RATING REPORT

Pakistan Cables Limited (PCL)

REPORT DATE:
February 2, 2021

RATING ANALYSTS:

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RATING DETAILS				
	Latest Rating		Previous Rating	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity	A	A-1	A	A-1
Rating Date	*February 2, 2021*		*October 11, 2019*	
Rating Outlook	Stable		Stable	
Rating Action	*Reaffirmed*		*Reaffirmed*	

COMPANY INFORMATION

Incorporated in 1953	**External auditors:** KPMG Taseer Hadi & Co. Chartered Accountants
Public Listed Company	**Chairman of the Board:** Mr. Mustapha A. Chinoy
Key Shareholders (with stake 5% or more)	**Chief Executive Officer:** Mr. Fahd Kamal Chinoy
Directors, CEO, Spouses & Family Member – 44.16%	
Associated Cos., Undertakings and Related Parties – 17.12%	
Mutual Funds – 9.35%	
General Public & Others – 22.30%	
Banks, DFIs and Insurance Companies – 7.06%	

APPLICABLE METHODOLOGY(IES)

Applicable Rating Criteria: Industrial Corporates (May, 2016)
https://s3-us-west-2.amazonaws.com/backupsqlvis/docs/Corporate-Methodology-201904.pdf

Pakistan Cables Limited (PCL)

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. Fahad K. Chinoy has been part of PCL's board since 2017. He became CEO of PCL in July 2019. He holds an MBA from INSEAD and a BA in Economics and Political Science from the University of Pennsylvania, USA. He is also a Director of Focus Humanitarian Assistance Pakistan and Amir Sultan Chinoy Foundation and is a certified director from PICG.

RATING RATIONALE

Pakistan Cables Limited (PCL) is engaged in manufacture of copper rods, wires, cables & conductors, aluminum extrusion profiles (Alum-ex) and PVC compounds. Pakistan Cables Limited is the country's oldest cable manufacturer and was established in 1953 in partnership with British Insulated Callender's Cables (BICC). PCL operates as a listed company and has been operating in the wiring & cable industry for almost 67 years. The company initially started with production of conductors, wires and cables for transmission and distribution of electricity but has expanded its product mix and facilities over time. PCL only uses London Metal Exchange registered 'A' grade copper cathodes for production of copper rods.

The company has also been manufacturing Aluminum sections/extrusions for the last four decades under the brand name of Alum-Ex. In 2008, the Company set up a PVC Compounding Plant to manufacture high quality electric cable grade PVC compounds. Moreover, the company has installed a 2MW gas-fired tri-generation power plant catering around half of its aggregate power requirement. PCL is integrated upstream for two of its critical raw material inputs, copper rod and polyvinylchloride (PVC).

At present, PCL operates through a single manufacturing facility in SITE, Karachi. In 2018, PCL purchased a 42-acre plot of land in Nooriabad, Sindh which shall be utilized for the purposes of manufacturing facilities of the company. In the year 2019, PCL was the first company to launch an e-commerce platform in the cable industry.

Rating Drivers:

Extensive experience of sponsors and leading market position in the industry is a key rating driver

The assigned ratings incorporate PCL's position as one of the leading cable & wiring manufacturers in the country having a lengthy operational track record. Accordingly, ratings draw comfort from the extensive experience and track record of the management team. Senior management comprises experienced professionals. PCL's management team is spearheaded by Mr. Fahd Kamal Chinoy who assumed charge as the Chief Executive Officer (CEO) of the company in July 2019. Ratings also take into account sponsor profile of PCL with majority stake being held by the Chinoy Family.

Demand for wires & cables for infrastructure, solar and other construction activities in the country has picked pace. Overall competitive intensity in the sector remains high

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, 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. VIS expects demand for wires & cables to improve as housing and construction activities in the country pick pace (cement sales up 17% in 5MFY21). 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. This is evident from sharp increase in copper prices in the ongoing year which have almost entirely been passed on to customers.

Performance during FY20 and 1QFY21 has been impacted due to Covid-19 which resulted in decline in volumetric sales. Going forward, VIS expects profitability profile to improve in FY21 on the back of volumetric growth in sales, improvement in margins and lower finance cost.

Net sales of the company declined by 6% in FY20 (FY20: Rs. 9.1b; FY19: Rs. 9.7b) on account of lower volumetric sales. While sales depicted an increasing trend during the first half of FY20, however disruption of operations due to Covid-19 resulted in a decline in the topline in the final quarter of FY20. Gross margins were reported lower at 9.5% (FY19: 11.8%) as rupee devaluation and rising costs of select inputs could not be fully passed on to the customers. Moreover, lower production due to Covid-19 resulted in fixed operating cost remaining on the higher side. After a sizable jump in overall expense base (comprising administrative & selling expenses) in F19, PCL reported lower expenses of Rs. 435.1m (FY19: Rs. 509.8m) in FY20 because of lower advertising and publicity cost. However, finance cost registered a sizable growth due to higher average interest rate and exchange loss on foreign currency borrowings. Resultantly, finance cost was higher at Rs. 283.3m (FY19: Rs. 188.6m) during FY20 despite borrowings remaining around prior year level. Given lower revenues and margins along with higher finance cost and exchange losses, PCL incurred a loss of Rs. 91.8m in FY20 vis-à-vis profit of Rs. 126.2m in FY19.

