RATING REPORT

Fast Cables Limited (FCL)

REPORT DATE:
December 31, 2018

RATING ANALYSTS:

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RATING DETAILS		
	Initial Rating	
Rating Category	Long-term	Short-term
Entity	A-	A-2
Rating Outlook	Stable	
Rating Date	*December 27 2018*	

COMPANY INFORMATION	
Incorporated in 1985	**External auditors:** Horwath Hussain Chaudhary & Co. Chartered Accountants
Unlisted Public Limited Company	**Chairman of the Board:** Mian Muhammad Latif
	Chief Executive Officer: Mian Ghulam Murtaza Shaukat
Key Shareholders:	
- **Mian Ghulam Murtaza Shaukat**	

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

Fast Cables Limited (FCL)

OVERVIEW OF THE INSTITUTION

Fast Cables Limited was incorporated in 1985 as a private limited company and subsequently converted to a public limited company in 2008. The company has two manufacturing units in Lahore, Pakistan.

Profile of Chief Executive Officer

Mian Ghulam Murtaza Shaukat is the founder of FCL and has served as CEO since inception. He has been responsible for general management, of the company. Mr. Shaukat holds a Bachelor's degree in Business Administration.

RATING RATIONALE

Fast Cables Limited (FCL) has been engaged in manufacturing of electrical wire, cables and conductors for around three decades. The company was established in 1985 as a private limited company by Mian Ghulam Murtaza Shaukat in Lahore and continues to operate under his leadership and ownership. In 2008, FCL was converted to a public limited company. Since its establishment, FCL has enhanced capacity and expanded its geographic outreach across the country. Product portfolio of the company comprises low, medium and high voltage cables as well as aluminum conductors.

Initially, FCL operated through a single manufacturing unit in Lahore called Unit 1. In 2017, the company set up a second manufacturing facility in the same vicinity called Unit 2. FCL is the pioneer of Catenary Continuous Vulcanization Line Technology in Pakistan which ensures more than 40 years of product life, excellent insulation and uniformity of quality as all manufacturing processes are automated. For producing aluminum cables and conductors, FCL hosts an Aluminum & Aluminum Alloy plant that can produce All Aluminum Alloy Conductors (AAAC) (compared to Aluminum Conductor Steel Reinforced, AAACs are preferred due to lighter weight and lower electrical losses). Given power intensive nature of operations, the company has a direct grid electricity line along with backup generators at both units. In 1996, the company installed dedicated plants for one of its key raw materials, polyvinylchloride (PVC) compound.

The company is ISO 9001:2015, ISO 14001:2015, OHSAS 18001:2007 certified and holds Gold Certification from KEMA Laboratories, Holland. Sufficient laboratory testing facilities are available at both plants to ensure compliance with international and local quality standards.

Rating Drivers

Business risk profile is characterized by high competitive intensity; economic slowdown coupled with increasing competition from large domestic players and Chinese imports may have a drag on volumes.

Pakistani wiring & cable industry is characterized by significant competitive intensity with existence of several large players, numerous small unorganized firms along with notable competition from Chinese imports and risk of inventory loss in view of volatility in metal prices. 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. Going forward, JCR-VIS expects demand growth to slow down in the short-term in line with slower economic growth in the backdrop of increasing interest rates and sizeable current account deficit. Moreover, with increasing capacities coming online competition amongst existing players is expected to intensify. 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, specifically for large players with inventory management experience and better pricing power.

Market Position and Management Profile.

The assigned ratings incorporate FCL's position as one of the top five cable & wiring manufacturers in the country in terms of market share. Moreover, ratings draw comfort from experience and track record of the management team. Senior management comprises seasoned professionals and has largely remained stable over the years.

Organized marketing and sales division with dedicated teams for each business segment.
Sales are classified into four segments i.e. "Retail & Trade", "Commercial", "Industry" and "Institution". Dedicated teams exist for conducting marketing operations for each segment. In tandem with market awareness regarding benefits of quality wiring, management is focusing on enhancing the depth of product portfolio.

Healthy growth in revenue over past three years while gross margins are comparable to peers although increasing sales failed to translate into similar growth in net profit on account of high taxation; rising competition may exert pressure on margins over the medium term; therefore operational efficiency, pricing strategy and efficient procurement are considered important.
Net sales have increased at a healthy Compound Annual Growth Rate (CAGR) of 40% over past four fiscal years on the back of volumetric growth. Growth has primarily emanated from institutions belonging to power sector and corporates operating in cement, power, sugar, telecom, oil & gas and housing industries. Management anticipates further growth to be contributed by aforementioned sectors. However, slowdown in economic growth may exert pressure on volumes. Gross margins are a function of pricing power and operational efficiencies and equaled 13.5% (FY17: 12.6%; FY16: 14.7%) for FY18. Given prevalent volatility in base metal prices along with increasing competition, efficient procurement, operational efficiencies and pricing strategy are key drivers for gross margins.

