RATING REPORT

Pakistan Cables Limited (PCL)

REPORT DATE:
Aug 1, 2023

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	*Aug 1, 2023*		*May 16, 2022*	
Rating Outlook	Negative		Stable	
Rating Action	*Maintained*		*Reaffirmed*	

COMPANY INFORMATION	
Incorporated in 1953	**External auditors:** A.F. Ferguson & Co.
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, their spouses and minor children - 29.52%	
General Public (Local) – 23.68%	
Shareholders holding 5% or more voting rights in the Company – 18.04%	
Associated Companies: International Industries Limited – 17.12% Shirazi Investments – 4.22%	
Mutual Funds – 2.35%	
All Others – 5.07%	

APPLICABLE METHODOLOGY(IES)
Applicable Rating Criteria: Corporates (May 2023): https://docs.vis.com.pk/docs/CorporateMethodology.pdf

APPLICABLE RATING SCALE(S)
VIS Issue/Issuer Rating Scale: https://docs.vis.com.pk/docs/VISRatingScales.pdf

Pakistan Cables Limited (PCL)

RATING RATIONALE

Pakistan Cables Limited (PCL) is primarily involved in the manufacturing of wires, cable conductors, copper rod, PVC compounds and aluminum sections for architectural purposes. The Company is part of the Amir S. Chinoy Group (ASCG), one of the leading industrial powerhouses of the country. Ratings factor in PCL's strong market position established over the years through its premium quality offerings with the aid of several strategic international affiliations including General Cable and CTC Global Inc.

The head office is situated at Arif Habib Centre, M.T Khan Road, Karachi and manufacturing facility is located in S.I.T.E., Karachi. Total power requirements of the Company are around 3.8 MW, and is fulfilled through connections from K-Electric, diesel generators, and internal generation from a 2MW gas fired tri-generation power plant.

Elevation in business risk owing to supply and demand side challenges

The domestic cable and wire industry structure is oligopolistic in nature with Pakistan Cables Limited and two other firms dominating about 60% of total market share while the remainder constitutes of numerous medium or low-sized firms. The industry is characterized by medium business risk owing to its reliance on imported raw materials and fixed operating costs. However, overall risk has been elevated during the ongoing year on the account of deteriorating macroeconomic conditions. In particular, import restrictions have notably affected the Company's procurement of key raw materials given significant reliance on imported inputs. However, with the Company being able to largely pass on the rising input cost risk to customers, albeit with a time lag, provide support to the business risk profile of the Company.

Demand for the Company's products are a function of growing urbanization, industrial expansion and technological adoption as the country's power needs increase. While long-term growth prospects are expected to be positive, the current adverse macroeconomic environment has led to a slowdown in construction and large-scale manufacturing activities. This can be seen through the decline in the large-scale manufacturing index by 7.9% YoY in Jan'23. The high levels of inflation, and tight supply chains has reduced the feasibility of construction projects. Over the medium-term, management forecasts demand to emanate from utility segment, underground electrification in housing societies and solar driven demand from industries and institutions off-setting the slowdown expected from mega institutional projects.

Rating Drivers:

Strong sponsorship backing

The ratings are supported by the strong sponsorship profile of the Amir S. Chinoy Group which has extensive experience across a range of industries including steel and pipes and electrical wiring and cables. Major group companies include International Industries Limited (IIL), International Steel Limited (ISL) and Pakistan Cables Limited (PCL). The Group also has a large geographical presence across the entire country. The Company is closely managed by the Chinoy family with Mr. Fahd Chinoy being the C.E.O. and Mr. Mustapha A. Chinoy as the Chairman.

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.

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, MCB Arif Habib Investments and Amir Sultan Chinoy Foundation. He holds the post of President of the Pakistan Society of Training & Development and is on the Board of Advisors to NOWPD. He is a certified director from PICG.

