



Case study

Pakistan Telecommunications

An emerging market future-flow securitization

Prof. Ian Giddy, New York University

The Deal

Citicorp Securities and ABN Amro Bank arranged a deal that enabled Pakistan Telecommunication to securitize \$250 million in receivables from dollar-paying carriers such as AT&T, Sprint, and MCI WorldCom. \$250 million of bonds backed by future telephone settlement receivables from international phone operators. The bonds were rated BBB-, four notches above Pakistan's sovereign rating at the time of issuance in 1997. Paktel is 88% owned by the government.



The Result

Despite the rescheduling of government debt during 1998 and 1999, and several rating downgrades, these bonds have performed to date. However, the deal was denominated in dollars, while Paktel's revenues are in Pakistani rupees. This, along with other problems of asset-liability management at Pakistan Telecommunications, led the company to seek an alternative means of securitizing its future revenues.

In 2004, a solution was found. How this worked is described in the ratings report on the next page.

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SECURETEL SPV LIMITED

Ratings (November 2004)

Securetel SPV Limited

	New	Previous
Securitized TFC A <i>PKR 840mln</i>	A	A

Analysts

Rehan Zulqadar
+92-42-586 9504
rehan@pacra.com

Shahzad Saleem
+92-42-586 9504
shahzad@pacra.com

SECURITIZED TRANSACTION SUMMARY

- Securetel SPV Limited, a non bankruptcy-remote special purpose vehicle (SPV), was incorporated in Pakistan on June 25, 2002 as a public limited company under the Companies (Asset Backed Securitisation) Rules, 1999 with the ownership resting with Invest Capital and Securities (Pvt) Limited (Investcap) – a corporate member of KSE. The principal objective of the company is to act as a SPV to facilitate true sale securitization. The company will be wound-up after three years from the date of certificate of registration or the final payment of TFCs, whichever is later.
- Securetel SPV Limited has acquired an interest in future receivables of Paktel Limited (PTL), paying the sale price by issuing TFCs. The TFC-A series is listed on Lahore Stock Exchange and carries profit based on SBP discount rate +200bps with a cap of 16% p.a. and floor of 12% p.a. for the first year and 11.50% p.a. for the last two years while TFC B is non-listed with maximum return of 20%. Both the TFCs have a tenor of 3 years. These are redeemable in twelve quarterly installments (principal + interest) of which six installments have been paid by September 27, 2004. The remaining outstanding principal of TFC A series amounting to PKR 420mln plus interest thereon is payable by March 27, 2006.
- PTL was incorporated as a private limited company on April 19, 1989 and converted into an unquoted public limited company on March 14, 1990. PTL had been a joint venture between Cable & Wireless of UK and Hassan Associates till Millicom International Cellular, S.A. (MIC) acquired 98.86% of the shares in November 2000. MIC, a Luxembourg-based company listed on NASDAQ national market and Luxembourg stock exchange has been rated B+ (B Plus) by Standard & Poor's. MIC's portfolio of assets comprises 16 cellular operations in 15 countries, focusing on Asia, Latin America and Africa.

RATING RATIONALE

The rating reflects the strong likelihood of TFC-A series holders receiving full and timely principal and interest payments, based on:

- High quality of underlying purchased receivables of PTL with increasing proportion of pre-paid revenues;
- PTL's expanding subscriber base and growing cellular phone demand in the country;
- Renewal of license to operate as a mobile cellular operator for 15 years;
- Recent launch of GSM service that is likely to enhance PTL's revenue and cushion available to the TFC A holders;
- The availability of robust safety margins to TFC A holders based on their senior right on collections of securitized receivables;
- The binding covenants that protect SPV's rights throughout the tenor of the TFC A holders;
- Sufficient time available for adequate collections from the purchased receivables in each quarter;
- MIC's guarantee to the SPV for the payment of PTL's obligations.

PTL structured the securitization transaction to correct the imbalance in its asset liability maturity profile. The company was suffering from huge exchange losses till FY2001 due to foreign currency borrowings, a significant portion of which was paid off through internal cash generation and short-term loans, which led to high reliance on short-term borrowings. The funds raised through the securitization helped clear off the short-term borrowings.

Pakistan Telecommunication Authority (PTA) – the Regulatory Authority in Pakistan – has renewed the license of PTL, with some relaxations, in accordance with the terms and conditions of Mobile Cellular Policy issued in January 2004. Fifty percent of the total license renewal fee is payable in six semi-annual instalments commencing April 2005. These instalments are unequal and significantly weighed in terms of value towards the second half of 3-year period, that is after full settlement of TFC obligations. The remaining 50% will be paid in ten yearly installments beginning 2008 through 2017. This mitigates PACRA's concern about the capacity of PTL to meet its obligations towards PTA during the tenor of the TFC. While maintaining the TFC rating, PACRA will closely monitor the situation on a continuing basis.