RATING REPORT

Fast Cables Limited (FCL)

REPORT DATE:
December 28, 2020

RATING ANALYSTS:
Maham Qasim
maham.qasim@vis.com.pk

RATING DETAILS

Rating Category	Latest Rating Long-term	Latest Rating Short-term	Previous Rating Long-term	Previous Rating Short-term
Entity	A-	A-2	A-	A-2
Rating Date	*Dec 28, 2020*		*Dec 17, 2019*	
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-FY20: Rs. 2.6b; end-FY19: Rs. 2.1b; end-FY18: Rs. 2.0b

Assets: end-FY20: Rs. 10.2b; end-FY19: Rs. 8.1b; end-FY18: Rs. 6.3b

Net Sales: FY20: Rs. 9.0b FY19: Rs. 7.2b; FY18: Rs. 5.4b

Profit After Tax: FY20: Rs. 166.6m; FY19: Rs. 166.1m; FY18: 86.9m

RATING RATIONALE

The ratings assigned to Fast Cables Limited (FCL) take into account its prominent position as one of the top tier cable manufacturers with sizable market share, strong brand equity and reputation as a provider of quality cables. Business risk profile is characterized by temporary slowdown in demand on account of lower projected GDP growth amid pandemic crisis, high competition from the informal sector and imports and risk of margin attrition due to currency devaluation. However, overall business risk profile is supported by stable and growing demand for wires & cables in the long run. The ratings derive strength from reliance of the power sector on the company's products used during transmission and distribution of electricity. Further, the ratings incorporate steady growth in sales emanating from securing contracts from government, semi-government and premium private sector electricity generation companies in Pakistan.

The ratings factor in sound financial risk profile emanating from strong liquidity profile, fair margins, adequate coverages and augmented equity base. The ratings incorporate ongoing capex for backward integration and value addition in manufacturing operations and projected improvement in financial profile post capex completion. The ratings take comfort support from sponsors in terms of provision of loans that are projected to be remain vested within the company during the rating horizon. In addition, positive demand prospects of the power sector are considered to be among the rating drivers. 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. Going forward, ratings remain sensitive to increasing uncertainty surrounding ongoing second wave of COVID-19, growth in revenues, improvement in margins and managing leverage indicators around current levels.

Key Rating Drivers:

Business risk profile largely remained unchanged characterized by stable yet growing demand for wires and cables: The wiring and cable sector's composition is complex; marked by presence of several large players, numerous small unorganized firms along with Chinese imports. The organized segment of the sector is oligopolistic in nature; however, the same is exposed to sizable competition from Chinese imports coupled with competition posed by the undocumented domestic channel especially in the retail sales portfolio. The demand driven risk has slightly escalated owing to downturn witnessed in the Pakistan's economic growth with GDP growth declining by 400bps to 1.5% (FY19: 1.9%) during FY20. In the short-term the same is unlikely to be rescued as an outcome of onslaught of COVID-19 pandemic. Given the country along with rest of the globe is going through second wave of the infection, the impact of the same on the global and national economic dynamics is yet to be ascertained. Slight mitigation of expected demand slump of the sector pertains to power/electricity consumption and generation exhibiting a positive trajectory in the last decade which is expected to replicate in the medium to long-term future owing to growth in population, new power projects in the pipeline including Thar Coal, Karot Hydropower, Matiari to Lahore transmission line project etc and increased per capita consumption owing to improved lifestyles & higher technological penetration.

The company is also exposed to foreign exchange risk as a significant portion of raw material is imported; there by any adverse forex movements lead to increase in production cost causing a dip in margins. Further, credit risk is lower given a large chunk of company's revenue comprises sales to public sector entities therefore the payment is more or less guaranteed; however on the other side the company may face liquidity stress as payments in power sector are frequently delayed. In addition, on account of bulk order dealings with public sector companies owing to specialized nature of products offered, the client concentration risk is significant.

Growth in revenues underpinned by quantum increase: The company's topline improved to Rs. 9.0b (FY19: Rs. 7.2b) during FY20 in line with increase in quantum of the final products sold, change in composition of revenue mix in terms of customer segmentation and product line extension made during the outgoing year. The contribution of institutional segment, entailing bulk orders from government entities involving bidding process, increased to 45% (FY19: 26%) during FY20; hence reflecting positively in the company's revenues. Further, the increased reliance on the institutional segment translated into sizable incremental volumetric sale taking the quantum sale to 75.6m units during FY20 in comparison to 50.2m units in preceding year. Further, the company has added a new product, conductors, to their product mix that has contributed slightly to the sales momentum. In terms of revenue mix, largest proportion still emanated from sale of power cables, however; its contribution in total mix decreased to 50% (FY19: 59%) during FY20. Further, the proportion of Medium Voltage (MV) cable largely remained unchanged as per last year. The volume sold of MV cable declined by 16%; meanwhile, an increase in average sales price led to maintaining its proportion in the revenue mix. In addition, with volumetric increase of around 60% in the sale of Light Cables (LC), its contribution to total sales increased to 28% (FY19: 21%) during FY20. FCL started production of Aerial Bundled Cable (ABC) by end-FY19; the same is clubbed under the product category of MV cables. ABC is 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; however, the sale of the same has not yet picked momentum. Going forward, management expects high demand supported by government's initiatives to resolve electricity distribution issues.

