RATING REPORT

Fast Cables Limited (FCL)

REPORT DATE:
November 21, 2024

RATING ANALYSTS:

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RATING DETAILS		
Rating Category	**Latest Rating**	**Previous Rating**
Entity	A/A2	A-/A2
Rating Date	*November 21, 2024*	*December 4, 2023*
Rating Outlook/ Watch	*Stable*	*Stable*
Rating Action	Upgrade	Reaffirmed

COMPANY INFORMATION	
Incorporated in 2008	**External auditors:** Crowe Hussain Chaudhary & Co. Chartered Accountants
Public Limited Company	**Chairman of the Board:** Ghulam Mustafa Kausar
Key Stakeholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Kamal Mahmood Amjad Mian
Mr. Mian Ghulam Murtaza Shaukat – 41.4%	
Ms. Robina Shaukat – 16.3%	
Mr. Muhammad Shahzad Mian – 16.0%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria Methodology – Industrial Corporates
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 and listed at PSX on June 10, 2024. 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. Kamal Mahmood Amjad Mian
Mr. Kamal, previously serving as the Managing Director, has been recently assigned as the CEO of Fast Cables Ltd. He holds Masters of Law specializing in Corporate & International finance, from Harvard Law School.
He has more than 25 years' experience in local and international corporate & industrial sector

Corporate Profile

Fast Cables Limited ('FCL' or 'the Company') is a public limited company incorporated in Pakistan on December 29, 2008 under the repealed Companies Ordinance, 1984 (now the Companies Act, 2017) and was listed on Pakistan Stock Exchange on June 10, 2024.

The Company is engaged in manufacturing and selling of all types of electric wires, cables and conductors and LED lighting business. It is the first company in Pakistan to introduce CCV line technology for MV cables. FCL has 2 CCV lines and is the only company to manufacture All Aluminum Alloy Conductors (AAAC/Greeley conductor), differentiating it from its competitors.

The Company's head office is located at 192-Y Commercial Area DHA, Lahore. Its two manufacturing units are located at 7-Canal Bank, Main Jallo Road, Harbans Pura, Lahore and Bhai Kot, Dars Road, Tehsil Raiwind, District Lahore. Additionally, company maintains office branches all over the country, including Sialkot, Islamabad, Faisalabad, Karachi, Quetta, Gujranwala, Peshawar, Multan, and Hyderabad.

Sector Brief

VIS assesses the business risk of the cables and wires industry as Medium. The industry is subject to the cyclicality of the economy, construction activity, and a significant presence of the informal sector. However, these risks are largely mitigated by the growing brand reputation of firms in the formal sector and the oligopolistic market structure, which includes companies such as Fast Cables Limited, Pakistan Cables Limited, and Newage Cables. Consequently, the overall level of competitive intensity is considered low. The business risk profile is classified as moderate, reflecting medium-level technological and regulatory risks.

Global supply chain challenges and surge in copper and aluminum prices, up 14.2% and 9.7% respectively in FY24 compared to SPLY, significantly increased input costs. The overall business environment has become increasingly challenging amid weak macroeconomic dampened profit margins for wires and cables manufacturers.

The demand outlook for wires, cables, and conductors is expected to be moderate, driven by an anticipated recovery in construction activity following a decline in interest rates, albeit with a lag. However, the ongoing constraints on the PSDP budget under IMF scrutiny may further limit this demand. Increased demand from institutional clients is also expected, particularly following the privatization of DISCOs and new CPEC projects, which will require upgrades to transmission networks. In addition, demand is projected to rise due to the widespread adoption of solar energy across the country. According to management, the demand for solar during FY24 was recorded to such extent that the cumulative capacity of the formal sector was insufficient to meet this demand.

Increased equity base through IPO during the review period to facilitate expansion

During FY24, the Company underwent notable changes in equity as a result of funds raised (worth PKR 3.1 Bn) through an Initial Public Offering (IPO). Consequently, 128 million shares out of 628.8 million shares were issued at a strike price of Rs. 24.45 per share.

