The Pakistan Credit Rating Agency Limited

Rating Report

Newage Cables (Pvt.) Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
04-Mar-2024	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Newage Cables (Pvt.) Limited (the 'Company' or 'Newage') is amongst the largest and oldest cable manufacturers in Pakistan. The production facility of the Company is spanned over 113 Acres, in Sheikhupura. The Company has recently installed a new production plant, with the most technological advanced machinery, and has also laid down a 66KV CDCC CCV Maillefer Line. The Company also has state of art cable testing facility of up-to 120KV, highest voltage cable testing. The ratings assigned to the Company derives its strength from it's experienced sponsors having longstanding in the local wire and cable industry. The cables industry of Pakistan relies on import of key raw material. Owing to deteriorating macroeconomic conditions, with limited foreign exchange availability and currency devaluation, procurement of essential raw materials has been strained. Moreover, high levels of inflation also impacted the demand drivers of the industry. However, the demand from the Government with respect to improvement in power sector, development of housing societies and solarization gives cushion to the industry's demand. The assigned ratings take into consideration the financial performance and reflects the financial and business position of the Company in the oligopolistic nature of the industry, one of the three dominant firms, collectively holding 60% of the market share. Newage's product range includes transmission & distribution conductors, power cables, and solar & housing wiring. Conductors contributed around 44% to the total revenue, whereas cable & wiring contributed 55%. The company's sales are also well diversified among customers across diverse industries, government and export customers however, majorly inclined towards government projects and very minimal exports. During FY23, the Company's topline increased to PKR 27bln (FY22: 23bln) on the back of increase in prices and has captured ~22% of the market share. However, the margins of the Company over the years have remained weak. During FY23, the margins showed a similar trend, gross margins stood at 11.6% (FY22: 9.6%) whereas, net margins stood at 3% (FY22: 3%). The Company's financial profile is characterized by adequate working capital management supported by considerable borrowing cushion along with strong debt cover and capital structure braced by revaluation surplus.

The ratings are dependent upon sustenance of volumes under the current challenges in the local economy. keeping up with a stable financial risk profile remains imperative for the ratings. Newage being a family owned and operated company, is led by an experienced management team but formal governance and organization structure needs improvement.

Disclosure	
Name of Rated Entity	Newage Cables (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Rating(Jul-23),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology | Rating Modifiers(Apr-23)
Related Research	Sector Study | Distribution | Electricity(Feb-24)
Rating Analysts	Shujat Ehsanullah Wasim | Shujat.Ehsan@pacra.com | +92-42-35869504

Profile

Legal Structure Newage Cables (Private) Limited ('Newage' or the 'Company') was incorporated on 21st September, 1978 as a Private Limited Company.

Background Newage was established in 1956 by Mr. Mir Muhammad Azam with the vision of self-reliance of a nascent nation and commitment to contribute country's development by supplying high quality indigenous products to the electrical and industrial infrastructure at competitive rates.

Operations The Company is engaged in manufacturing of electric cables. The Company's process of manufacturing starts from melting of raw material. The Company's main raw material is imported Copper and Aluminum ingots. The products of the Company include Copper & Aluminum rods, Transmission and distribution conductor cables, Specialty cables, Control Cables, LSZH cables, Medium Voltage cables, Low voltage cables, and House wiring and Solar Cables. The production capacity of Copper rod stands at 6,000 MT per year, Aluminum rod stands at 44,000 MT per year, PVC compound stands at 8,000 MT per year and steel wire & strands. Moreover, the Company is able to draw and assemble up-to 25,000km of Transmission line conductors, 54,000km of Distribution Conductors and 85,680km of Control cables and wiring.

Ownership

Ownership Structure The Company's major ownership resides within the family. Major shareholding resides with the Azam brothers and the remaining stake is held by their sons. Mr. Asim Jalil Azam (39.67%), Mr. Amer Bakht Azam (39%), Mr. Adnan Jalil Azam (7.34%), Mr. Alman Jalil Azam (7.33%) and Ali Amer Azam (6.67%).

