RATING REPORT

Fast Cables Limited (FCL)

REPORT DATE:
November 16, 2022

RATING ANALYSTS:
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RATING DETAILS				
	Latest Rating		Previous Rating	
Rating Category	Long-term	Short-term	Long-term	Short-term
Entity	A-	A-2	A-	A-2
Rating Date	*Nov 16, 2022*		*Nov 30, 2021*	
Rating Outlook	Stable		Stable	

COMPANY INFORMATION	
Incorporated in 1985	**External auditors:** Crowe 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

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.

RATING RATIONALE

Fast Cables Limited ('FCL' or 'the Company") has been engaged in manufacturing of electrical wire, cables and conductors for around more than 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 unlisted public limited company. FCL has two manufacturing units located in Lahore. Product portfolio of the Company comprises low, medium and high voltage cables as well as aluminum conductors.

The Company's power requirement is 1MW at unit 1 and around 2 Megawatts (MW) in unit 2 for which FCL has a direct grid electricity line along with backup generators producing 5.5 (MW).

Rating Drivers

Business risk profile is supported by stable medium term demand however in the longer run, demand is expected to dampen.

- The wiring and cable industry composition is marked by several large players and numerous small unorganized players along with Chinese imports.
- VIS termed the industry as oligopolistic in nature considering organized sector manufacturers, however, the same is exposed to sizeable competition from Chinese imports coupled with competition posed by the undocumented domestic channel especially in the retail sales portfolio.
- The Company has decreased its reliance on imported raw material on a timeline basis and availability of the required raw material in local market is increasing gradually. Currently, around 1/4th of raw material is imported which exposes the Company to foreign exchange risk if competitive pressures continue to constrain transfer of costs to end customer.
- Despite unprecedented surge in global commodity prices, political turmoil in the country and weak-macro economic conditions, GDP growth remained stable at 5.97% in FY22 compared to 5.74% in FY21. In line with the same, the demand of wires and cables also remained intact yet registered some growth.
- Wires and Cables sector registered an all-time high sales with notable year on year growth in their topline was mainly due to price adjustments attributed to the sharp rise in raw material prices and a declining rupee.
- Demand for cables in the medium term is expected to remain stable as construction projects already initiated will most likely move to completion, however, given recent increase in cost of other construction materials and anticipated lower public sector development spending due to fiscal constraints amid political uncertainty, we expect construction activities to slow down in the longer term. Furthermore, demand from housing programs may also decline in future due to restrictions imposed by SBP on new approvals and IMF conditions over subsidy.

Growth in sales mainly attributed by increase in prices.

- Topline of the Company registered a notable growth of 46% Y/Y majorly on account of higher commodity prices and inflationary pressures that has resulted in higher prices. On volumes front, FCL has posted 8% Y/Y growth in FY22 compared to 24% Y/Y in FY21.
- There has been a notable change in revenue mix in terms of products offtake with highest contribution emanating from Light Cable (LC) at 80% (FY21: 71%): as opposed to Power Cable (PC) at 18% (FY21: 28%); the decline in contribution of power cable has been a function of reduction in proportion of institutional sales.
- The Commercial segment came out as the largest revenue contributor in FY22 with 36% (FY21: 31%) followed by Institution and Industry with 28% (FY21: 35%) and 24% (FY21: 23%), respectively.
- Gross margins of the Company inched up to 15% in FY22 (FY21: 13.4%) due to increase share of Commercial and Industry Segments in total revenue.
- Going forward, management expect the upward trajectory in topline will continue with both volume and price increase over the next year or so.
- Margins recorded improvement in FY22 on account of higher retail prices. Moreover, the Company is pursuing backward integration with respect to copper rodding process which is expected to be finalized as at Jun'23. The availability of in-house copper furnace as a backward integration will provide operational efficiency to the Company and should reflect in higher margins. Also, second Catenary continuous vulcanizing (CCV) line has been set up and expected to operate shortly. This adds to strength and age of the cable; hence as a result the company is able to charge premium pricing for the aforementioned product.
- Moreover, FCL has also expanded its distribution network having 300+ distributors currently compared to 230 during last review.
- Management of FCL continued their focus on innovation and new product development while also working on long-term business plan to enter into diversified segments and product lines. *(switches, LED lights, solar, PVC pipe)*

Liquidity profile remained satisfactory amid healthy internal cash generation despite increase in debt

- During FY22, the Company's Fund Flows from Operations (FFO) witnessed significant improvement on the back of higher profitability. FFO was reported to be Rs. 1.6b (FY21 Rs. 952m) which also improved the Company's long term debt servicing profile where FFO provided 2.5x coverage to long term debt as at FY22 (FY21: 2.1x).
- Current ratio remained stagnant at 1.17x as at Jun'22, however Debt Service Coverage Ratio (DSCR) improved to 3.4x as at Jun'22 (Jun'21 3x) on account of healthy internal cash flow generation during the year.
- Going forward, liquidity indicators of the Company are expected to stay under the benchmark of given ratings during the rating horizon.

