RATING REPORT

Pakistan Cables Limited (PCAL)

REPORT DATE:
November 20, 2024

RATING ANALYSTS:
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RATING DETAILS				
	Latest Rating		Previous Rating	
Rating Category	Medium to Long-term	Short-term	Medium to Long-term	Short-term
Entity	A	A1	A	A1
Rating Date	*Nov 20, 2024*		*Aug 1, 2023*	
Rating Outlook/Watch	Negative		Negative	
Rating Action	*Reaffirmed*		*Maintained*	

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) ~ 23.15%	
Shareholders holding more than 5% voting rights – 18.04%	
Associated Companies - *International Industries Ltd. – 17.12%* - *Shirazi Investment (Pvt) Ltd. – 4.22%*	

APPLICABLE METHODOLOGY(IES)
Applicable Rating Criteria: Corporates https://docs.vis.com.pk/docs/CorporateMethodology.pdf ***VIS Issue/Issuer Rating Scale:*** https://docs.vis.com.pk/docs/VISRatingScales.pdf

Pakistan Cables Limited (PCAL)

OVERVIEW OF THE INSTITUTION

In 1953, Pakistan Cables Limited (PCAL) 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 PCAL's board since 1986.

Profile of CEO

Mr. Fahd K. Chinoy has been part of PCAL's board since 2017. He became CEO of PCAL 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.

RATING RATIONALE

Pakistan Cables Limited ('PCAL' or 'the Company') was incorporated in 1953 as a private limited company, later converted into a public limited company in 1955. The head office and manufacturing facility are situated in Karachi and Nooriabad. PCAL is primarily involved in the manufacturing of wires, cable conductors, copper rod, PVC compounds and aluminum sections for architectural purposes.

Total power requirements of the Company are around 5.8MW, and is fulfilled through a combination from K-Electric, diesel generators, and a 2MW gas fired tri-generation power plant. At the newly developed Nooriabad plant, the Company has installed 2MW solar power source. Total number of employees increased to 574 (Jun'23: 549) by Jun'24 as operational capacity has enhanced.

Sector Brief

VIS assesses the business risk of the cables and wires industry as medium. The industry is subject to the cyclicality of the economy, construction activity, and a significant presence of the informal sector. However, these risks are largely mitigated by the growing brand reputation of firms in the formal sector and the oligopolistic market structure, which includes companies such as Fast Cables Limited, Pakistan Cables Limited, and Newage Cables. The business risk profile is classified as moderate, reflecting medium-level technological and regulatory risks.

Global supply chain challenges and the overall business environment which has become increasingly challenging, amid weak macroeconomic environment, dampened profit margins for wires and cables manufacturers.

The demand outlook for wires, cables, and conductors is expected to be moderate, driven by an anticipated recovery in construction activity following a decline in interest rates, albeit with a lag. However, the ongoing constraints on the PSDP (Public Sector Development Program) budget under IMF scrutiny may further limit this demand. Increased demand from institutional clients is also expected, particularly following the privatization of DISCOs and new CPEC projects, which will require upgrades to transmission networks. In addition, demand is projected to rise due to the widespread adoption of solar energy across the country. According to management discussions, the demand for solar during FY24 was recorded to such extent that the cumulative capacity of the formal sector was insufficient to meet this demand.

PCAL inaugurated a new facility at Nooriabad with enhanced capacity and improve efficiencies

The Company finished the construction of its new production facility on 42 acres land in Nooriabad, Sindh in Sep'23. The Company aims to increase capacity for copper processing, medium voltage cables and PVC compounding but also boost efficiencies through de-bottlenecking of its manufacturing processes. The company shifted large portion of its resources and partially commenced operations (around ~25-30% operations has started as per the management) from the new facility in FY24. Complete shifting and full commencement of operations is expected in FY25.

The facility cost was Rs. 11.1b out of which Rs. 1b was raised through a rights issue in 2018, and the rest was financed by maintain debt-to-equity ratio of 65:35. To fund the debt portion of the new facility's development, the Company's board of directors approved the sale of its existing Karachi premises. The 11.1-acres of land, divided into two plots of 4.3 acres and 6.8 acres, has been sold.

Full realization from the proceeds of the sale of land and building will help improve cash flows, as per management. The ratings are contingent on the Company's successful debt reduction efforts during the rating horizon.

The Company successfully commissioned a German-made CCV line for medium voltage cables with world class German technology at its new factory in Nooriabad. However, management stated that any positive impact on financial health from enhanced capacity and higher efficiency levels will materialize only by year ending Jun'26.

