO*	1,213	1,941	2,597
FFO to Total Debt	0.38	0.42	0.49
FFO to Short term Debt	N/A	N/A	2.60
FFO to Long Term Debt	0.38	0.42	0.61
Debt Servicing Coverage Ratio*	2.26	1.68	2.02
Gearing	0.39	0.54	0.60
Leverage	0.69	0.91	0.99
ROAA*	0.95%	2.26%	1.28%
ROAE*	1.60%	4.06%	2.50%

*Annualized

REGULATORY DISCLOSURES					**Appendix II**
Name of Rated Entity	Tower Power (Pvt) Limited				
Sector	Telecommunication				
Type of Relationship	Solicited				
Purpose of Rating	Entity Ratings				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	Rating Type: Entity				
	24-Apr-2025	A-	A2	Stable	Reaffirmed
	21-02-2024	A-	A2	Stable	Reaffirmed
	05-10-2022	A-	A2	Stable	Initial
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	S.No.	Name	Designation	Date	
	1.	Mr. Imran Ashraf	Chief Financial Officer	04-March, 2025	
	2.	Mr. Farhan Masood	Manager Finance		
	3.	Mr. Rana Zeeshan	Manager Accounts		