Ongoing capacity enhancement project to increase output and operational efficiency, however, currency devaluation resulted in cost overruns

The Company is currently in the process of setting up a new production plant spanning 42-acres in Nooriabad and is expected to commence operations in phases with several key operations starting up by mid-FY24. This new facility will not only enhance capacities for copper processing, medium voltage cables and PVC compounding but also boost efficiencies through de-bottlenecking of manufacturing processes. The total cost of the project will now be about Rs. 12.2b, however, the management aims to cut expenses by eliminating non-essential parts of the project. About Rs. 1.13b of the total amount was funded through right share issuance in 2018 while the remaining will be financed through long-term debt and own sources. In FY22 and 9MFY23, total capital expenditure amounted Rs. 2.8b and Rs. 3.1b, respectively. At end-Mar'23, long-term debt amounted Rs. 4.9b.

Topline growth driven by both higher selling prices and volumetric output; however, slowdown in demand and rising financing costs adversely impacted bottom-line during 9MFY23

During FY22, net sales exhibited a sizeable jump of 61% to Rs. 21.2b (FY21: Rs. 13.1b) which was driven largely by uptick in average prices on the back of rising input costs while volumetric output grew reasonably well. Product mix remained similar, with wires and cables constituting the significant majority of the topline.

Gross margins increased to 13% (FY21: 11.6%) in FY22 due to ability to pass on costs to customers and improvements in productivity. However, net margins decreased slightly to 3.9% (FY21: 4.2%) in FY22 attributable mainly to rise in marketing, selling and distribution costs amounting to Rs. 763m (FY21: Rs. 519.8m) as management focused on advertising efforts to enhance brand equity as well as increase in financing costs to Rs. 313.8m (FY21: Rs. 192.5m) due to higher working capital requirement and hike in policy rates. Additionally, impairment loss on investment in associate (International Industries Limited) of Rs. 71.6m was registered (FY21: Rs. -57.3m) which further impacted the bottom-line.

During 9MFY23, net sales stood at Rs. 16.1b which depict a growth of 4.6% as compared to corresponding period last year. The growth was not in the same proportion as in FY22 due to overall slowdown in the economy as a result of balance of payment crisis and challenging political situation. Gross margin rose to 14.1% in 9MFY23 compared to 13.8% in the corresponding 9 months period. Net margins declined to 3.2% in 9MFY23 owing to high finance cost. Management expects gross margins to remain in the range of 14-15% with support garnered from efficiencies in the new manufacturing set up. In the case of drawing additional debt to finance expansion plan, borrowing cost will continue to drag the net profitability levels of the Company.

Compression of cash flow coverages affected debt-servicing capacity in the ongoing year; further stress on coverages visible in financial projections due to higher debt for expansion.

Funds from Operations (FFO) decreased to Rs. 780.4m in 9MFY23 (FY22: Rs. 1.3b, FY21: Rs. 690.3m) owing higher debt financing in line with increase in debt levels and policy rates. Consequently, FFO-to-total debt and FFO-to-long-term debt both declined to 0.13x (FY22: 0.22x, FY21: 0.21x) and 0.21x (FY22: 1.06x, FY21: 0.59x). Debt-service coverage also shrunk to 1.57x (FY22: 2.47x, FY21: 1.92x) in 9MFY23.

Total stock-in-trade stood at Rs. 2.7b at end-Mar'23 (FY22: Rs. 3.9b, FY21: Rs. 2.5b). Trade debt stood at Rs. 3.5b at end-Mar'23 (Rs. 4.1b at end-FY22, Rs. 2.8b at end-FY21. Other liquidity indicators are sufficient with current ratio and short-term borrowing coverage reported at 1.17x (FY22: 0.94x, FY21: 1.25x) and 1.82x (FY22: 1.25x, FY21: 2.48x) respectively, at end-Mar'23.