Equity base continues to remain strong on account of higher profit retention, capitalization indicators depict increase albeit the same are expected to remain manageable going forward

- The Company's equity base registered strong growth on the back of higher profit retention during FY22. Tier-1 equity amounted to Rs. 4.2b (FY21 Rs. 3.3b), growth momentum is expected continue going forward.
- Total debt of the Company has increased in order to fund ongoing Capex for expansion and higher working capital requirements during FY22. Gearing stood at 1.58x (FY21: 1.11x) while leverage stood at 3.15x (FY21: 2.37x) as total debt increased by 82% during FY22 primarily on account of increase in short-term borrowings.
- The Company is establishing a copper melting unit as a part of their backward integration strategy. The total cost of the project is Rs.3.5b out of which Rs. 1.4b will be funded through long-term financing and the remaining will be contributed through internal cash flow generation.
- Going forward, we expect gearing to remain elevated and reducing over time on account of improvement in internal cash flow generation as well as lower utilization of working capital post commencement of new rodding plant.

FINANCIAL SUMMARY		(amounts in PKR millions)			
BALANCE SHEET	**30-Jun-18**	**30-Jun-19**	**30-Jun-20**	**30-Jun-21**	**30-Jun-22**
Non-Current Assets	2,351	2,605	4,090	3,996	4,352
Stock-in Trade	1,957	2,435	2,993	3,668	5,209
Trade Debts	861	1,509	2,164	3,614	6,098
Other Receivables	1,097	1,427	731	1,072	2,124
Cash & Bank Balances	69	88	205	438	1,268
Total Assets	**6,335**	**8,064**	**10,183**	**12,788**	**19,051**
Trade and Other Payables	1,684	2,585	2,748	3,674	5,593
Short-Term Borrowings	1,557	2,325	2,324	3,239	6,038
LT Borrowings+Leases+Diminishing Musharka*	550	446	388	443	670
Other Liabilities	223	242	525	529	975
Total Liabilities	**4,014**	**5,598**	**5,986**	**7,885**	**13,277**
Adj. Equity (Exc. Surplus on reval.+Sponsor loan)	1,956	2,101	2,570	3,323	4,242
Total Equity	2,321	2,465	4,197	4,904	5,699
Paid-Up Capital	488	488	488	488	2,504
INCOME STATEMENT	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**
Net Sales	5,432	7,164	8,953	14,215	22,978
Gross Profit	731	1,134	1,301	1,910	3,458
Profit Before Tax	189	213	249	756	1,611
Profit After Tax	87	166	167	533	1,039
Funds from Operations (FFO)	171	248	388	462	952
RATIO ANALYSIS	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**
Gross Margin (%)	13.5%	15.8%	14.5%	13.4%	15.0%
Net Margin	1.6%	2.3%	1.9%	3.7%	4.5%
Current Ratio	1.13	1.05	1.11	1.18	1.17
Net Working Capital	453	259	626	1,353	2,108
FFO to Total Debt (x)	0.12	0.14	0.17	0.26	0.25
FFO to Long Term Debt (x)	0.45	0.87	1.19	2.15	2.49
Debt Leverage	2.05	2.66	2.33	2.37	3.15
Gearing	1.08	1.32	1.06	1.11	1.58
Debt Servicing Coverage Ratio (x)	1.32	1.43	1.52	3.03	3.40
ROAA (%)	1.66%	2.31%	1.83%	4.64%	6.53%
ROAE (%)	4.99%	8.19%	7.13%	18.08%	27.75%
(Stock in Trade+Trade Debt)/ST Borrowing	1.81	1.70	2.22	2.25	1.87

**Including current maturity*

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				
16-11-2022	A-	A-2	Stable	Reaffirmed
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

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. Muhammad Sharjeel	CFO	18-Oct-2022