RATING REPORT

Pakistan Cables Limited (PCL)

REPORT DATE:
September 04, 2018

RATING ANALYSTS:
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RATING DETAILS		
	Initial Rating	
Rating Category	**Long-term**	**Short-term**
Entity	A	A-1
Rating Outlook	Stable	
Rating Date	*September 04, 2018*	

COMPANY INFORMATION

Incorporated in 1953	**External auditors:** KPMG Taseer Hadi & Co. Chartered Accountants
Listed Public Limited Company	**Chairman of the Board:** Mr. Mustapha A. Chinoy
	Chief Executive Officer: Mr. Kamal A. Chinoy
Key Shareholders as on June 30 2018 (with stake 5% or more):	
Directors, CEO, Spouses & Family Member – 55.46%	
Associated Cos., Undertakings and Related Parties – 17.12%	
Banks, DFIs and Insurance Companies – 7.06%	
General Public – 20.36%	

APPLICABLE METHODOLOGY(IES)

Applicable Rating Criteria: Industrial Corporates (May, 2016) ***http://www.jcrvis.com.pk/kc-meth.aspx***

Pakistan Cables Limited (PCL)

RATING RATIONALE

Pakistan Cables Limited (PCL) has been engaged in manufacturing of wires & cables for more than six decades. PCL was established in 1953 as a joint venture with UK-based British Insulated Callender's Cables Plc. This partnership continued till 1992. In 2010, General Cable (one of the world's largest cable firms) acquired 24.59% stake in the company. As part of its global restructuring strategy, General Cable divested its entire stake to PCL's existing shareholders in early 2017. Accordingly, majority shareholding in PCL is vested with Chinoy Family, which also owns interests in the steel sector.

The company operates a single manufacturing facility in Karachi. Installed capacity for wires & cables has been enhanced in recent years. In order to pursue backward vertical integration, management of PCL established dedicated plants for two of its key raw materials, copper rod and polyvinylchloride (PVC) compound in 1996 and 2008 respectively. The former utilizes London Metal Exchange registered 'A' grade copper cathodes to produce high conductivity oxygen free copper rods while the latter manufactures high quality electric cable grade PVC for in-house use as well as external sale. Moreover, the company has installed a 2MW gas-fired tri-generation power plant catering around half of its aggregate power requirement.

PCL's wires are manufactured using 99.99% pure oxygen free copper rods manufactured in its plant. The company is ISO 9001:2015, ISO 14001:2015 and OHSAS 18001:2007 certified and its cables are tested by KEMA Laboratory Netherlands. With its latest award of KEMA Gold Type-test Certificate, PCL now holds seven KEMA certificates in total. In addition, PCL's products are certified by Pakistan Standards and Quality Control Authority, Electrical Research and Development Association India and TUV SUD PSB Pte. Ltd. Singapore. PCL is also the only cable manufacturer in the country with the CE certification, which certifies that the product range meets European health, safety, and environmental protection legislation and can be legally sold and moved within the European Union.

Rating Drivers

Business Risk

The wiring & cable industry is characterized by significant competition with existence of several large players and numerous small unorganized firms. Business risk profile is supported by stable and growing demand for wires & cables in the country from housing, energy, automotive, construction and other segments. However, business to business segment is exposed to competition from Chinese imports while retail sales face competition from informal manufacturers operating domestically and internationally. JCR-VIS expects demand for wires & cables to remain stable over the medium term on account of favorable demand outlook for industries catered to. Raw material (primarily comprising imported copper cathodes) represents major portion of the cost of goods sold. Inherent business risk pertaining to volatility in raw material prices and rupee depreciation are considered manageable.

Market Position, Sponsor and Management Profile

The assigned ratings incorporate PCL's position as one of the leading cable & wiring manufacturers in the country. Consistency – one of PCL's key competitive strengths – is achieved through manufacturing expertise built over a long period of time. Accordingly, ratings draw comfort from the extensive experience and track record of the management team. Senior management comprises experienced professionals and has largely remained stable over the years. Ratings also take into account sponsor profile of PCL with majority stake being held by the reputed Chinoy Family.