Pressure on capitalization profile due to higher long-term financing pertaining to capex

PCL's equity base (excluding revaluation surplus) increased to Rs. 4.5b in 9MFY23 (FY22: Rs. 4.2b, FY21: Rs. 3.7b) due to profit retention. The Company continues to pay dividend every year depending on the profit levels. The company announced issuance of bonus shares of 15%, 10% and 10% in August'22, May'23, and June'23. Total borrowings witnessed a notable jump to Rs. 8.3b (FY22: Rs. 6.2b, FY21: Rs. 3.3b) at end-Mar'23 due to drawdown of long-term debt of about Rs. 3.7b for capital expenditure related to the new plant. Short-term borrowings, on the other hand, declined to Rs. 3.4b (FY22: Rs. 4.9b, FY21: Rs. 2.1b) at end-Mar'23. Consequently, gearing and leverage have increased on a timeline basis to 1.84x (FY22: 1.46x, FY21: 0.8xx) and 2.66x (FY22: 2.49x, FY21: 1.52x) respectively. With the management contemplating taking on further long-term borrowings as bridge financing for the new manufacturing facility, gearing and leverage levels are expected to remain under pressure over the rating horizon. However, the company has plans in place to overcome this in near future.

The ratings will remain sensitive to the Company's financing decision to meet capital expenditures and ability to contain capitalization and liquidity indicators at levels that commensurate the benchmarks for the assigned ratings.

Robust corporate governance structure

The corporate governance framework is supported by a strong board composition, experienced management team and strong internal controls. Additionally, the presence of two Board-level committees, namely, the Audit Committee and Human Resource and Remuneration Committee, help ensure effective oversight. During the year, a casual vacancy in the Board opened up with the resignation of Mr. Muhammad Rashid who was replaced with Mr. Shoaib Javed Hussain.

Pakistan Cables Limited (PCL) Appendix I

FINANCIAL SUMMARY *(amounts in PKR millions)*					
BALANCE SHEET	**FY19**	**FY20**	**FY21**	**FY22**	**9MFY23**
Fixed Assets	3,379	4,146	4,830	10,658	13,611
Stock-in-Trade	2,203	1,902	2,504	3,863	2,728
Trade Debts	2,089	1,653	2,787	4,104	3,452
Cash & Bank Balances	88	85	108	256	146
Total Assets	8,432	8,417	11,032	19,493	21,317
Trade and Other Payables	813	1,078	1,418	2,667	2,149
Long Term Debt	789	961	1,176	1,260	4,913
Short Term Debt	1,498	1,234	2,134	4,897	3,394
Total Debt	2,288	2,195	3,310	6,157	8,307
Total Liabilities	3,554	3,647	5,683	10,487	12,012
Tier 1 Equity (Without revaluation surplus)	3,255	3,157	3,749	4,216	4,515
INCOME STATEMENT	**FY19**	**FY20**	**FY21**	**FY22**	**9MFY23**
Net Sales	9,704	9,086	13,145	21,168	16,055
Gross Profit	1,146	860	1,526	2,751	2,268
Profit After Tax	126	-92	554	828	521
RATIO ANALYSIS	**FY19**	**FY20**	**FY21**	**FY22**	**9MFY23**
Gross Margin (%)	12%	9%	11.6%	13.0%	14.1%
Net Margin (%)	1%	-1%	4.2%	3.9%	3.2%
Net Working Capital	2,262	1,343	1,211	-516	1,090
FFO	163	95	690	1330	780
Capex	-837	-893	-917	-2,805	-3,105
FFO to Total Debt (x)*	0.07	0.04	0.21	0.22	0.13
FFO to Long Term Debt (x)*	0.21	0.10	0.59	1.06	0.21
Gearing (x)	0.70	0.70	0.88	1.46	1.84
Debt Leverage (x)	1.09	1.16	1.52	2.49	2.66
Debt Servicing Coverage Ratio (x)	1.39	0.96	1.92	2.47	1.57
Current Ratio	1.84	1.47	1.25	0.94	1.17
(Trade Debts+ Stock in trade) / Short Term Borrowings	2.86	2.88	2.48	1.63	1.82
CCC (days)	131	124	92	82	82

**Annualized*

REGULATORY DISCLOSURES — Appendix II

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				
1/08/2023	A	A-1	Negative	Maintained
16/05/2022	A	A-1	Stable	Reaffirmed
2/2/2021	A	A-1	Stable	Reaffirmed
10/11/2019	A	A-1	Stable	Reaffirmed
09/04/2018	A	A-1	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.
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Due Diligence Meeting	

Name	Designation	Date
Fahd K. Chinoy	CEO	May 31, 2023