Rating Drivers:

Ratings take into account strong sponsor profile
The ratings are supported by the strong sponsorship profile of the Amir S. Chinoy (ASC) 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 PCAL. ASC posted a collective turnover of USD 440m (Rs. 124b) in FY24 with a client base in 60 countries.

In 2024, ASC Group set up Chinoy Engineering & Construction (Private) Limited (CECL) to explore business opportunities in construction projects; CECL has entered into a contract with the Reko Diq Mining Company Limited (RDMC) to design and construct a Permanent Accommodation Camp at Reko Diq Copper Gold Mines, Baluchistan.

Business risk profile underpinned by ongoing expansion amid competitive pressure
Business risk profile of the sector was further elevated due to significant capital expenditures financed through bank loans in a high-interest-rate environment that curtailed profitability. Management expects medium-term demand to arise from the utility sector, underground electrification in housing societies, and solar-driven needs from industries and institutions, offsetting the slowdown anticipated from larger projects. Meanwhile, ongoing expansion in production capacity will help in mitigating cost-pressures, as per management. Moreover, the recently installed CCV line will help the Company meet growing demand from NTDC and DISCOs.

PCAL achieved highest ever sales in FY24.
The Company achieved record net sales of Rs. 26.2b (FY23: Rs. 21.7b) in FY24 on account of improvement in demand during the 2HFY24 and pricing revisions. Net sales surged to Rs. 7.5b in 1QFY25 (Rs. 6.0b in 1QFY24). Product mix remained similar as wires and cables contributed majority of the total revenue.

Gross margin decreased slightly to 12.9% (FY23: 14.7%) in FY24, mainly due to higher manufacturing costs. Gross margin also declined to 10.5% (1QFY24: 14.1%) in 1QFY25 on account of higher production costs. The management foresees increase in raw material costs during FY25, therefore continued pricing revisions will be crucial for mitigating pressure on profitability.

Operating expenses increased to Rs. 1.4b (FY23: Rs. 1.2b) in FY24 on account of higher marketing and carriage, and forwarding expenses. Financial charges nearly doubled and rose to Rs. 1.7b (FY23: Rs. 945.2m) in FY24 due growing debt burden and high interest rates.

Resultantly, net profit decreased to Rs. 208.9m (FY23: Rs. 723.7m) in FY24 due to a lower gross margin, higher operating expenses and financial charges, resulting in a net margin of 0.8% (FY23: 3.3%). Attributed to higher finance cost, PCAL reported net loss of Rs. 130.9m in 1QFY25, compared to a net profit of Rs. 136.3m in the SPLY.

The management anticipates uptick in demand on account of decline in inflation and policy rates during the ongoing year.

Liquidity, cashflow and debt coverages weakened albeit remained adequate during FY24; however, 1QFY25 coverages remained under stress. Management anticipates improvement in FY25.
Significant cost overruns negatively impacted the Company's cash flows, deteriorating debt coverages during the review period. FFO (funds from operations) decreased to Rs. 313.5m (FY23: Rs. 1.3b) in FY24 on account of decrease in profit from core operations. As a result of lower FFO and increased finance costs, DSCR (debt servicing coverage ratio) weakened to 1.29x (FY23: 2.16x) in FY24.

Amid net loss during 1QFY25, FFO became negative in this period. Furthermore, short-term debt coverage ratio also deteriorated to 1.40x (end-FY24: 1.45x, end-FY23: 1.98x at end-FY23) at end-1QFY25 due to a substantial increase in short-term borrowings. With the rebound in profitability indicators amid expected recovery in gross margins, forecasted DSCR is expected to come in at 1.14x in FY25.

Liquidity position remained intact at adequate levels during the review period as shown by unchanged current ratio of 1.05x (end-FY23: 1.05x) at end-FY24. The same stood at 1.08x at end-1QFY25. Moreover, cash conversion cycle improved to 84 days (FY23: 87) due to lower inventory days. Trade debts increased to Rs. 6.4b (end-FY23: Rs. 4.2b) in FY24, whereas aging of trade debts remained satisfactory.
Debt coverage and liquidity profile are expected to improve gradually on the back of stability in cash flows due to enhancement in volumes and operational efficiency, moving forward.

Significant capital expenditure made for capacity enhancement
Total equity increased to Rs. 5.1b (end-FY23: Rs. 4.7b) at end-FY24 on account of sustained profit retention and absence of dividend payout.

Financial risk has increased significantly as total debt surged to Rs. 17.4b (end-FY24: Rs. 15.1b, end-FY23: Rs. 9.0b), on account of substantial capital expenditure on the Nooriabad facility and increased working capital requirements. As a result, gearing and leverage were reported higher at 3.54x (end-FY24: 2.97x, end-FY23: 1.90x) and 5.32x (end-FY24: 4.33x, end-FY23: 2.95x) respectively at end-1QFY25.

