RATING REPORT

Al-Noor Sugar Mills Limited

REPORT DATE:
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RATING ANALYSTS:
Jazib Ahmed, CFA
jazib.ahmed@jcrvis.com.pk

Muhammad Tabish
muhammad.tabish@jcrvis.com.pk

RATING DETAILS

	Latest Rating		Previous Rating	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity	A-	A-2	A-	A-2
Rating Outlook	Stable		Stable	
Rating Date	*November 30, 2017*		*April 27, 2016*	

COMPANY INFORMATION

Incorporated in 1969	**External auditors:** Kreston Hyder Bhimji & Co., Chartered Accountants
Public Limited Company	**Chairman of the Board:** Mr. Yusuf Ayoob
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Ismail H. Zakaria
CDC-Trustee National Investment Trust Fund– 9.9%	
Noori Trading Corporation (Private) Limited – 9.2%	
Mr. Zaki Zakaria – 6.0%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria: *Industrial Corporates (May 2016)*
http://jcrvis.com.pk/docs/Corporate-Methodology-201605.pdf

Al-Noor Sugar Mills Limited

OVERVIEW OF THE INSTITUTION

ASML was incorporated in 1969 as a part of the Al-Noor Group, which has presence in diverse industries. The company is principally engaged in production and sale of sugar and medium density fiber board. Its shares are quoted on the Pakistan Stock Exchange. Financial statements for FY15 have been audited by Kreston Hyder Bhimji & Co.

RATING RATIONALE

In 1969, Al-Noor Sugar Mills Ltd. (ASML) was incorporated as a public limited company. ASML belongs to Al-Noor Group (ANG), involved in the manufacturing of sugar, rice, power, ethanol and board products along with limited presence in financial sector. ASML is primarily engaged in the business of manufacturing and selling of sugar and medium density fiber (MDF) board. In order to overcome electricity shortages, the company is also involved in power generation primarily for its internal use. ASML is listed on the Pakistan Stock Exchange (PSX).

Rating Drivers

Industry Dynamics: Sugar production is primarily dependent on availability and quality of sugarcane. During the outgoing year sugarcane production was higher vis-à-vis the previous period. Furthermore, bumper sugar cane crop is expected to resurface next year, intensifying supply glut situation in the sector. Sugarcane prices are fixed by the provincial governments whereas sugar prices are determined by the market forces. On account of excess production, the local sugar prices have remained depressed.

Sugar Production: Ample availability of raw material during the period led to higher crushing volume in FY17. Resultantly, capacity utilization also increased to 157% (FY16: 108%) in FY17; however the recovery percentage reduced to 9.7% as against 10.2% in last year. Total sugar production exhibited an improvement with a growth of 38.2% compared to last year.

Sales & Margins:
Sugar
Depressed prices and sugar exports without subsidy resulted in a decline in sugar sales amounting to Rs. 3.2b (FY16: Rs. 5.6b) in 9MFY17 (Annualized) with a gross profit of Rs. 334.1m (FY16: Rs. 594.7m), depicting a decrease of 43.8%.
MDF Board & Expansion
Segment contribution of MDF Board unit depicted an improvement with net sales amounting to Rs. 2.5b (FY16: Rs. 2.47b) in 9MFY17 (Annualized) with a gross profit of Rs. 353.0m (FY16: Rs. 369.0m). In addition to this, production facility of ASML was overhauled during FY17; full year impact on production capacity will be observed in FY18. Moreover, with the increase in capacity, improved profitability and cash flows are expected.

Asset Mix: The asset base of the company grew sizably on the back of higher inventory level amounting to Rs. 5.7b at end 9MFY17 which resulted in increased short term borrowings. However, on account of higher sales post 9MFY17, short term borrowings are expected to reduce significantly.

Liquidity and Coverage: ASML's Fund Flow from Operations (FFO) decreased significantly to Rs. 57.6m (FY16: Rs. 361.1m) in 9MFY17 (Annualized). FFO to long term debt declined to 0.03x (FY16: 0.18x) in FY17. The same also resulted in a decline in debt service coverage ratio. However, during 1QFY18 positive momentum in sugar sales is expected to favorably impact the FFO. Moreover, FFO is expected to increase on account of improvement in profitability in the ongoing year, FY18.

Capitalization and Leverage: Total equity of the company has witnessed a decline on account of 9MFY17 net loss and dividends paid pertaining to FY16. Furthermore, due to lackluster sales in 9MFY17, inventory and short term borrowings increased. This led to an increase in debt leverage and gearing to 5.8x (FY16: 2.6x) and 3.6x (FY16: 1.7x) respectively, at end 9MFY17. Leverage indicators are expected to improve in the short term owing to the aforementioned increase in sales.

Outlook

Going forward, performance of ASML would be primarily dependent on its MDFB segment and dynamics of sugar industry. ASML's profitability and cash flows generated are expected to improve in line with the expansion in MDF Board division. However, ratings remain contingent on achievement of improved financial performance on account of expansion in MDFB segment.

Al-Noor Sugar Mills Limited — Appendix I

FINANCIAL SUMMARY			*(amounts in Rs. in millions)*
BALANCE SHEET	**JUNE 30, 2017***	**SEP 30, 2016**	**SEP 30, 2015**
Fixed Assets	4,195.3	4,110.9	3,639.6
Investments	260.0	267.5	260.2
Stock-in-Trade	5,741.2	1,968.2	2,496.0
Trade Debts	180.9	62.5	120.1
Cash & Bank Balances	149.5	136.9	98.2
Total Assets	11,232.9	7,002.8	7,149.4
Trade and Other Payables	2,543.8	865.5	1,067.5
Long Term Debt *(*incl. current maturity)*	2,261.8	2,048.1	1,527.6
Short Term Debt	3,156.7	691.1	1,173.1
Total Equity (Including Surplus)	2,599.6	2,736.6	2,622.1
INCOME STATEMENT	**JUNE 30, 2017**	**SEP 30, 2016**	**SEP 30, 2015**
Net Sales	4,298.3	8,103.1	6,966.3
Gross Profit	515.3	963.8	1,027.7
Operating Profit	115.5	506.3	604.1
Profit After Tax	(55.1)	170.1	166.3
RATIO ANALYSIS	**JUNE 30, 2017**	**SEP 30, 2016**	**SEP 30, 2015**
Gross Margin (%)	12.0	11.9	14.8
Net Working Capital	722.0	572.4	481.7
FFO to Total Debt (x)	0.01	0.13	0.16
FFO to Long Term Debt (x)	0.02	0.18	0.27
Debt Servicing Coverage Ratio (x)	0.48	0.86	1.03
ROAA (%)	(0.60)	2.40	2.43
ROAE (%)	(3.56)	11.21	6.54

* Actual figures

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix II

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: JCR-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.jcrvis.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.jcrvis.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.

'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.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-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	Al-Noor Sugar Mills Limited
Sector	Sugar
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		
11/30/2017	A-	Stable	A-2	Reaffirmed
04/27/2016	A-	Stable	A-2	Reaffirmed
12/31/2014	A-	Stable	A-2	Reaffirmed
11/25/2013	A-	Stable	A-2	Reaffirmed
8/27/2012	A-	Stable	A-2	Reaffirmed

Instrument Structure	N/A
Statement by the Rating Team	JCR-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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