

RATING REPORT

Fast Cables Limited (FCL)

REPORT DATE:

December 4, 2023

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating	Previous Rating
Entity	A-/A-2	A-/A-2
Rating Date	December 4, 2023	November 16, 2022
Rating Outlook	Stable	Stable
Rating Action	Reaffirmed	Reaffirmed

COMPANY INFORMATION

Incorporated in 2008	External auditors: Crowe Hussain Chaudhary & Co. Chartered Accountants
Public Limited Company	Chairman of the Board: General Mustafa Kausar
Key Stakeholders (with stake 5% or more):	Chief Executive Officer: Mr. Mian Ghulam Murtaza Shaukat
<i>Mr. Mian Ghulam Murtaza Shaukat – 52.03%</i>	
<i>Ms. Robina Shaukat – 20.51%</i>	
<i>Mr. Muhammad Shahzad Mian – 20.10%</i>	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria Methodology – Industrial Corporates (May 2023)

<https://docs.vis.com.pk/docs/CorporateMethodology.pdf>

APPLICABLE RATING SCALE(S)

VIS Issue/Issuer Rating Scale:

<https://docs.vis.com.pk/docs/VISRatingScales.pdf>

Fast Cables Limited (FCL)

OVERVIEW OF
THE
INSTITUTION

RATING RATIONALE

Fast Cables Limited (FCL) is a public limited company incorporated in December 2008. The Company has a registered office in Lahore. The Company is engaged in manufacturing and sale of all types of electric wires, cables and conductors.

CEO Profile: Mr. Mian Ghulam Murtaza Shaukat
Mian Ghulam Murtaza Shoukat is the founder of Fast Cables Limited and has served as a Chief Executive Officer (CEO) since its inception. Mr. Shoukat holds a Bachelor's degree in Business Administration from the University of Punjab.

Corporate Profile

Fast Cables Limited ('FCL' or 'the Company') is a public limited company incorporated in 2008. The Company's registered office is situated at 192-Y, Commercial Area DHA, Lahore. FCL is involved in the manufacturing and sale of various electric wires, cables, and conductors.

FCL operates two manufacturing units, with Unit I located at 7-Canal Bank Main Jallo Road, Harbans Pura, Lahore, and Unit II situated at Bhal Kot, Dars Road, Tehsil Raiwind, District Lahore. Additionally, the Company maintains branch offices in various cities, including Lahore, Faisalabad, Islamabad, Multan, Peshawar, Gujranwala, Hyderabad, Quetta, Sialkot and Karachi.

Key Rating Drivers

Business risk profile is characterized by a stable demand outlook and company's market share in the industry.

The cable and electrical goods industry of Pakistan is oligopolistic in nature, with three major firms, including Fast Cables Limited, collectively holding 60% of the market share. The industry faces risk of dumping from different Chinese companies into Pakistan at cheaper prices.

In FY23, the country faced challenges related to increasing debt, diminishing foreign exchange reserves, reduced exports, heightened inflation, elevated energy costs, currency depreciation, high interest rates, and the imposition of a super tax on businesses. The impact of devastating floods further exacerbated the economic situation. The decline in foreign exchange reserves reached an unprecedented level, which posed a serious challenge. State Bank of Pakistan (SBP) restrictions on opening letters of credit (LCs) persisted to limit imports, thereby influencing business activities. Additionally, SBP raised the policy rate by a cumulative 825 basis points during the year, reaching 22%, aiming to mitigate rising inflation. This led to notable disruptions in supply chains and operations for companies within the industry.

Industry's reliance on imported raw materials, such as copper, is a key vulnerability. This reliance exposes the industry to global market fluctuations and supply chain disruptions, affecting the production of copper-wired cables and electrical goods.

The Company is one of the major sellers to government institutions, and with the Public Sector Development Projects (PSDP) projects fast tracking to their development phase, the demand outlook for the Company's products has improved.

VIS characterizes the business risk of the cables & wires industry as Medium. Although the industry is exposed to cyclical nature of the economy and construction activity much of it is mitigated by the sector's oligopolistic nature. Due to the same the overall competitive intensity is also regarded as low. However, the business risk profile is considered moderate because of medium intensity of technological and regulatory risks.

Ratings incorporate topline and margin growth; supported by sales to government institutions segment.

FCL's topline reported an overall 43% growth YoY in FY23. Increase in topline can mainly be attributed to both price adjustments and volumetric improvement in sales. During the period, the Company also initiated its entry into export markets and generated export sales from Saudi Arabia and Ghana. Company's Gross Profit Margin (GM%) increased to 17.9% in FY23 from 15% in FY22. As per management, this increase is from inventory gains and favorable pricing terms secured through sales to government institutions.

As a result of improvement in the top line the bottom line reported an increase of 67%, with net margin improving by 0.8% to 5.3% (FY22: 4.5%) in FY23. This improvement was despite notably higher finance costs from higher interest rates and debt utilization during the year.

Going forward, management expects to further grow its presence in the export markets, which will provide them with foreign exchange rate volatility protection as well as provide them with import coverage. Additionally, the launch of 'Fast Lights,' is anticipated to further support revenue growth.

Gearing ratio improves on account of lower debt utilization; inflated payables constrain leverage ratio in FY23.