The gross margins of the company declined to 14.5% (FY19: 15.8%) during the outgoing year as a combined impact of number of factors including increase in input price of imported copper to Rs. 1,004/kg from Rs. 794/kg, higher contribution of institutional sales in customer-wise revenue breakup, higher proportion of LC in revenue mix entailing lower margins comparative to MV cable and clubbing of conductors in MV cable product line offsetting higher margin reaped from sale of MV cables. Institutional sales, alternatively termed as utilities, constitute bulk orders in form of tender based business from public sector entities entailing high competition; hence there is an inverse relationship between proportion of utilities in revenue mix and gross margins. However, on the other hand, large quantum orders from institutional clients provide positive impetus to the topline. Further, as per the management, conductors have a lower margin as compared to all other products in existing product mix; however, the company has initiated sales of the same to provide bundles services to its clients. Going forward, the margins are expected to increase to 16% in FY21 as a function of stability in imported prices coupled with expected increase in proportion contribution of MV cable. FCL is the only company is Pakistan having a Catenary Continuous Vulcanizing (CCV) line for production of MV cables that adds to strength and age of the cable; hence as a result the company is able to charge premium pricing for the aforementioned product.

The distribution cost was largely rationalized in terms of growth in sales and was recorded at Rs. 424.1m (FY19: Rs. 414.7m) during FY20; the slight increase was manifested in salaries of distribution employees, rent and depreciation expense. Moreover, administrative expenses increased to Rs. 164.8m (FY19: Rs. 139.3m) on account of increase in salary and benefits, an outcome of annual salary adjustment along with higher software repair expenses. In the backdrop of increasing average benchmark interest rates coupled with higher average short-term borrowings, finance cost of the company increased during FY20. The other operating expenses stood lower at Rs. 102.4m (FY19: Rs. 114.5m) as a result of reduced charity and donations made during the outgoing year. Moreover, other income was recorded higher during FY20 at Rs. 17.3m (FY19: Rs. 5.7m) in line with gain realization on past service cost; the same was a difference of actuarial calculation of provident fund and gratuity expenses of previous year. However, despite increase in revenues the bottom line of the company bottom line was recorded at prior year's level of Rs. Rs. 166.6m (FY19: 166.1m) due to dip in margins, higher operating expenses and finance cost and increased taxation expense.

Improvement in liquidity profile as a result of healthy cash flows in relation to outstanding obligations: Funds from Operations (FFO) improved to Rs. 462.1m (FY19: Rs.387.8m) during FY20 primarily as a result of improvement in scale of operations and higher adjustment of non-cash expenses. Further, liquidity profile of the company improved on a timeline basis given FFO to long-term debt was sizeable as a result of overall low dependence of the company on long-term credit coupled with timely repayment of period contractual obligations. Moreover, with short-term borrowings maintained at prior year's level, FFO to total debt improved at end-FY20 owing to growth in FFO and decline in long-term financing. Debt service coverage ratio has remained sizable at 1.60x (FY19: 1.36x) at the end-FY20. Given increase in scale of operations through new product development and demand-based market expansion, liquidity position is projected to improve further, going forward.

Stock in trade was recorded higher by end-FY20, as the company has higher raw material inventory, the same has been procured in accordance with orders booked in advance, and to mitigate further potential disruption on account of the COVID-19 secondary waves. Further, the finished goods inventory was also relatively higher than last year; as per the management the increase was an outcome of higher proportion of institutional sales given the company has to keep the stock for longer tenure to go through government inspections.

Trade debts were recorded higher relative to quantum of sales during the period under review; however, the profile of receivables was satisfactory with 87% of the receivables falling due within 1 to 3 months. As the management this primarily relates to infrastructure public project in Punjab. FCL has also recorded allowance for bad debts amounting to Rs. 31.5m (FY19: Rs. 16.3m) at end-FY19, in accordance with implementation of IFRS 9. Given the company's primarily business dealing is with public sector entities involving DISCOs the client concentration is substantial with top 10 customers representing 47% (FY19: 30%) of the total sales revenue during FY20. Short-term loans and advances have declined owing to reduced advances of Rs. 280.5m (FY18: 860.5m) made to suppliers during the review period; the same has been done as part of conservation strategy adopted by the company to improve cash conversion cycle in order to save finance cost. As per the new material procurement regime, payment is made to suppliers only once part of inventory is received. Current ratio was maintained above 1.0x

During FY20, capex amounting to Rs. 66.1m was made which majorly encompasses buying plant and machinery as a part of regular BMR requirement. As per management, the company has planned to make an additional manufacturing related investment of Rs. 500m during FY21, which entails backward integration by establishment of copper and galvanized iron (GI) plant. The aforementioned capex will be financed through a mix of borrowing and equity; 85% long term financing (Rs. 425m) and 15% sponsor funds (Rs. 75m) The financial close for the project is to be completed by FY21; meanwhile, the project will come online in FY22.

