RATING REPORT

Fast Cables Limited (FCL)

REPORT DATE:
December 19, 2019

RATING ANALYSTS:
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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A-	A-2	A-	A-2
Rating Date	*Dec 17, 2019*		*Dec 27, 2018*	
Rating Outlook	Stable		Stable	

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 Shoukat
Key Shareholders (Above 5%)	
- Mian Ghulam Murtaza Shoukat 52.0% - Mr. Muhammad Shahzad 20.5% - Ms. Roubina Shoukat 20.5%	

APPLICABLE METHODOLOGY

VIS Entity Rating Criteria: Corporates (May 2019)
https://www.vis.com.pk/kc-meth.aspx

Fast Cables Limited (FCL)

OVERVIEW OF THE INSTITUTION

Fast Cables Limited (FCL) 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 Shoukat is the founder of FCL and has served as CEO since inception. Mr. Shoukat holds a Bachelor's degree in Business Administration.

Financial Snapshot

Core Equity: end-FY19: Rs. 2.1b; end-FY18: Rs. 2.0b

Assets: end-FY19: Rs. 8.1b; end-FY18: Rs. 6.3b

Net Sales: FY19: Rs. 7.2b; FY18: Rs. 5.4b

Profit After Tax: FY19: Rs. 166.1m; FY18: 86.9m

RATING RATIONALE

The ratings assigned to Fast Cables Limited (FCL) take into account its position as one of the top tier cable and wiring manufacturers in terms of market share. The ratings draw comfort from positive momentum in sales, higher profit margins and adequate coverages. The management's focus on product diversification and improving operational efficiencies augur well for the company. Albeit, inherent business risk pertaining to volatility in raw material prices and rupee depreciation is considered manageable, the same remains an important factor for the ratings. Leverage indictors remained stressed, maintenance of these at a comfortable level is an important factor.

Key Rating Drivers:

Business risk profile supported by stable demand for wires and cables: The wiring and cable industry is characterized by significant competition with presence of several large players, numerous small unorganized firms along with a notable competition from Chinese imports. Business to business segment is exposed to competition from Chinese imports while retail sales faces competition from informal manufacturers. Moreover, a downturn has been witnessed in the Pakistan's economic growth with GDP growth rate declining to 2.8% (FY18: 5.8%) in FY19. Other important local market considerations include volatility in international metal prices (both copper and aluminum) and rupee depreciation.

The demand for wires and cables is expected to remain largely stable over the medium to long-term. Moreover, with the Government's recent efforts to document the economy, share of organized sector may increase, as tax burden on the undocumented sector will make their products more expensive. Risk of volatility in metal prices is also considered manageable through efficient procurement.

Higher procurement of raw material on account of capacity enhancement: In line with completion of Hall-2 at Unit-II by the end of FY19, production capacity of FCL has increased. Resultantly, stock in trade increased to Rs. 2.4b (FY18: Rs. 2.0b) mainly on account of higher raw material procurement amounting to Rs. 1.1b (FY18: Rs. 605.0m). Moreover, the company has installed plant and machinery at Hall-5, costing Rs. 222.9m for its new PVC plant, which will start operations during the ongoing year. The expenditure on building amounting to Rs. 168.5m, pertained to civil work on Hall-2 and Hall-5 during the review period.

The company has postponed initiation of the planned projects related to in-house copper rod manufacturing facility and steel wire processing facility in view of local currency depreciation and higher markup rates. According to the management, such initiatives may be pursued when considered economically viable. FCL has started production of Aerial Bundled Cable (ABC) in 4QFY19, characterized by overhead power lines, which use several insulated phase conductors bundled tightly together to reduce line losses and electricity theft, and possess relatively higher immunity to short circuits. The company has secured contract from K-Electric and expects high demand going forward supported by government's initiatives to resolve electricity distribution issues. Meanwhile, the management is considering listing of the company on the stock exchange, though the timeline is currently not certain.

