RATING REPORT

Inbox Business Technologies Limited

REPORT DATE:
June 08, 2021

RATING ANALYST:
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RATING DETAILS		
Rating Category	**Latest Rating**	**Previous Rating**
Entity	**BB+/A-3**	**BBB-/A-3**
Rating Date (Entity)	*June 08, 2021*	*March 18, 2020*
Rating Outlook	Rating Watch - Developing	Stable

COMPANY INFORMATION	
Incorporated in 2001	**External auditors:** Mazars M.F & Co.
Public Unlisted Company	**Chief Executive Officer:** Mr. Mohsin Ali
Key Shareholders (with stake 5% or more):	
Patek (Private) Limited ~ 99.99%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria *Industrial Corporates (April 2019):* ***https://s3-us-west-2.amazonaws.com/backupsqlvis/docs/Corporate-Methodology-201904.pdf***

Inbox Business Technologies Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

Incorporated in 2001, Inbox Business Technologies operates as a public unlisted company. Registered office of the company is based in Karachi.

Profile of CEO

Mr. Mohsin Ali is a seasoned professional with over 17 years of experience in Information Technology (IT). He has served in leading local and multinational organizations. He holds BBA (Hons) in Finance Degree from Foundation University.

Headquartered in Karachi, Inbox Business Technologies Limited (IBTL) is a wholly-owned subsidiary of Patek (Pvt.) Limited which is a private investment holding company with shareholding vested in family members of Hussain Dawood Group. The company primarily undertakes contracts for manufacturing and selling IT equipment, software development, managed IT services, networking and security system solutions.

IBTL Business Segments

Operations are classified into four business segments namely; Enterprises Management Services (EMS), Citizen Services (CSX), Digital Security and Infrastructure (DSI) and Transaction Business. EMS generates revenue from provision of end-to-end IT management services to private clients while CSX includes all public sector projects. DSI is involved in transaction businesses with telecom and financial sector. Transaction business segment comprise special one-off projects.

Key Rating Drivers

Business risk profile is supported by good contracts in hand, adequate barriers to entry and modest competition. Payments delays from public sector projects and high client concentration in revenues remain key operational risk factors.

The contracts in EMS and CSX segments have an average tenor of 3 years while contracts in DSI segment are renewed on yearly basis. The availability of specialized human resources and significant geographical reach serves as barriers to entry and thereby providing competitive edge to the company.

Given good contracts in hand (including new mandates signed with telco sector), revenue visibility is on higher side over the ratings horizon. However, inherent volatility in execution of IT related work factors uncertainty, past track-record of receivables, delay in payments by government in public sector projects and high client concentration in revenues continue to remain the major operational risk factors.

Covid-19 pandemic impacted the business performance. Management projects healthy revenue growth on account of future projects in hand.

After registering an increase of ~16% in 2019, the topline has remained stagnant in the outgoing year (2020: Rs. 2.9b) primarily due to pandemic-induced slowdown and delays in projects (particularly in Excise & Taxation, Govt. of Punjab). Nevertheless, given subsequent economy recovery and GoP's enhanced focus towards new urban projects and digitization, the company has managed to induct new public projects along with the resumption of projects put on hold. In 1Q'21, net sales were reported higher at Rs. 960.6m vis-à-vis SPLY while the same is projected to cross the Rs. 6b mark by year end-2021 on the back of future projects in hand.

IBTL witnessed a turnaround in profitability on the back of significant recovery posted in gross margins. Going forward, the same trend in profitability is expected to continue over the rating horizon.
Gross margins, after reducing by more than one-half over the two year period (2018-20), have recouped in 1Q'21 on the back of commencement of high margin projects. Healthy topline growth has also facilitated in better absorption of fixed overheads as the same constitutes major proportion of the expense base.

Post 2019, administrative & selling expenses have witnessed a declining trend primarily due to management's enhanced focused towards cost reduction measures which mainly included reduction in salaries and wages expense through right sizing of headcount and implementation of variable pay model. Financial charges have decreased in the ongoing year on account of debt swap from a commercial bank to related party. This along with the improvement in margins has turned the bottom-line positive in 1Q'21 post four consecutive years of pre-tax losses. Going forward, same trend is expected to continue in view of projected growth in topline and healthier margins over the rating horizon.

After significant deterioration over the past two years, cash flow coverages have depicted improvement in line with the profitability growth.
In line with the turnaround in profitability, FFO (in absolute terms) has turned positive in the ongoing year and consequently improving cash flow coverage multiples. FFO to total debt and FFO to long-term debt were reported at 49.1% and 58.6%, respectively in 1Q'21. Similarly, Debt Service Coverage Ratio (DSCR) witnessed a noticeable increase to 4.36x (2020: 0.71x; 2019: 0.57x).

