RATING REPORT

Fast Cables Limited (FCL)

REPORT DATE:
November 30, 2021

RATING ANALYSTS:
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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	*Nov 30, 2020*		*Dec 28, 2020*	
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 (August 2021)
https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf

Fast Cables Limited (FCL)

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

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-FY21: Rs. 3.3b; end-FY20: Rs. 2.6b; end-FY19: Rs. 2.1b; end-FY18: Rs. 2.0b

Assets: end-FY21: Rs. 12.8b; end-FY20: Rs. 10.2b; end-FY19: Rs. 8.1b; end-FY18: Rs. 6.3b

Net Sales: FY21: Rs. 14.2b, FY20: Rs. 9.0b FY19: Rs. 7.2b; FY18: Rs. 5.4b

Profit After Tax: FY21: Rs. 532.7m; FY20: Rs. 166.6m; FY19: Rs. 166.1m; FY18: 86.9m

The ratings assigned to Fast Cables Limited (FCL) take into account its recognized franchise value and market share in the electrical cable business. Business risk profile is characterized by relative economic recovery post pandemic crisis, improved prospective of construction & housing sectors and high competition from the unorganized segment and imports. However, overall business risk profile is supported by stable and growing demand for wires & cables in the medium to long-term. The ratings derive strength from dependence of the power sector on the company's products used during transmission and distribution of electricity. 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. Further, the ratings incorporate sizable growth in sales emanating from improved market penetration in industrial & commercial segments coupled with securing business from government and semi-government contracts.

The ratings factor in financial risk profile emanating from sound liquidity profile, margins and debt coverages coupled with augmented equity base. The ratings incorporate ongoing capex for backward integration and value addition in manufacturing operations and resulting projected improvement in topline and margins owing to cost-efficiencies post capex completion. The ratings take comfort from equity injection made by sponsors during the rating review period. In addition, positive demand prospects of the power sector are considered to be among the rating drivers. The ratings reflect increase in leverage indicators in the outgoing year owing to higher working capital requirements amid growth in scale of operations; the same continue to remain on a higher side in comparison to peers. Going forward, projected increase in leverage indicators arising from planned procurement of long-term debt for financing the capital expenditure is considered a key rating sensitivity.

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 been largely curtailed with GDP growth recovering to 3.9% in FY21 as opposed to -0.5% in FY20; the same has been an outcome of relaxation/discontinuation of lockdowns, government introducing economy stimulating packages, slashed policy rate and successful rollout of vaccine. Positive momentum for demand of wiring segment is expected to continue in the ongoing year with GDP expected at 4.2% coupled with power/electricity consumption and generation exhibiting a positive trajectory in the last decade. The same trend 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, Punjab Thermal, Suki Kinari Hydropower, Azad Pattan Hydropower project etc. and increased per capita consumption owing to improved lifestyles & higher technological penetration.

The company is exposed to foreign exchange risk as a significant portion of raw material is imported; therefore any adverse forex movement can lead to increase in production cost causing a dip in margins if the cost is not timely transferred to end-consumers. 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 attributed to increase in retail prices: Sizable growth was witnessed in the company's topline with the same increasing by almost 58% to Rs. 14.2b (FY20: Rs. 9.0b) during FY21 majorly on account of inflationary pressure that has resulted in higher retail prices. The increase in quantum of the final products sold contributed around 24% increase to the total revenue in the outgoing year while the remaining was driven by price escalation. The institutional segment, entailing bulk orders from government entities involving bidding process, remained the largest revenue contributor with 35% (FY20: 45%) during FY21. Further, the increased reliance on the industrial segment, with revenue contribution recorded higher at 23% (FY20: 16%), translated into sizable incremental volumetric sale taking the quantum sale to 93.4m units during FY21 in comparison to 75.6m units in preceding year.