Higher proportion of sales from institutional clients: As revenue from institutional segment entailed bulk orders from government entities and involves bidding process which effectively lock-in prices; share of the same in total revenue has increased on a timeline basis to 26.2% (FY18: 16.3%). The proportion of commercial and industry segment decreased in terms of total sales to 62.2% (FY18: 70.8%), though it remained the largest contributor towards revenue. Meanwhile, retail and trade share decreased marginally to 11.6% (FY18: 12.9%) owing to pricing challenge posed by unregulated players. Client concentration remained moderate as sales of top 10 clients were 30% (FY18: 33%) as a proportion of total sales during FY19.

Growth in revenue stream supported by improvement in margins: The company's sales stood higher at Rs. 7.2b (FY18: Rs. 5.4b), reflecting an increase of 32% in topline during FY19. Although the largest proportion of revenue emanated from sale of power cables, its contribution in total mix decreased to 59% (FY18: 69%) during FY19. The proportion of Medium Voltage (MV) cable exhibited a significant increase to 21% vis-à-vis 5% in the preceding year. While the volume sold of MV cable declined by more than 50%; a notable increase in average sales price has led to higher revenue. On the other hand, despite 24% volumetric increase in the sale of Light Cables, its contribution to total sales decreased to 21% (FY18: 27%) on account of lower average sale price during FY19.

Given higher production during the review period, cost of goods sold increased to Rs. 6.0b (FY18: Rs. 4.7b). As a result of overall increase in average selling prices of power and MV cables and rationalization of cost of production, gross margins improved to 15.8% (FY18: 13.5%) during FY19. Base rates are determined by LME (London Metal Exchange) and any increase in raw material cost is virtually passed on to consumers. Distribution cost increased mainly due to higher advertisement expenses. Administrative expenses were higher mainly on account of increase in salary and benefits, an outcome of higher headcount and annual salary adjustment.

With increase in average borrowings and higher markup rates, finance cost increased to Rs. 257.3m (FY18: Rs. 106.3m) during FY19. Other expenses increased mainly due to higher charity and donations, while other income remained largely at the prior year's level. Tax expense was recorded lower at Rs. 47.3m (FY18: Rs. 102.0m) owing to recognition of deferred tax assets. Resultantly, net profits of the company stood higher at Rs. 166.1m (FY18: Rs. 86.9m) during the review period. According to management, topline is projected to augment at a CAGR of 26.0% during the next three years, primarily on back of volumetric increase in sales along with expected increase in product prices leading to some increase in gross margins, going forward.

Sufficient liquidity and adequate debt service ability: Given higher profit before taxation, non-cash adjustments and positive difference between incurred and paid finance cost, Funds from Operations (FFO) stood higher at Rs. 387.8m (FY18: Rs. 248.0m). Resultantly, with some decrease in long-term debt, FFO to long-term debt increased to 0.87x (FY18: 0.46x), while FFO to total debt reported marginal increase to 0.14x (FY18: 0.12x) during FY19.

Aging of receivables is considered satisfactory, though percentage of receivables due above 1 year increased to 6.0% (FY18: 2.6%) by end-FY19; according to the management these primarily relates to infrastructure public project in Punjab. These receivables are considered good, as per management. The company has also recorded allowance for bad debts amounting to Rs. 16.3m (FY18: Nil) at end-FY19, in accordance with implementation of IFRS 9. Short-term loans and advances have increased owing to higher advances of Rs. 860.5m (FY18: 507.6m) made to suppliers during the review period. Current ratio, although decreased marginally, remained at 1.05x (FY18: 1.13x). Moreover, inventory plus trade debts to short-term borrowing ratio stood at 1.70x (FY18: 1.81). The debt repayment ability of the company is considered adequate with DSCR recorded at 1.36x (FY18: 1.32x) during FY19.

Adequate capitalization indicators: The company has issued 15,101,104 right shares at an offer price of Rs. 67.19 during FY19 resulting in an increase in paid-up capital to Rs.