The company's trade debts amounted to Rs. 919.6m at end-1Q'21, which represents ~25% of total asset base. Of total trade debts, one-third is outstanding for a period of more than 90 days. Current ratio stood at 0.98(x) while cushion of trade debts and stock in trade vis-à-vis short term borrowings is currently sufficient. Going forward, higher expected turnover with improved margins would translate in to further improvement in liquidity metrics.

Ratings downgrade incorporates significant attrition in capitalization levels due to sizeable losses incurred
Despite equity injection in Nov'19, capital base has been reported negative during the last two consecutive years given sizeable losses incurred. Major chunk of these losses pertain to write-offs of irrecoverable debts, advances and obsolete inventories. This along with higher depreciation losses booked due to project delays in the outgoing year led to further increase in accumulated losses. During the period under review, short-term borrowings (from local commercial bank) were replaced with a three year long-term loan acquired from sponsors. The loan is repayable on demand while markup payment is conditioned by positive bottom-line profitability. Total debt was reported at Rs. 2.9b (2020: Rs. 3.0b; 2019: Rs. 3.9b) as at end-1Q'21; of which around four-fifth is long-term in nature. Going forward, ratings depend upon the projected improvement in capitalization levels and continued sponsor support.

Strong sponsor profile and the demonstrated financial provided comfort
Further revision in ratings has been restrained given strong sponsor profile and the demonstrated financial support in form of previous capital injection and liquidity support in terms of interest bearing long-term loan in the ongoing year. Ratings also take note of the established market reputation and strong financial profile of the ultimate sponsor family.

Improvements in corporate governance framework
Since last review, considerable developments have been seen at governance level with respect to new hiring at key senior level positions and changes in Board of Directors (BoD). The board size was increased from 6 to 7 members while 5 directors were replaced including the CEO (Mr. Mohsin Ali who was previously serving as COO was appointed in place of Mr. Mir Nasir). Furthermore, Mazars M.F & Co. are the newly appointed external auditors replacing EY Ford Rhodes in the ongoing year.

Inbox Business Technologies Limited — Appendix I

FINANCIAL SUMMARY			(amounts in PKR millions)	
BALANCE SHEET	**2018**	**2019**	**2020**	**1Q'21**
Property and Equipment	979.7	1,350.2	1,058.1	843.9
Total Fixed Assets	1,122.2	2,003.8	1,766.8	1,456.1
Stock-in-Trade	482.5	151.4	89.4	72.8
Trade Debts	1,791.2	609.3	834.8	919.6
Cash & Bank Balances	119.0	530.0	209.4	258.3
Total Assets	4,613.2	4,262.3	3,812.0	3,677.6
Total Debt	3,019.0	3,912.6	3,020.5	2,942.1
Paid up capital	710.1	1,428.1	1,428.1	1,428.1
Advance against issue of shares	718.0	-	-	-
Accumulated profit/loss	(546.8)	(1,875.8)	(2,339.8)	(2,217.5)
Total Equity	163.3	(447.7)	(911.7)	(789.4)
INCOME STATEMENT				
Net Sales	2,482.4	2,883.2	2,871.1	960.6
Gross Profit	853.4	672.8	288.8	216.6
Profit Before Tax	(192.7)	(1,244.0)	(583.5)	70.9
Profit After Tax	(252.3)	(1,276.0)	(662.0)	47.7
RATIO ANALYSIS				
Gross Margin (%)	34.4%	23.3%	10.1%	22.5%
FFO	103.1	(86.2)	(504.9)	361.2
FFO to Total Debt (%)	3.4%	-2.2%	-16.7%	49.1%
FFO to Long Term Debt (%)	115.2%	-24.5%	-19.8%	58.6%
Current Ratio (x)	0.97	0.51	0.84	0.98
Gearing (x)	3.4	(8.8)	(3.3)	(3.7)
Leverage (x)	3.2	(10.5)	(5.2)	(5.7)

RATING SCALE & DEFINITIONS Appendix II

VIS Credit Rating Company Limited

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

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

(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

'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
Name of Rated Entity	Inbox Business Technologies Limited
Sector	Information Technology
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
08/06/2021	BB+	A-3	Rating Watch - Developing	Downgraded
18/03/2020	BBB-	A-3	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.
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	

	Name	Designation	Date
1	Mr. Kamran Hanif	CFO	May 21, 2021
2	Mr. Umais Ahmed	General Manager - Treasury	