Management expects capitalization indicators to decline during the rating horizon on account growth in equity from retained earnings and reduction in debt burden.

Corporate governance structure
The corporate governance framework is supported by a strong board composition, experienced management team and strong internal controls. There are a total of eight male directors and one female director, fulfilling the minimum requirement of at least one female

	board member. Additionally, the presence of two Board-level committees, namely, the Audit Committee and Human Resource and Remuneration Committee, help ensure effective oversight. Attendance of members in committee meetings was satisfactory during the period under review.

Pakistan Cables Limited (PCAL) Appendix I

FINANCIAL SUMMARY					*(amounts in Rs millions)*
BALANCE SHEET	**FY21**	**FY22**	**FY23**	**FY24**	**1QFY25**
Fixed Assets	4,977.8	10,754.1	14,563.2	16,766.5	15,021.3
Stock-in-Trade	2,503.9	3,863.5	3,761.2	5,100.7	6,766.4
Trade Debts	2,786.6	4,104.3	4,146.6	6,370.8	7,618.9
Cash & Bank Balances	107.6	255.8	161.3	236.1	280.7
Total Assets	**11,031.9**	**19,493.3**	**23,394.6**	**31,670.6**	**35,391.2**
Trade and Other Payables	1,418.4	2,667.4	3,182.4	4,287.6	6,238.7
Long Term Debt	1,176.4	1,259.7	4,953.2	7,219.8	7,181.7
Short Term Debt	2,133.6	4,897.4	4,000.6	7,888.7	10,238.8
Total Debt	**3,309.9**	**6,157.1**	**8,953.7**	**15,108.5**	**17,420.5**
Total Liabilities	**5,683.2**	**10,487.0**	**13,900.6**	**21,990.5**	**26,179.9**
Total Equity	**3,749.3**	**4,216.2**	**4,708.7**	**5,083.0**	**4,917.7**
INCOME STATEMENT	**FY21**	**FY22**	**FY23**	**FY24**	**1QFY25**
Net Sales	13,145.1	21,167.7	21,653.0	26,167.0	7,519.5
Gross Profit	1,526.5	2,750.8	3,183.7	3,363.4	787.7
Operating Profit	2,327.0	3,851.7	4,351.0	1,946.7	460.1
Profit Before Tax	749.8	1,330.9	1,130.4	308.4	(166.2)
Profit After Tax	**553.6**	**827.7**	**723.7**	**208.9**	**(134.1)**
RATIO ANALYSIS	**FY21**	**FY22**	**FY23**	**FY24**	**1QFY25**
Gross Margin	11.6%	13.0%	14.7%	12.9%	10.5%
Net Margin	4.2%	3.9%	3.3%	0.8%	-1.8%
Net Working Capital	1,210.7	(516.1)	412.3	664.3	1,559.9
FFO	690.0	1,330.0	1,291.1	315.5	(1,451.0)
FFO to Long-term Debt (x)*	1.22	1.06	0.26	0.04	(0.20)
FFO to Total Debt (x)*	0.44	0.22	0.14	0.02	(0.08)
DSCR (x)*	1.95	2.68	2.16	1.29	(0.60)
Current Ratio (x)	1.25	0.94	1.05	1.05	1.08
Short-term Debt Coverage (x)	2.48	1.63	1.98	1.45	1.40
Repayment Cycle (days)*	92	82	87	84	86
Gearing (x)	0.88	1.46	1.90	2.97	3.54
Leverage (x)	1.52	2.49	2.95	4.33	5.32
ROAA*	5.7%	5.4%	3.4%	0.8%	-0.5%
ROAE*	16.0%	20.8%	16.2%	4.3%	-2.7%

**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	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.
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Due Diligence Meeting	see table below

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook/Watch	Rating Action
RATING TYPE: ENTITY				
20/11/2024	**A**	**A1**	**Negative**	**Reaffirmed**
01/08/2023	A	A1	Negative	Maintained
16/05/2022	A	A1	Stable	Reaffirmed
02/02/2021	A	A1	Stable	Reaffirmed
10/11/2019	A	A1	Stable	Reaffirmed
09/04/2018	A	A1	Stable	Initial

Due Diligence Meeting

Name	Designation	Date
Waqas Mahmood	CFO	04-Oct-2024
Salman Tahir	GM Sales and New Business Ventures	
Marazban Talati	Senior Manager Budgeting & Costing	