Sales & Profitability

Net sales have increased at a Compound Annual Growth Rate (CAGR) of 7.0% during FY13-17. On a timeline basis, revenue growth has been driven by increase in volumes of wires & cables, followed by PVC. In FY17, sales increased by 18.0% while over 1HFY18, topline further grew by 10.3% (on annualized basis). During FY12-15, gross margins ranged between 11-13%. Over past two fiscal years, gross margins of the company improved on the back of operational efficiencies

OVERVIEW OF THE INSTITUTION

In 1953, Pakistan Cables Limited (PCL) was incorporated as a private limited company. Subsequently, in 1955 it was converted to a public limited company. Registered office of the company is located in Karachi, Pakistan.

Profile of Chairman

Mr. Mustapha A. Chinoy holds a BSc in Economics from Wharton School of Finance, University of Pennsylvania. He has been a member of PCL's board since 1986. Apart from PCL, Mr. Mustapha also chairs the board of International Industries Limited.

Profile of CEO

Mr. Kamal A. Chinoy has been part of PCL's board since 1992. He holds a degree from Wharton School, University of Pennsylvania, USA. He serves on the Board of Directors of ICI Pakistan Limited, IIL, ISL, NBP Fullerton Asset Management Limited, Askari Bank Limited and Atlas Power Limited and is also board chairman of Jubilee Life Insurance Limited.

Awards & Recognition

FPCCI Export Award for traditional products (2014-15) (2015-16)

KSE's Top 25 Companies Award (1978, 1980, 2006, 2007,2008 & 2013)

Best Corporate Report Award from ICP & ICMAP (2007 and 2010)

Best Corporate Excellence Award from MAP (1982 and 1983)

(FY17: 15.7%; FY16: 15.8%). However, during 1HFY18, gross margins slightly declined to 14.2%. Given the risk of inventory loss and prevalent volatility in base metal prices along with increasing competition – efficient procurement, operational efficiencies and pricing strategy are key drivers for gross margins. Growth in sales, along with lower effective tax rate and one-time reversals resulted in significant growth in bottom line during the outgoing fiscal year.

Liquidity and Capitalization

In line with enhanced earning profile, Fund Flow from Operations (FFO) was reported higher translating into improved FFO to long term debt of 3.4x (FY17: 2.4x; FY16: 1.6x) while debt servicing coverage ratio equaled 4.74x (FY17: 9.43x) at end-1HFY18. Working capital cycle increased on account of higher receivable and inventory days. Ageing profile of trade debts remains within manageable levels. Over FY13-17, equity base has increased at CAGR of 6.7% on account of internal capital generation. Dividend payout ratio has ranged between 45%-66% over the last five years. Debt profile of the company is largely short-term in nature.

Corporate Governance

Overall corporate governance framework is supported by sound board composition and oversight, stable and professional management team, strong internal controls framework and focus on transparency and disclosures. Governance framework is supported by focus on transparency as evident from governance related disclosures in the annual report which provide important information for stakeholders.

FINANCIAL SUMMARY *(amounts in PKR millions)*

BALANCE SHEET	FY16	FY17	1HFY18
Property, plant & equipment	2,090	2,166	2,159
Stock-in-Trade	1,547	1,915	2,104
Trade Debts	1,020	1,319	1,609
Cash & Bank Balances	55	53	119
Total Assets	5,076	5,790	6,295
Trade and Other Payables	1,262	1,359	1,203
Long Term Debt (inc. current maturity)	240	263	233
Short Term Debt	453	922	1,484
Total Equity	1,867	2,008	2,138
INCOME STATEMENT	FY16	FY17	1HFY18
Net Sales	6,850	8,084	4,459
Gross Profit	1,083	1,268	634
Administrative Expenses	197	230	130
Marketing, Selling & Distribution Cost	406	406	213
Other Income	27	98	20
Finance Cost	81	66	66
Taxation	143	146	52
Profit After Tax	264	478	181
RATIO ANALYSIS			
Gross Margin (%)	15.8	15.7	14.2
Net Working Capital	1,192	1,180	1,254
FFO	394.4	628.6	398.4
FFO to Total Debt (x)	0.6	0.5	0.5
FFO to Long Term Debt (x)	1.6	2.4	3.4
Gearing (x)	0.4	0.6	0.8
Debt Leverage (x)	1.12	1.33	1.43
Debt Servicing Coverage Ratio (x)	n/a	9.43	4.74

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	Pakistan Cables Limited
Sector	Cable & Wire Manufacturing
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	see below
Instrument Structure	n/a
Statement by the Rating Team	JCR-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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Rating History:

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
9/4/2018	A	A-1	Stable	Initial