488.1m (FY18: Rs. 337.1m) and share premium reserve to Rs. 863.3m (FY18: Nil). Despite the issuance of right shares at a premium and increase in unappropriated profit to Rs. 457.5m (FY18: Rs. 361.1m), tier-1 equity increased marginally to Rs. 2.1b (FY18: Rs. 2.0b), primarily owing to repayment of sponsor's loan amounting Rs. 712.9m (FY18: Nil) during FY19. Sponsor loan from director amounted to Rs. 291.5m (FY18: Rs. 1b). These loans are unsecured, and interest free. Out of Rs. 291.5m, Rs. 134.8 is repayable on discretion of the company while Rs. 156.7m is repayable on demand. Cash dividend of Rs. 67.4m (FY18: Nil) was paid during the review period.

Consistent with higher working capital requirements, short-term borrowings increased to Rs. 2.3b (FY18: Rs. 1.6b) by end-FY19. While long-term debt comprised less than one-fifth of the debt profile, gearing and leverage indicators have deteriorated to 1.32x and 2.66x (FY18: 1.07x and 2.05x) respectively, on account of higher short-term debt and trade and other payables; the latter increased mainly due to contract liabilities pertaining to advances from customers, amounted to Rs. 2.1b (FY18: Rs. 0.1b), while trade creditors stood lower at Rs. 338.6m (FY18: Rs. 630.7m) by end-FY19. Equity base is projected to strengthen further on the back of profit retention, while gearing and leverage indicators are likely to remain around current levels due to higher financing, going forward.

FINANCIAL SUMMARY *(amounts in PKR millions)*

BALANCE SHEET	Jun 30, 2017	Jun 30, 2018	Jun 30, 2019
Non-Current Assets	2,159.1	2,350.6	2,604.8
Stock-in Trade	707.0	1,957.4	2,434.6
Trade Debts	655.2	860.6	1,509.3
Short-Term Loans and Advances	319.4	743.3	1,084.5
Deposits and Prepayments	58.4	32.8	31.3
Tax Refunds Due from Govt.	139.3	320.7	311.3
Cash & Bank Balances	120.9	69.1	87.6
Total Assets	4,159.3	6,334.5	8,063.5
Trade and Other Payables	1,140.6	1,684.3	2,585.3
Short-Term Borrowings	500.1	1,556.5	2,325.4
Long-Term Borrowings (incl. current maturity)	505.8	550.1	445.7
Other Liabilities	117.0	222.5	241.8
Total Liabilities	2,263.5	4,013.4	5,598.2
Tier-1 Equity	1,531.2	1,956.3	2,100.7
Total Equity	1,895.8	2,321.0	2,465.3
Paid-Up Capital	337.1	337.1	488.1

INCOME STATEMENT	Jun 30, 2017	Jun 30, 2018	Jun 30, 2019
Net Sales	3,188.8	5,431.9	7,164.3
Gross Profit	402.7	730.8	1,133.5
Profit Before Tax	59.1	188.9	213.5
Profit After Tax	76.3	86.9	166.1
Funds from Operations	170.9	248.0	387.8

RATIO ANALYSIS	June 30, 2017	Jun 30, 2018	Jun 30, 2019
Gross Margin (%)	12.6	13.5	15.8
Net Margins	2.4	1.6	2.3
Current Ratio	1.08	1.13	1.05
Net Working Capital	156.6	452.5	258.7
FFO to Total Debt (x)	0.17	0.12	0.14
FFO to Long Term Debt (x)	0.35	0.46	0.87
Debt Leverage	1.48	2.05	2.66
Gearing	0.65	1.07	1.32
Debt Servicing Coverage Ratio (x)	1.36	1.32	1.36
ROAA (%)	2.1	1.7	2.3
ROAE (%)	5.4	5.0	8.2
(Stock in Trade+Trade Debt) to Short-Term Borrowing Ratio	2.72	1.81	1.70

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

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	Fast 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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Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
17-12-2019	A-	A-2	Stable	Reaffirmed
28-12-2018	A-	A-2	Stable	Initial