The current Shareholding Pattern of Fast Cables Limited is as follows:

Table 1 Shareholding Pattern as at Jun'24 (Post IPO)

Shareholder	No. of Shareholders	Shares held	%
Mian Ghulam Murtaza Shaukat	1	260,570,680	41.4%
Rubina Shaukat	1	102,743,274	16.3%
Muhammad Shahzad Mian	1	100,678,525	16.0%
Kamal Mahmood Amjad Mian	1	22,802,973	3.6%
Ghulam Mustafa Kausar	1	13,633,084	2.2%
Saima Mian	1	359,172	0.1%
Mahlaqa Shaukat	1	15,392	0.0%
Muhammad Azhar Saeed	1	15,392	0.0%
Syed Mazher Iqbal	1	4,724	0.0%
Mutual Funds	20	18,203,716	2.9%
Banks, DFIs, NBFIs	3	7,923,886	1.3%
Insurance Companies	3	4,161,288	0.7%
General Public			
- Local	4395	84,871,380	13.5%
- Foreign	130	541,288	0.1%
Others	49	12,329,226	2.0%
Total	**4,609**	**628,854,000**	**100%**

The purpose of this issue was to finance an expansion worth PKR 3,593 million. Amount remaining, excluding IPO proceeds, is planned to be covered by internal cash injection. The break-up of total expansion cost reflects PKR 1,640 million for plant & machinery, PKR 800 million for the purchase of land, PKR 545 million for building construction and remaining auxiliary costs including duties, erection works and contingency. As a result of this expansion plan, company's overall copper and aluminum capacity is expected to increase from 22,200 MT to 29,400 MT.

During the period under review, company's utilization of IPO proceeds was:

Table 2 IPO proceeds Utilization in FY24

Transaction	PKR mn
Receipt against issuance of 128 Mn ordinary shares @ Rs. 24.45/ share	3,130
Profit earned on bank deposits in saving account	15
Return on investments in mutual funds	16
Related tax on bank deposits & mutual funds	-5
	3,156

Working Capital Settlement	-122
Repayments of Long-term financing - Plant & Machinery	-241
Repayments of Long-term financing - Building Construction	-28
Purchase of plant & machinery	-180
Purchase of land	-12
Payment of duties & taxes	-7
Miscellaneous	-2
	-591
Balance amount for future Capex as at end-FY24	**2,565**

Key Rating Drivers

Sales growth supported by relatively more stable demand from Institution and Commercial & Industrial segments.

FCL has major revenue contribution from Commercial & Industrial segment, followed by Institutions as of FY24. These include projects from DISCOs, NTDC and private sector, largely related to the upgradation of transmission network. Therefore, given its relatively non-cyclical nature, the sales are cushioned at times of depressed construction activity.

During FY24, sales grew by a modest ~10% (owed to 40% volumetric increase and 60% pricing) compared to 4-year CAGR of 38%, due to high base effect and lower orders from customers. However, the company's gross margins demonstrated a consistent upward trend, rising from 13.4% in FY21 to 18.7% in FY24 (FY23: 17.9%). Additionally, operating margins (FY23: 13.3% and FY24: 13.0%) and net margins (FY23: 5.3% and FY24: 5.2%) remained stable due to elevated operating and finance costs driven by inflationary pressures and increasing short term borrowings amidst high-interest rate environment. Net margin in FY24 was also supported by significant rise in other income (395% YoY) clocking in at PKR 357 Mn in FY24 (FY23: PKR 72 Mn). This increase is owed to gain on short term investments and mark-up charged on company's advances extended to its Join Venture firms during the year, contributing 65% to other income.

The sales distribution across various cable types demonstrates a diverse product portfolio of the company. FCL has also introduced a newly added product segment of LED Lights under brand name 'Fast Lights', generating revenue during FY24 which the company expects to double in the current fiscal year.