There has been a shift in the revenue mix with highest contribution emanating from light cable (LC) at 59% (FY20: 28%) as opposed to power cable at 22% (FY20: 50%) in FY21; the decline in contribution of power cable has been a function of reduction in proportion of institutional sales. The volumetric increase in LC has been significant recorded at 90.3m units in FY21 compared to 55.6m in the previous year. Further, the proportion of Medium Voltage (MV) cable also declined slightly to 19% (FY20: 22%) during the outgoing year. Aerial Bundled Cable (ABC) 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 13.4% (FY20: 14.5%) during the outgoing year as a combined impact of number of factors including increase in input price of locally procured copper, constituting 45% of total raw material cost, to Rs. 1,052/kg from Rs. 744/kg, timing differential and delay experienced in transferring price increase to end customers, higher proportion of LC in revenue mix entailing lower margins comparative to MV cable and increased discounts given to dealers/wholesalers for sale of LC to improve market penetration and market share. Going forward, the margins are expected to remain range bound between 13.5-15.0% for FY22; as per the management other than loss of certain basis points on account of contribution margin, the company is able to pass majority of incremental cost to final consumers fairly with ease as the same is a widely accepted phenomenon in the wiring sector and practiced by all players in the organized segment. However, post FY22 FCL's margins are projected to improve on account of cost saving in the production process from set-up of company's own copper rodding plant. 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. 517.3m (FY20: Rs. 424.1m) during FY21; the slight increase was manifested in carriage & freight, advertisement and inspection charges. As per the internal management policy, the optimal advertising expense is locked in at 1.25% of the company's revenue; however, the same can be subject to variation based on the requirements. Further, the inspection charges vary with the revenue mix as these involve third party inspections pertaining to institutional sales. Moreover, administrative expenses also increased to Rs.

209.0m (FY20: Rs. 164.8m) on account of increase in salary and benefits, an outcome of annual salary adjustment along with higher travelling & conveyance expense. In addition, other operating expenses stood higher at Rs. 151.2m (FY20: Rs. 102.4m) as a result of increased contribution made to workers participation fund during the outgoing year. On the other hand, other income declined to Rs. 7.0m (FY20: 17.3m) during the outgoing year as a result of no gain booked on past service cost during the outgoing year as opposed to Rs. 9.4 booked in FY20; the same was a difference of actuarial calculation of provident fund and gratuity expenses of previous year. In addition, despite increase in in borrowings the finance cost was recorded lower due to sharp dip in benchmark interest rates in order to meet the economic slowdown caused by the pandemic during the period under review. With significant growth manifested in revenues coupled with rationalized operating and financial expenses, the bottom line of the company was recorded higher at Rs.532.7m (FY20: 166.6m) during FY21. Going forward, management expects that the upward trajectory in revenue will continue during the ongoing year with FCL projected to close FY22 at Rs. 21.6b.

Improvement in liquidity profile as a result of healthy cash flows in relation to outstanding obligations: Funds from Operations (FFO) improved exponentially to Rs. 952.5m (FY20: Rs.462.1m) during FY21 primarily on account of enhancement of scale of operations. Subsequently, liquidity profile of the company in terms of outstanding obligations was considered sound as FFO to long-term debt was sizeable and recorded higher at 2.15x (FY20: 1.19x) as a result of overall low reliance of the company on long-term credit. Moreover, the increase in short-term borrowings on account of growth in scale of operations was also off-set by significant growth in FFO; therefore, FFO to total debt improved to 0.26x (FY20: 0.19x) by end-FY21. In addition, debt service coverage ratio also exhibited improvement indicating that the company is comfortably placed to meet its long-term obligations falling due in the ongoing year. Given increase in scale of operations with improved market penetration, projected capacity enhancements and demand-based market expansion, liquidity position is projected to improve further, going forward.

Stock in trade was recorded higher at end-FY21 owing to higher finished goods; the same is in sync with growth in scale of operations. Moreover, raw material inventory was also recorded relatively higher at Rs.1.6b (FY20: 1.2b) at end-FY21 as it has been procured in accordance with orders booked in advance. As per the management now in most cases the raw material order is placed as soon as a production order is booked, this real time stock keeping along with implementation of cost-plus pricing for assigning final-retail price helps in minimizing margin compression stemming from unfavorable forex movements. On the other hand, sufficient buffer stock is kept in order to avoid production halts. Going forward, the management is also enhancing the storage capacity to take advantage of favorable copper price movements at London Metal Exchange.