Strong equity base along with improvement in leverage indicators: Tier-1 equity augmented on account of internal capital generation along with additional equity injected by the director to the tune of Rs. 647.7m at end-FY20. On the other hand, sponsor loan from director declined to Rs. 35.9m (FY19: Rs. 134.8m); these are unsecured interest free loans repayable at discretion of the company. Further, total equity position of the company has further strengthened owing to sizable revaluation surplus booked during the period under review. Debt profile of the company majorly comprises short-term borrowings, with relatively low dependence on long term financing, comprising 86% of the total debt mix. Despite increase in scale of operations, the quantum of short-term borrowings was curtailed at Rs. 2.3b (FY19: Rs. 2.3b) by adjusting the credit extended to suppliers. These facilities are secured against pari passu hypothecation charge on present and future current assets, ranking and exclusive charge on fixed assets of the company and equitable mortgage over a commercial plot of the director. Moreover, these facilities are subject to markup of 1-3 month KIBOR+ (0.75% to 1.0%) per annum. Primarily on account of of strengthening of equity base, gearing and leverage indicators have improved to 1.06x and 2.33x (FY19: 1.32x and 2.66x) respectively, by end-FY20; however, the same are on a higher side in comparison to peers. Although the company plans to procure additional funding amounting of Rs. 425m for capex financing; the same is largely expected to be offset by reduced utilization of short-term borrowings and growth in internal capital generation. Subsequently, gearing and leverage indicators are likely to remain around current levels or increase slightly, going forward.

Fast Cables Limited — Appendix I

FINANCIAL SUMMARY		(amounts in PKR millions)		
BALANCE SHEET	**Jun 30, 2017**	**Jun 30, 2018**	**Jun 30, 2019**	**Jun 30, 2020**
Non-Current Assets	2,159.1	2,350.6	2,604.8	4,089.7
Stock-in Trade	707.0	1,957.4	2,434.6	2,992.9
Trade Debts	655.2	860.6	1,509.3	2,163.6
Short-Term Loans and Advances	319.4	743.3	1,084.5	583.6
Deposits and Prepayments	58.4	32.8	31.3	28.1
Tax Refunds Due from Govt.	139.3	320.7	311.3	119.4
Cash & Bank Balances	120.9	69.1	87.6	205.2
Total Assets	4,159.3	6,334.5	8,063.5	10,182.6
Trade and Other Payables	1,140.6	1,684.3	2,585.3	2,748.2
Short-Term Borrowings	500.1	1,556.5	2,325.4	2,324.4
Long-Term Borrowings (incl. current maturity)	505.8	550.1	445.7	387.9
Total Liabilities	2,263.5	4,013.4	5,598.2	5,985.9
Tier-1 Equity	1,531.2	1,956.3	2,100.7	2,569.6
Total Equity	1,895.8	2,321.0	2,465.3	4,196.7
Paid-Up Capital	337.1	337.1	488.1	488.1
INCOME STATEMENT	**Jun 30, 2017**	**Jun 30, 2018**	**Jun 30, 2019**	**Jun 30, 2020**
Net Sales	3,188.8	5,431.9	7,164.3	8,952.9
Gross Profit	402.7	730.8	1,133.5	1,301.4
Profit Before Tax	59.1	188.9	213.5	249.0
Profit After Tax	76.3	86.9	166.1	166.6
Funds from Operations	170.9	248.0	387.8	462.1
RATIO ANALYSIS	**June 30, 2017**	**Jun 30, 2018**	**Jun 30, 2019**	**Jun 30, 2020**
Gross Margin (%)	12.6	13.5	15.8	14.5
Net Margins	2.4	1.6	2.3	1.9
Current Ratio	1.08	1.13	1.05	1.11
Net Working Capital	156.6	452.5	258.7	625.6
FFO to Total Debt (x)	0.17	0.12	0.14	0.17
FFO to Long Term Debt (x)	0.35	0.46	0.87	1.19
Debt Leverage	1.48	2.05	2.66	2.33
Gearing	0.65	1.07	1.32	1.06
Debt Servicing Coverage Ratio (x)	1.36	1.32	1.36	1.60
ROAA (%)	2.1	1.7	2.3	1.8
ROAE (%)	5.4	5.0	8.2	7.1
(Stock in Trade+Trade Debt) to Short-Term Borrowing Ratio	2.72	1.81	1.70	2.22

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	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	RATING TYPE: ENTITY				
	28-12-2020	A-	A-2	Stable	Reaffirmed
	17-12-2019	A-	A-2	Stable	Reaffirmed
	28-12-2018	A-	A-2	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.				
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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Due Diligence Meetings Conducted	Name	Designation	Date		
	Mr. Nadeem Ahmad	Deputy CFO	19-Nov-2020		