During 1QFY25, the company reported a sales of PKR 7.2 Bn, while the margins declined, with the gross profit margin clocking at 14.8%, operating margin at 8.2%, and net margin at 2.9%. The primary impact was due to a shift in the sales mix during the period. Revenue from institutional clients, a high-margin segment, was subdued, and construction activity slowed due to the rainy season. Net profit of the company during 1QFY24, was also supported by other income recording at PKR 253 Mn. Main contributors remained gain on short term investments and receivables from associates, constituting 85% of other income during the period. However, moving forward, this income is expected to decline on the back of high liquidity requirements to fund the ongoing expansion, resulting in significant decrease in short-term investments.

Moving forward, company's performance is expected to recover, particularly in the second half of FY25, as DISCOs are expected to begin maintenance activity of transmission systems from October and continue through April, as per the management. Additionally, the company's strong order backlog and anticipated projects are expected to support sales growth during this period. *Consequently, management is expecting a net sales in line with current revenue trend, for FY25*. Gross margin is expected to remain largely aligned with preceding years with a minor decline, while decrease in finance cost amid falling interest rates will support the net margin to remain intact at FY24 levels.

Ratings consider company's improved liquidity and healthy coverage profile

The liquidity profile of the Company improved with a current ratio of 1.39x at end-FY24 and 1.41 at end-1QFY25 (FY23: 1.15x). However, the cash conversion cycle increased to 79 days in FY24 (FY23: 57 days) on the back of stock accumulation at the end of the period, driven by delayed import of raw materials, as well as the postponement of collections from construction clients project orders. Despite the rise in inventory, as per the management the stock is highly liquid and does not pose a threat to the company's overall financial health.

Typically, the Company maintains around three months' worth of inventory, but this varies depending on the segment and nature of the orders. Moreover, company has cut down on local procurement, and increased imports whereby payment is made through LCs, consequently declining overall trade payables.

Debt service coverage ratio (DSCR) lowered to 2.01x in FY24 (FY23: 3.1x) due to higher finance cost and current portion of long-term debt on the back of retiring a significant chunk of its debt facilitated by the IPO funds, however, the same has remained at healthy levels from a given rating perspective.

Improved Capitalization as a result of both increased equity from IPO and Internal Cash Generation

Company's capitalization improved further during the period under review. The gearing ratio declined to 0.79x at end-FY24 (end-FY23: 0.85x) meanwhile leverage ratio clocked in at 1.77x down from 2.95x in at end-FY23. This improvement came on the back of increased equity post IPO and higher reserves through internal cash generation. Although FCL repaid a significant portion off its long-term debt, decreasing from PKR 675 million to 248 million during the year, its short-term borrowings rose by 92% to PKR 8,344 million (FY23: 4,353 million) to finance company's high working capital requirements and also provide liquidity to associates (as advances) during the year.

The increase noted in PPE during FY24, worth ~PKR 2.2 Bn in Property, plant & equipment is owed to revaluation surplus, however moving forward, company is likely to incur significant capex to debottleneck raw material processing and fund the ongoing expansion from IPO funds. However, we expect gearing and leverage ratios to remain largely in line with FY24 and record around 0.75x and 1.78x, respectively for FY25, due to expected reduction in short term borrowings.

Corporate Governance

The Company has a well-structured governance framework, with a seven-member board comprising six males and one female. The board includes two executive directors, three non-executive directors (including the chairman), and two independent directors. It is supported by four key committees: the Audit Committee, HR & Remuneration Committee, Nomination Committee, and Risk Management Committee. The board adheres to the requirements of the 2019 Code of Corporate Governance Regulations, ensuring regular meetings, documentation, and proper circulation of minutes.

All board members have completed the Directors' Training Program, as required by regulatory standards, demonstrating their commitment to governance excellence. The management team is highly experienced, with expertise spanning engineering, law, finance, and banking. FCL also maintains a clear organizational structure with defined reporting lines, supported by robust succession planning to address critical roles, including that of the CEO, ensuring operational continuity.