Going forward, VIS expects profitability profile to improve in FY21 on the back of volumetric growth in sales and lower finance cost. PCL's performance in the first half of FY21 is already showing a rebound with net sales at Rs. 5.2b and PAT amounting to Rs. 81m. Volumetric growth in sales is expected to be driven by uptick in construction activity while finance cost is expected to decline due to lower benchmark rates.

Cash flow coverages weakened in FY20 but are expected to improve, going forward

Given the decline in profitability, funds from operations (FFO) of the company were reported lower at Rs. 94.9m (FY19: Rs. 163.0m). Resultantly, FFO in relation to long term debt (FY20: 0.1x; FY19: 0.2x) and FFO in relation to total debt (FY20: 0.04; FY19: 0.07x) declined while DSCR was reported slightly below 1x. PCL's working capital cycle is extensive and necessitates utilization of short-term borrowings. Stock in trade and trade debts provide strong coverage over short term borrowings (FY20: 288%; FY19: 286%), while the current ratio is also considered satisfactory and was reported at 1.47x (FY19: 1.84x) at end-FY20. Aging profile is satisfactory where 3% of total trade debts are past due more than one year. However, a sizeable jump was noticed in the past due 61 days- 1 year category as compared to the preceding year. Going forward, liquidity profile is expected to depict improvement with growth expected in cash flows in the ongoing year.

Capital structure remains conservative and supports ratings. Leverage indicators have been maintained around prior year level but will increase as debt drawdown happens to fund expansion

Equity base (excluding revaluation surplus on assets) of the company decreased to Rs. 3.2b (FY19: Rs. 3.3b) at end-FY20 on account of loss incurred during the period and dividends paid. Dividend payout ratio for FY20 stood at Nil (FY19: 70.5%). Despite recognition of lease liabilities on balance sheet due to implementation of IFRS-16, borrowings were reported lower at Rs. 2.2b (FY19: Rs. 2.3b) at end-FY20 primarily due to a parallel rise and drop in long-term debt (FY20: Rs. 961.1m; FY19: Rs. 789.4m) and short-term debt (FY20: Rs. 1.2b; FY19: Rs. 1.5b) respectively. Gearing ratio was maintained at 0.7x (FY19: 0.7x) due to similar amount of decrease in both total equity and debt while liabilities increased resulting in higher leverage ratios of 1.16x (FY19: 1.09x). Ratings will remain dependent on PCL maintaining a conservative leverage profile.

Strong corporate governance framework

Overall corporate governance framework is supported by sound board composition and oversight, strong internal controls framework, professional management team and focus on transparency and disclosures. In order to ensure effective oversight, two committees exist at Board level, namely the Audit Committee and Human Resource and Remuneration Committee.

Pakistan Cables Limited (PCL) Appendix I

FINANCIAL SUMMARY *(amounts in PKR millions)*			
BALANCE SHEET	**FY18**	**FY19**	**FY20**
Fixed Assets	2,186	3379	4,067
Stock-in-Trade	1,955	2,203	1,902
Trade Debts	1,971	2,089	1,653
Cash & Bank Balances	573	88	85
Total Assets	7,171	8,432	8,417
Trade and Other Payables	1,096	813	1,078
Long Term Debt	358	789	961
Short Term Debt	1,779	1,499	1,234
Total Equity	2,654	3,255	3,157
Paid-up Capital	284.6	355.8	355.8
INCOME STATEMENT	**FY18**	**FY19**	**FY20**
Net Sales	9,561	9,704	9,086
Gross Profit	1,137	1,146	860
Administrative Expenses	249	266	222
Marketing, Selling and Distribution Cost	438	510	435
Other Income	41	55	37
Finance Cost	134	189	283
Taxation	38	50	27
Profit Before Tax	344	176	64
Profit After Tax	305	126	(92)
RATIO ANALYSIS	**FY18**	**FY19**	**FY20**
Gross Margin (%)	11.9	11.8	9.5
Net Margin (%)	3.2	1.3	-1.0
Net Working Capital	1,882	2,262	1,343
FFO	458.9	163.0	94.9
FFO to Total Debt (x)	0.2	0.1	0.04
FFO to Long Term Debt (x)	1.3	0.2	0.1
Gearing (x)	0.8	0.7	0.7
Debt Leverage (x)	1.29	1.09	1.16
Debt Servicing Coverage Ratio (x)	3.14	1.39	0.96
Current Ratio	1.63	1.84	1.47
(Trade Debts+ Stock in trade) / Short Term Borrowings	2.21	2.86	2.88

ISSUE/ISSUER RATING SCALE &DEFINITIONS — 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: 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	Pakistan Cables Limited
Sector	Cable & Wire Manufacturing
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	see table below
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 Meeting	see table below

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
2/2/2021	A	A-1	Stable	Reaffirmed
10/11/2019	A	A-1	Stable	Reaffirmed

Due Diligence Meeting

Name	Designation	Date
Fahd Chinoy	CEO	7th December 2020