Stability The Company is completely owned by the sponsoring family and the structure is seen stable as the third generation is being integrated into the business.

Business Acumen The sponsoring family is involved in the business for almost 7 decades and have witnessed multiple business cycles. The current sponsors have been associated with the Company for over 3 decades.

Financial Strength The sponsor holds sufficient net worth to support the Company in times of distress.

Governance

Board Structure The Company's board is dominated by the sponsoring family and includes five executive directors, Mr. Asim Jalil Azam, Mr. Amer Bakht Azam, Mr. Alman Jalil Azam, Mr. Adnan Jalil Azam and Mr. Ali Amer Azam. Lack of independent oversight and diversity indicates a room for improvement in the Company's governance structure.

Members' Profile Mr. Asim Jalil Azam, with over 4 decades experience as well as association with the Company, chairs the Board of the Company. Mr. Asim also spearheads the Company as its CEO. Mr. Asim is a Graduate and has seen multiple business cycles and growth of the Company.

Board Effectiveness The Board is supported by its sub-committees, the Audit Committee, and the Human Resource Committee. Both sub-committees are headed by Executive Directors. The Board and its sub-committees meet on need basis.

Financial Transparency The external auditors of the Company, Shine Wing Hameed Chaudhri & Co. Chartered Accountants, have expressed an unqualified opinion on the financial statements of the Company for the year ended June 2023. The firm is QCR rated and is placed in category 'B' of the SBP panel of auditors.

Management

Organizational Structure The Company's reporting line is divided into two mainstreams. One is business operations and the other one is Manufacturing. Each mainstream is headed by one Executive Director. Mr. Asim Jalil looks after the business operations while Mr. Amer Bakht looks after the Manufacturing. The organizational structure has been optimized as per the organizational needs.

Management Team Mr. Asim Jalil Azam, with over 4 decades experience as well as association with the Company, chairs the Board of the Company. Mr. Asim also spearheads the Company as its CEO. Mr. Asim is a Graduate and has seen multiple business cycles and growth of the Company. Mr. Amer Bakht Azam, with over 3 decades of experience and a business graduate from USA, spearheads the Manufacturing side of the Company. Mr. Alman Jalil Azam is the Director Finance/ CFO and also the HOD of Sales. Mr. Adnan looks after the chemical side of the Business and Mr. Ali Amer assists his father Mr. Amer in the Manufacturing side.

Effectiveness The Company has in place a management committee which meets on regular basis to ensure efficiency.

MIS The Company is in the process to implement an inhouse oracle-based ERP software.

Control Environment There is no internal audit department in place however, the Company has a stringent policy and checks to ensure the quality of the products at the production facility. The Company has obtained ISO 9001 certificate and follows BS & IEC standards to ensure quality.

Business Risk

Industry Dynamics The cables industry of Pakistan relies on import of key raw material. With the deterioration in macro-economic conditions of the country coupled with decline in foreign exchange reserve and restrictions on opening of import LC's have drastically impacted the industry. This reliance also exposes the industry to global market fluctuations along with supply chain disruptions. The major demand of the industry emanates from the government institutions. However, with the current macroeconomic factors, the development has been slowed down, especially large-scale projects but, the private development of industries, housing societies and solarization gives cushion to the industry's demand.

Relative Position The Company is a prominent player in the industry with ~22% market share.

Revenues The Company's topline comprises of revenue generated from sale of Transmission and distribution conductors, cables & wiring, steel wire and calcium carbonate. The major portion of sales resides with cables & wiring and transmission & distribution conductors holding ~55% and ~44% respectively. During FY23, the Company showed adequate growth and the revenues stood at PKR 27bln (FY22: PKR 23bln, FY21: PKR 12bln). During 6MFY24, the Company's topline stood at PKR 11bln.

