RATING REPORT

Pakistan Cables Limited (PCL)

REPORT DATE:
May 16, 2022

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	*April 04, 2022*		*February 02, 2021*	
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 – 38.61%	
Associated Cos., Undertakings and Related Parties – 21.34%	
Mutual Funds – 7.78%	
General Public & Others – 25.23%	
Banks, DFIs and Insurance Companies – 7.06%	

APPLICABLE METHODOLOGY(IES)
Applicable Rating Criteria: Industrial Corporates (August, 2021)
https://docs.vis.com.pk/docs/CorporateMethodology202108.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. Fahd 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 Atlas Battery Limited, Focus Humanitarian Assistance Pakistan and Amir Sultan Chinoy Foundation and is a certified director from PICG.

RATING RATIONALE

Incorporated in 1953 as a private limited company with subsequent conversion into a public limited company in 1955; Pakistan Cables Limited (PCL) is the country's oldest cable manufacturer and is principally engaged in the manufacture of wires, cables conductors, aluminum sections for architectural applications, copper rod, and PVC compounds. PCL is part of Amir S. Chinoy Group (ASCG) which is one of the pioneers of industrialization in Pakistan. The company is known to have a history of international affiliations, which helped create a strong market position in the industry through high-quality offerings. The Company has an extensive dealership network covering more than two hundred towns across the country. Head office is situated at M.T Khan Road, Karachi and manufacturing facility is located in S.I.T.E., Karachi.

Industry structure features an oligopolistic nature with top three firms, including Pakistan Cables industry, capturing ~60% of the market share, while the remaining 40% is highly fragmented with medium or low size players.

Rating Drivers:

Strong group support

Ratings draw comfort from the extensive experience of Chinoy Group which is known for innovation since inception of Pakistan and has diversified presence in crucial industries including steel pipes, HDPE pipes, cold rolled galvanized steel, and electrical wires & cables. The Group has large geographical footprint, with presence in more than two hundred cities through ~1,500 outlets across Pakistan. Key companies of the Group include International Industries Limited (IIL), International Steel Industries (ISL), and Pakistan Cables Limited (PCL). Pakistan Cables Limited is closely managed by the Chinoy family with Mr. Fahd Chinoy being the C.E.O. and Mr. Mustapha A. Chinoy as the Chairman.

Capital expenditure towards capacity addition to further support market position

PCL is in process of setting up a new manufacturing facility on a 42 acres land in K-23, Nooriabad, which includes expansion of capacities and de-bottlenecking of several production processes to enhance efficiencies.

Strong topline growth supported by positive momentum in the industry. While pace of growth is expected to streamline going forward, it is expected to remain positive.

Topline growth of 45% at Rs. 13.1b (FY20: Rs. 9.1b) was both volume and price driven. In the first half of FY22, revenue growth remains robust with sales revenue Rs. 9.5b. Strong demand was witnessed post COVID slowdown throughout all market segments including projects, retail and utilities, driven by higher activity in the housing sector on the back of Government's direction towards real estate. In addition, industrial expansion fueled by governments TERF scheme has also contributed towards higher volumes while increased solarization projects have also generated higher demand. On the price front, international commodity prices for copper recorded a significant hike. Since market demand remained strong, Company was able to leverage a higher margin after passing on the impact of commodity prices as well as currency devaluation onto the end consumers. Resultantly, gross margins improved in FY21 and further in HY22. In addition to price revision, increased volumes also contributed towards greater efficiencies translating into higher margins.

Going forward, due to significant rise in overall construction costs fueled by steel, cement and related products price increase, management expects pace of growth to streamline. Moreover, uncertainty around the current political and global environment may slowdown the economic activity. The Company, however, remains exposed to volatility in international commodity prices and currency risk.

Improvement in profitability indicators and cash flow coverages.

Higher turnover and improved margins resulted in uptick in profitability and cash flows. Lower financial charges led by drawdown against concessionary schemes also contributed towards improvement in bottom-line profitability at Rs. 554m (FY20: Rs. -92). The trend has continued into HY22 with net profitability at Rs. 453m. Funds from Operations (FFO) resultantly improved significantly enhancing FFO/Total debt coverage to 21%. Debt service coverage for FY21 remained sound at 1.92x.