The capital structure reported an improvement in FY23 with gearing and leverage improving to 0.9x (FY22: 1.6x) and 3.0x (FY22: 3.2x), respectively. FFO generation in FY23 was sufficient for the Company to meet its working capital requirements while also covering its CAPEX. Any cash constraints were further curtailed through trade payables by increasing the payable cycle. Therefore, FCL was able to reduce its debt drawdown enabling the improvement in the gearing profile. However, the leverage profile remained constrained on account of resultant inflation in the Company's payables.

Going forward ratings will remain sensitive to FCL's ability in improving its leverage ratio while maintaining gearing ratio in line with assigned ratings.

Liquidity profile adequate with assigned ratings; however, payable builds-up a key rating concern.

In FY23, the liquidity profile of the Company remained stable with a current ratio of 1.2x (FY22: 1.2x). To enhance its cash conversion cycle and decrease dependency on short-term borrowing, the Company extended its payable cycle during the period. This was counterbalanced by an equivalent rise in stock in trade and trade debt in FY23. However, build up in payables presents a significant stress on FCL's liquidity profile going forward.

FCL's capacity to improve its liquidity profile in line with assigned ratings while effectively managing its payable build up will be a key rating sensitivity for future ratings.

Ratings consider the Company's healthy coverage profile despite deterioration in FY23.

FCL's coverage profile remains healthy despite reporting a deterioration of Debt Servicing Coverage ratio to 2.9x (FY22: 3.1x) in FY23. The Company, while reducing its debt drawdown, experienced increased financial burden due to the higher interest rate environment prevailing in the country, impacting its coverage profile.

Fast Cables Limited

Appendix I

FINANCIAL SUMMARY					
	(PKR Millions)				
<u>BALANCE SHEET</u>	FY19	FY20	FY21	FY22	FY23
Property, plant and equipment	2,599.8	4,085.2	3,994.5	4,260.0	6,052.0
Stock in Trade	2,434.6	2,992.9	3,668.4	5,209.4	7,666.0
Trade debts	1,509.3	2,163.6	3,614.1	6,098.3	7,984.0
Cash and bank balances	87.6	205.2	438.1	1,268.2	969.0
Total Assets	8,063.5	10,183.0	12,788.4	19,051.6	25,062.0
Trade and Other Payables	2,742.0	2,748.2	3,674.0	5,593.1	10,402.0
Long-term Debt (incl. current portion and lease liability)	445.5	388.1	442.6	670.4	782.0
Short-term Borrowings	2,325.4	2,324.4	3,239.1	6,038.5	4,353.0
Total Debt	2,770.9	2,712.5	3,681.8	6,708.9	5,135.0
Total Liabilities	5,754.9	5,985.9	7,884.6	13,352.0	17,400.0
Paid up Capital	488.0	488.0	488.0	2,504.0	5,009.0
Equity (excl. Revaluation Surplus)	1,944.0	2,570.0	3,323.0	4,166.0	5,899.0
<u>INCOME STATEMENT</u>	FY19	FY20	FY21	FY22	FY23
Net Sales	7,164.3	8,952.9	14,214.9	22,978.1	32,859.0
Gross Profit	1,133.5	1,301.4	1,910.3	3,458.0	5,894.0
Operating Profit	465.0	610.0	1,033.1	2,123.3	3,868.0
Finance Costs	257.0	378.0	283.0	528.0	1,043.0
Profit Before Tax	214.0	249.0	757.1	1,611.3	2,897.0
Profit After Tax	167.0	167.0	533.1	1,039.3	1,738.0
<u>RATIO ANALYSIS</u>	FY19	FY20	FY21	FY22	FY23
Gross Margin (%)	15.8%	14.5%	13.4%	15.0%	17.9%
Net Margin (%)	2.3%	1.9%	3.8%	4.5%	5.3%
Funds from Operation (FFO)	337.1	461.6	952.9	1,668.3	2,736.1
FFO to Total Debt (%)	12.2%	17.0%	25.9%	24.9%	53.3%
FFO to Long Term Debt (%)	75.7%	118.9%	215.3%	248.8%	349.9%
Gearing (x)	1.4	1.1	1.1	1.6	0.9
Leverage (x)	3.0	2.3	2.4	3.2	2.9
Debt Servicing Coverage Ratio (x)	1.4	1.7	2.5	3.2	2.9
Current Ratio	1.0	1.1	1.2	1.2	1.2
(Stock in trade + trade debts) / STD (x)	1.7	2.2	2.2	1.9	3.6
Return on Average Assets (%)	2.3%	1.8%	4.6%	6.5%	7.9%
Return on Average Equity (%)	7.2%	5.1%	11.7%	19.6%	26.0%

REGULATORY DISCLOSURES					Appendix II
Name of Rated Entity	Fast Cables Limited				
Sector	Cable and Electrical Goods				
Type of Relationship	Solicited				
Purpose of Rating	Entity Rating				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	<u>RATING TYPE: ENTITY</u>				
	04-12-2023	A-	A-2	Stable	Reaffirmed
	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
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	S.No.	Name	Designation	Date	
	1.	Mr. Muhammad Sharjeel	Chief Financial Officer	25-10-2023	
	2.	Mr. Abdullah Masood	Senior Manager		
	3.	Mr. Syed Zeeshan Hasan Gilani	Deputy Manager Finance		