Margins The Company is inclined towards maintaining the quality of products by importing copper and aluminum ingots. The margins have stayed on the lower side over the years. During FY23, the gross margins stood at 11.6% (FY22: 9.6%, FY21: 11.2%) on the back of high raw material costs. Resultantly, operating margins stood at 8.3% (FY22: 7.1%, FY21: 7%). During FY23, the Company incurred Finance cost of PKR 854mln (FY22: PKR 545mln, FY21: PKR 357mln). Consequently, net profit stood at PKR 801mln (FY22: PKR 712mln, FY21: PKR 357mln) resulting in net margin of 3% (FY22: 3%, FY21: 2.8%). During 6MFY24, gross margin has remained stable and stood at 11.6% however, net margin improved slightly, albeit weak, and stood at 4.9%.

Sustainability With newly developed facility the Company has capacity to spare. Moreover, the industry demand is deemed to increase due to the developing nature of the Country. The Company has also installed 66kV Maillefer line the only in the country and the highest voltage range of cable testing in the country of upto 120kV.

Financial Risk

Working Capital The Company's working capital management is managed through internal cashflows with minimal reliance on running finance and high reliance on LC's due to imported nature of raw material. As at Jun-23, the inventory days decreased to 51days (FY22: 63days). Moreover, On the back of prolonged receivables from government agencies the receivable days increased to 81 (FY22: 64 days). To manage the cash cycle payable days were stretched to 56 days (FY22: 40days). Overall, the Company's net cash cycle stood at 76 days (FY22: 88 days). Moreover, the Company has significant room to borrow against trade assets. Short term trade and total assets stood at 30.4% and 25.5% respectively (FY22: 18.7% and 17.5%). At Dec23, the net cash cycle was increased to 97 days however, short term trade and total leverage remained strong and stood at 37% and 34%, respectively,

Coverages Interest cover is function of FCFO and finance cost. The Company's coverages have remained stable and adequate throughout the years. As at Jun-23 FCFO's stood at PKR 2,319mln (FY22: PKR 1,499mln). Finance cost stood at PKR 854mln (FY22: PKR 545mln). Resultantly, the interest coverage stood at 2.7x (FY22: 2.7x). Core and total operating coverage stood at 2.0x (FY22: 2.1x). At Dec23, the interest coverage increased but, remained weak and stood at 3.3x. Moreover, Core and total operating remained adequate and stood at 2.2x.

Capitalization The debt of the Company comprises 60% short term and 40% long term debt. At Jun-23, total debt of the Company stood at PKR 3.5bln (FY22: 6.8bln) against an equity base of PKR 9.3bln (FY22: 8.5bln). Debt to debt plus equity decreased and stood strongly at 27% (FY22: 44%). However, equity includes a revaluation surplus of PKR 4.5bln as at Jun-23. At Dec23, the leveraging of the Company increased to 35%.