In absolute terms, trade debts were recorded higher at Rs. 3.6b (FY20: 2.2b) at end-FY21; however, the increase is in line with growth in scale of operations during the outgoing year. Moreover, the aging profile of receivables is satisfactory as around 95% of the receivables fall due within 1 to 3 months bracket. FCL has also recorded allowance for bad debts amounting to Rs. 32.5m (FY20: Rs. 31.5m) at end-FY21 in accordance with implementation of IFRS-9 as the probability of recovery is dismal. In addition, receivables amounting to Rs. 21.8m were written off at end-FY21 given no contact could be established with the customer over the last one-year. The normal average credit period allowed to customers ranges between 45 to 60 days. Given the company's primarily business dealing is with public sector entities involving DISCOs, the client concentration is substantial, albeit declined, with top 10 customers representing 35% (FY20: 47%) of the total sales revenue during FY21. Short-term loans and advances were recorded higher at Rs. 966.3m (FY20: 583.6m) at end-FY21 owing to higher advance payments made for import letters of credit. As per the material procurement regime, payment is only made to suppliers once part of inventory is received. The current ratio of the company is well maintained over 1.0x.

During FY21, capex amounting to Rs. 172.5m was made which majorly encompasses buying electrical fittings/generators as a part of regular BMR process coupled with wiring & civil works for construction of Hall-4. As per management, the company has planned to make an additional manufacturing related investment amounting to Rs. 2.1b during FY22, which entails backward vertical integration by establishment of copper and galvanized iron (GI) plant. The aforementioned capex will be financed through a mix of borrowing and equity; 66.6% long term financing (Rs. 1.4b) and 33.4% sponsor funds (Rs. 700m). The machinery pertaining to the project will be imported during the ongoing year; meanwhile, the project will come online in 1QFY23. Currently, the copper rodding is outsourced and FCL has to pay Rs. 60/kg conversion cost along with 2.5% for scrap; however, once the project begins operations the cost will be reduced to Rs. 35/kg plus 2% for scrap. Subsequently, the set-up of GI plant is expected to result in cost cutting and uptick in gross margins. In addition, the management has also planned for set-up of second CCV line as the already established CCV is operating at full capacity; the total cost to be incurred on this project is estimated around Rs. 130m which is projected to be funded through 30:70, debt to equity ratio. The orders for machinery have been placed with expected delivery in Apr'22. The installation phase will roughly take around three months with the project expected to begin commercial operations in 1QFY23.

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 sponsors to the tune of Rs. 174.3m at end-FY21. FCL has an employee stock auction scheme in place so whenever the employees want to liquidate their shares, the directors buy them back and through this measure additional equity is ploughed in the company. On the other hand, sponsor loan from director amounting to Rs. 35.9m was also converted into share deposit money during the outgoing year; the loan was treated as part of equity in FY20 even as it was an unsecured interest free loan repayable at discretion of the company. Debt profile of the company majorly comprises short-term borrowings, with relatively low dependence on long term financing, comprising 88% (FY20: 86%) of the total debt mix. With increase in scale of operations leading to higher working capital requirements, short-term borrowings of the company increased to 3.2b (FY20: Rs. 2.3b) by end-FY21. 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 3M-KIBOR+ (0.75% to 1.15%) per annum. On the other hand, slight increase was manifested in long-term borrowings to Rs. 442.6m (FY20: Rs. 387.9m) on account of procurement of funding for capex on Hall-4 at Unit-II coupled with availing SBP's Refinance scheme for payment of salaries. In line with sizable increase in short-term funding obtained, gearing slightly trended upwards to 1.11x (FY20: 1.06x) by end-FY21; however, the increase in debt leverage to 2.77x (FY20: 2.33x) was more profound owing to growth in trade payables in line with increase in scale of operations. The leverage indicators continue to remain on a higher side than peers. Furthermore, the company plans to procure additional funding amounting of Rs. 1.4b for capex financing in the ongoing year therefore an increasing trend is expected to be seen in leverage indicators during the rating horizon; the same remains a key rating concern for VIS.