Pressure on liquidity profile expected going forward

Liquidity profile of the Company remains sound with current ratio of 1.25x and stock and trade debts providing 2x coverage to short terms borrowings. Working capital cycle also depicts improvement on account reduced receivable days. Strong demand in the industry allowed the Company to set command favorable credit terms, allowing working capital cycle to reduce from 152 days to 116 days, albeit on the higher side. Going forward, with the increase in commodity prices and the geo-political situation together with inflationary pressures and capacity expansion, working capital requirements are expected to increase for the Company. Maintenance of liquidity indicators in line with the assigned ratings will remain important.

Capitalization indicators depict increase, albeit remaining within manageable levels.

Equity, excluding surplus on revaluation (FY21: Rs. 3.7b; FY20: Rs. 3.1b) recorded uptick on account of higher profitability. Capitalization indicators depict an increase on account of capital expenditure financing. Gearing and leverage at HFY22 was recorded at 1.14x (FY21: 0.88x) and 1.76x (FY21: 1.52x) respectively. While the gearing levels are expected to remain elevated, as per management, they are expected to streamline going forward.

Strong corporate governance framework

Sound board composition and oversight together with strong internal controls framework, professional management team and focus on transparency and disclosures supports a strong corporate governance framework. During the year, the Board appointed Mr. Muhammad Rashid and Mr. Al H. Shirazi in place of Mr. Syed Muhammad Tariq Huda and Mr. Saquib H. Shirazi. In order to ensure effective oversight, two committees exist at Board level, namely the Audit Committee and Human Resource and Remuneration Committee.

In addition, the Company during the outgoing year successfully implemented ERP system which is expected to strengthen the internal control framework as well as improve operational efficiencies.

Pakistan Cables Limited (PCL) Appendix I

FINANCIAL SUMMARY	*(amounts in PKR millions)*				
BALANCE SHEET	**FY18**	**FY19**	**FY20**	**FY21**	**H1'FY22**
Fixed Assets	2,186	3,379	4,146	4,830	5,830
Stock-in-Trade	1,955	2,203	1,902	2,504	2,737
Trade Debts	1,972	2,089	1,653	2,787	3,029
Cash & Bank Balances	573	88	85	108	122
Total Assets	7,171	8,432	8,417	11,032	12,429
Trade and Other Payables	762	813	1,078	1,418	1,454
Long Term Debt	358	789	961	1176	1,387
Short Term Debt	1,779	1,498	1,234	2,134	3,090
Total Debt	2,137	2,288	2,195	3,310	4,477
Total Liabilities	3,413	3,554	3,647	5,683	6,910
Paid Up Capital	284.6	355.8	355.8	355.8	355.8
Tier 1 Equity	2,654	3,255	3,157	3,749	3,924
INCOME STATEMENT	**FY18**	**FY19**	**FY20**	**FY21**	**H1'FY22**
Net Sales	9,561	9,704	9,086	13,145	9,562
Gross Profit	1,137	1,146	860	1,526	1,308
Profit/Loss Before Tax	343.8	176.4	(64.4)	749.7	682.6
Profit/Loss After Tax	305	126	-92	554	453
RATIO ANALYSIS	**FY18**	**FY19**	**FY20**	**FY21**	**H1'FY22**
Gross Margin (%)	12%	12%	9%	12%	14%
Net Margin (%)	3%	1%	-1%	4%	5%
Net Working Capital	1,882	2,262	1,343	1,211	554
FFO	459	163	95	690	589
FFO to Total Debt (x)	0.21	0.07	0.04	0.21	0.26*
FFO to Long Term Debt (x)	1.28	0.21	0.10	0.59	0.85*
Gearing (x)	0.81	0.70	0.70	0.88	1.14
Debt Leverage (x)	1.29	1.09	1.16	1.52	1.76
Debt Servicing Coverage Ratio (x)	3.14	1.39	0.96	1.92	2.17
Current Ratio	1.63	1.84	1.47	1.25	1.09
(Trade Debts+ Stock in trade) / Short Term Borrowings	2.21	2.86	2.88	2.48	1.87

Annualized

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	

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
16/05/2022	A	A-1	Stable	Reaffirmed
2/2/2021	A	A-1	Stable	Reaffirmed
10/11/2019	A	A-1	Stable	Reaffirmed

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.
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information.
Due Diligence Meeting	

Name	Designation	Date
Fahd K. Chinoy	CEO	February 2022