The company employs Crowe Hussain Chaudhury & Co., rated A4 by the State Bank of Pakistan, as its external auditor. FCL complies with international manufacturing standards and holds several globally recognized certifications, including KEMA Gold, TUV, ISO 9001, 14001, 45001, and VEIKI-VNL for Greeley Conductors. In FY24, it became Pakistan's only cable manufacturer to achieve British Approvals Service for Cables (BASEC) certification, highlighting its industry leadership.

FCL has also embraced technological advancements by integrating Cable Builder Software (UL), transitioning from Oracle to SAP, implementing TimeTrax for workforce management, and enhancing its infrastructure to align with global best practices. These developments reinforce its operational efficiency and governance capabilities.

Fast Cables Limited Appendix I

FINANCIAL SUMMARY	(amounts in PKR millions)			
BALANCE SHEET	**30-Jun-22**	**30-Jun-23**	**30-Jun-24**	**30-Sep-24**
Non-Current Assets	4,352	6,198	8,402	8,316
Stock-in Trade	5,209	7,666	10,035	10,719
Trade Debts	6,098	7,984	8,264	7,660
Other Current Assets	2,124	2,247	5,768	6,317
Cash & Bank Balances	1,268	969	952	335
Total Assets	**19,051**	**25,064**	**33,422**	**33,346**
Trade and Other Payables	5,593	10,402	7,832	5,602
Short-Term Borrowings	6,038	4,353	8,344	10,171
LT Borrowings+ Leases+ Diminishing Musharka	670	782	337	329
Other Liabilities	975	1,783	2,745	2,863
Total Liabilities	**13,277**	**17,320**	**19,258**	**18,965**
Paid-Up Capital	490	491	492	493
Total Equity	5,699	7,662	14,041	14,248
Adj. Equity (Exc. Surplus on reval. + Sponsor loan)	4,242	5,899	10,929	11,171
INCOME STATEMENT	**FY22**	**FY23**	**FY24**	**1QFY25**
Net Sales	22,978	32,859	36,024	7,204
Gross Profit	3,458	5,894	6,733	1,064
Profit Before Tax	1,611	2,897	3,123	304
Profit After Tax	1,039	1,738	1,888	207
Funds from Operations (FFO)	1,668	2,736	1,944	122
RATIO ANALYSIS	**FY22**	**FY23**	**FY24**	**1QFY25**
Gross Margin (%)	15.0%	17.9%	18.7%	14.8%
Net Margin	4.5%	5.3%	5.2%	2.9%
Current Ratio	1.17	1.15	1.39	1.41
Net Working Capital	2,108	2,488	7,023	7,310
FFO to Total Debt (x) *	0.25	0.54	0.23	0.05
FFO to Long Term Debt (x) *	2.81	4.05	7.82	1.97
Debt Leverage	3.15	2.95	1.77	1.71
Gearing	1.56	0.85	0.79	0.93
Debt Servicing Coverage Ratio (x) *	2.83	3.10	2.01	1.11
ROAA (%) *	6.53%	7.88%	6.45%	2.48%
ROAE (%) *	27.75%	34.53%	22.43%	7.48%
(Inventory +Trade Debt)/ST Borrowing	1.87	3.60	2.19	1.81

**Annualized figures*

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/ Watch	Rating Action
RATING TYPE: ENTITY				
21-11-2024	A	A2	Stable	Upgrade
4-12-2023	A-	A2	Stable	Reaffirmed
16-11-2022	A-	A2	Stable	Reaffirmed
30-11-2021	A-	A2	Stable	Reaffirmed
28-12-2020	A-	A2	Stable	Reaffirmed
17-12-2019	A-	A2	Stable	Reaffirmed
28-12-2018	A-	A2	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.
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Due Diligence Meetings Conducted	

Name	Designation	Date
Muhammad Sharjeel	CFO	Nov' 6th, 2024
Abdullah Masood	Assistant General Manager – Finance (AGM)	
Syed Zeeshan Hassan Gilani	Deputy Manager Finance	