Finance cost increased to Rs. 106.3m (FY17: Rs. 48.9m; FY16: Rs. 4.8m) in the outgoing fiscal year on account of higher short term borrowings utilized to finance inventory. However, controlled administrative and distribution expenses enabled the company to post higher Profit before Tax (PBT) margin of 3.5% (FY17: 1.9%; FY16: 2.4%); PBT margin increased further to 7.2% over 5MFY19. While PBT has depicted sizeable growth on timeline basis, profit after tax has depicted slow growth on account of high effective tax rate; net margins were reported at 1.6% (FY17: 2.4%) and stand on the lower side in relation to peers.

Liquidity and Capitalization
In line with enhanced earning profile, Fund Flow from Operations (FFO) has increased on a timeline basis (FY18: Rs. 248.7m; FY17: Rs. 171.0m; FY16: Rs. 78.1m) translating into FFO to Long Term Debt of 0.45x (FY17: 0.34x; FY16: 0.16x). Debt Servicing Coverage Ratio (DSCR) equaled 1.33x (FY17: 1.36x) as at end-FY18. Long term debt amounted to Rs. 550.1m (FY17: Rs. 505.8m; FY16: Rs. 495.6m) and pertained to funds mobilized for establishment of Unit 2. Short term borrowings are utilized to finance inventory and have increased on a timeline basis to Rs. 1.6b (FY17: Rs. 500m; FY16: Rs. 183m) in line with higher inventory levels. As a result, gearing has increased to 1.1x (FY17: 0.7x; FY16: 0.5x) while debt leverage was reported at 1.9x (FY17: 1.5x; FY16: 1.3x) at end-FY18. Short term debt was reported at Rs. 1.6b at end-5MFY19. Working capital cycle is considered to be at adequate. Ageing profile of trade debts stands within manageable levels.

In FY18, capex primarily pertained to efficiency enhancements. Going forward, the company plans to pursue vertical integration through two new projects. Over FY15-18, equity base has increased at CAGR of 37% on account of internal capital generation and equaled Rs. 2.0b (FY17: Rs. 1.5b; FY16: Rs. 1.3b) at end-FY18. Cash flows are considered to be adequate for servicing outstanding and projected debt obligations.

Satisfactory performance management mechanisms are in place. Adequate IT infrastructure and internal audit department although corporate governance has room for improvement. BoD at FCL comprises 8 directors including 5 executive directors and 3 non-executive members. In line with best practices, board composition (through increasing board size and inclusion of independent directors) has room for improvement. FCL has an independent Internal Audit (IA) department. The company uses Oracle based enterprise resource planning system with integrated modules for its information technology related needs. Adequate disaster recovery and backup facilities are in place.

Fast Cables Limited **Appendix I**

FINANCIAL SUMMARY *(amounts in PKR millions)*

BALANCE SHEET	30-Jun-16	30-Jun-17	30-Jun-18
Non-Current Assets	1,711.5	2,159.1	2,350.6
Stock-in-Trade	411.0	707.0	1,957.4
Trade Debts	537.4	655.2	860.6
Short Term Loans & Advances	121.1	319.4	536.7
Cash & Bank Balances	22.9	120.9	69.1
Total Assets	2,960.9	4,159.3	6,127.8
Trade and Other Payables	918.9	1,140.6	1,477.7
Short Term Borrowings	183.4	500.1	1,556.5
Long Term Finances – (inc. Current Maturity)	495.5	505.8	550.1
Total Interest Bearing Debt	679.0	1,005.9	2,106.6
Total Liabilities	1,692.0	2,263.5	3,806.9
Total Equity	1,268.9	1,531.2	1,956.3
INCOME STATEMENT	**30-Jun-16**	**30-Jun-17**	**30-Jun-18**
Net Sales	2,315.5	3,188.8	5,431.9
Cost of Sales	1,975.6	2,786.2	4,701.0
Gross Profit	339.9	402.7	730.8
Distribution Expenses	190.1	194.9	276.1
Administrative Expenses	62.1	67.2	86.1
Other Income	4.1	3.7	5.2
Finance Cost	4.8	48.9	106.3
Profit before Tax	55.6	59.1	188.9
Taxation	29.6	17.2	102.0
Profit After Tax	26.0	76.3	86.9
RATIO ANALYSIS	**30-Jun-16**	**30-Jun-17**	**30-Jun-18**
Gross Margin (%)	14.68%	12.63%	13.45%
PBT Margin (%)	2.40%	1.85%	3.48%
Net Margin (%)	1.12%	2.39%	1.60%
Current Ratio (x)	1.03	1.08	1.14
Net Working Capital	33.4	156.6	452.5
Working Capital Cycle	-	0.03	49.95
Gearing (x)	0.54	0.66	1.08
Debt Leverage (x)	1.33	1.48	1.95
FFO	78.1	171.0	248.7
FFO to Total Debt (%)	12%	17%	12%
Debt Servicing Coverage Ratio (x)		1.36	1.33
ROAA (%)		2.14%	1.69%
ROAE (%)		5.45%	4.99%

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	Fast 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				
	27-12-2018	A-	A-2	Stable	Initial
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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