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**	**Jun 30, 2021**
Non-Current Assets	2,159.1	2,350.6	2,604.8	4,089.7	3,995.8
Stock-in Trade	707.0	1,957.4	2,434.6	2,992.9	3,668.4
Trade Debts	655.2	860.6	1,509.3	2,163.6	3,614.2
Short-Term Loans and Advances	319.4	743.3	1,084.5	583.6	966.3
Deposits and Prepayments	58.4	32.8	31.3	28.1	32.3
Tax Refunds Due from Govt.	139.3	320.7	311.3	119.4	58.6
Cash & Bank Balances	120.9	69.1	87.6	205.2	438.1
Total Assets	4,159.3	6,334.5	8,063.5	10,182.6	12,788.8
Trade and Other Payables	1,140.6	1,684.3	2,585.3	2,748.2	3,674.0
Short-Term Borrowings	500.1	1,556.5	2,325.4	2,324.4	3,239.1
Long-Term Borrowings (incl. current maturity)	505.8	550.1	445.7	387.9	442.6
Total Liabilities	2,263.5	4,013.4	5,598.2	5,985.9	7,884.6
Tier-1 Equity	1,531.2	1,956.3	2,100.7	2,569.6	3,232.1
Total Equity	1,895.8	2,321.0	2,465.3	4,196.7	4,904.1
Paid-Up Capital	337.1	337.1	488.1	488.1	488.1
INCOME STATEMENT	**Jun 30, 2017**	**Jun 30, 2018**	**Jun 30, 2019**	**Jun 30, 2020**	**Jun 30, 2021**
Net Sales	3,188.8	5,431.9	7,164.3	8,952.9	14,214.9
Gross Profit	402.7	730.8	1,133.5	1,301.4	1,910.3
Profit Before Tax	59.1	188.9	213.5	249.0	756.4
Profit After Tax	76.3	86.9	166.1	166.6	532.7
Funds from Operations	170.9	248.0	387.8	462.1	952.5
RATIO ANALYSIS	**June 30, 2017**	**Jun 30, 2018**	**Jun 30, 2019**	**Jun 30, 2020**	**Jun 30, 2021**
Gross Margin (%)	12.6	13.5	15.8	14.5	13.4
Net Margins	2.4	1.6	2.3	1.9	3.7
Current Ratio	1.08	1.13	1.05	1.11	1.18
Net Working Capital	156.6	452.5	258.7	625.6	1,353.4
FFO to Total Debt (x)	0.17	0.12	0.14	0.17	0.26
FFO to Long Term Debt (x)	0.35	0.46	0.87	1.19	2.15
Debt Leverage	1.48	2.05	2.66	2.33	2.37
Gearing	0.65	1.07	1.32	1.06	1.11
Debt Servicing Coverage Ratio (x)	1.36	1.32	1.36	1.60	2.77
ROAA (%)	2.1	1.7	2.3	1.8	4.6
ROAE (%)	5.4	5.0	8.2	7.1	18.1
(Stock in Trade+ Trade Debt) to Short-Term Borrowing Ratio	2.72	1.81	1.70	2.22	2.25

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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Due Diligence Meetings Conducted	see table below

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
30-11-2021	A-	A-2	Stable	Reaffirmed
28-12-2020	A-	A-2	Stable	Reaffirmed
17-12-2019	A-	A-2	Stable	Reaffirmed
28-12-2018	A-	A-2	Stable	Initial

Due Diligence Meetings Conducted

Name	Designation	Date
Mr. Nadeem Ahmad	Deputy CFO	16-Nov-2021