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

Newage Cables Pvt. Ltd. Distribution | Electricity	Dec-23 6M	Jun-23 12M	Jun-22 12M	Jun-21 12M
A BALANCE SHEET				
1 Non-Current Assets	8,848	8,941	9,031	4,417
2 Investments	-	-	-	-
3 Related Party Exposure	111	210	256	212
4 Current Assets	10,194	11,391	11,443	7,765
a Inventories	*2,820*	*3,281*	*4,271*	*3,821*
b Trade Receivables	*6,069*	*6,557*	*5,459*	*2,792*
5 Total Assets	19,153	20,542	20,730	12,394
6 Current Liabilities	2,762	6,522	4,301	2,688
a Trade Payables	*2,077*	*4,857*	*2,805*	*1,940*
7 Borrowings	5,335	3,506	6,801	4,143
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	1,136	1,142	1,045	542
10 Net Assets	9,919	9,372	8,583	5,021
11 Shareholders' Equity	9,919	9,372	8,583	5,021
B INCOME STATEMENT				
1 Sales	11,126	27,017	23,414	12,966
a Cost of Good Sold	*(9,837)*	*(23,886)*	*(21,163)*	*(11,513)*
2 Gross Profit	1,289	3,131	2,251	1,453
a Operating Expenses	(391)	(887)	(595)	(549)
3 Operating Profit	898	2,244	1,657	905
a Non Operating Income or (Expense)	*(6)*	-	-	*0*
4 Profit or (Loss) before Interest and Tax	892	2,244	1,657	905
a Total Finance Cost	*(205)*	*(854)*	*(545)*	*(339)*
b Taxation	*(139)*	*(589)*	*(400)*	*(209)*
6 Net Income Or (Loss)	547	801	712	357
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*686*	*2,319*	*1,499*	*916*
b Net Cash from Operating Activities before Working Capital Changes	*686*	*1,500*	*1,007*	*566*
c Changes in Working Capital	-	*2,199*	*(1,787)*	*(867)*
1 Net Cash provided by Operating Activities	686	3,698	(779)	(301)
2 Net Cash (Used in) or Available From Investing Activities	-	(461)	(1,749)	(328)
3 Net Cash (Used in) or Available From Financing Activities	-	(3,184)	2,721	317
4 Net Cash generated or (Used) during the period	686	54	192	(312)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	-17.6%	15.4%	80.6%	38.0%
b Gross Profit Margin	11.6%	11.6%	9.6%	11.2%
c Net Profit Margin	4.9%	3.0%	3.0%	2.8%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	6.2%	16.7%	-1.2%	0.4%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	11.3%	8.9%	10.5%	7.4%
2 Working Capital Management				
a Gross Working Capital (Average Days)	154	132	127	161
b Net Working Capital (Average Days)	97	80	90	121
c Current Ratio (Current Assets / Current Liabilities)	3.7	1.7	2.7	2.9
3 Coverages				
a EBITDA / Finance Cost	3.3	3.2	3.7	3.3
b FCFO / Finance Cost+CMLTB+Excess STB	2.2	2.0	2.1	2.1
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	1.4	1.0	1.5	0.6
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	35.0%	27.2%	44.2%	45.2%
b Interest or Markup Payable (Days)	39.9	31.8	37.2	0.0
c Entity Average Borrowing Rate	9.3%	16.6%	10.0%	8.5%

Credit Rating

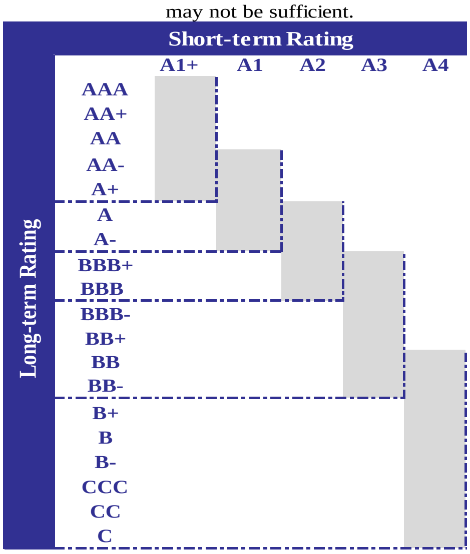
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+ AA AA-	**Very high credit quality.** Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A+ A A-	**High credit quality.** Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
BBB+ BBB BBB-	**Good credit quality.** Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BB+ BB BB-	**Moderate risk.** Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
B+ B B-	**High credit risk.** A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
CCC CC C	**Very high credit risk.** Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
D	Obligations are currently in default.

Short-term Rating

Scale	Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



**The correlation shown is indicative and, in certain cases, may not hold.*

Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveill the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

a) Broker Entity Rating
b) Corporate Rating
c) Debt Instrument Rating
d) Financial Institution Rating
e) Holding Company Rating
f) Independent Power Producer Rating
g) Microfinance Institution Rating
h) Non-Banking Finance Companies Rating

Regulatory and Supplementary Disclosure
(Credit Rating Companies Regulations,2016)

Rating Team Statements
(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) **Conflict of Interest**
i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

Restrictions
(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
(4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
(5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business
(6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
(7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report | Clause 11-(A)(p).
(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
(9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
(11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest
(12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA´s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
(13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
(14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
(15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
(16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
(17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review
(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 17-(a)
(19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(b)
(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 17-(c)
(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument;| Chapter III | 17-(d)
Probability of Default
(22) PACRA´s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e., probability). PACRA´s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA´s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past; | Chapter III | 14-3(f)(vii)
Proprietary Information