RATING REPORT

Al-Noor Sugar Mills Limited

REPORT DATE:
March 30, 2020

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A-	A-2	A-	A-2
Rating Outlook	Stable		Stable	
Rating Date	*March 30 , 2020*		*February 18, 2019*	

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)

Applicable Rating Criteria: Corporates (April, 2019)
https://s3-us-west-2.amazonaws.com/backupsqlvis/docs/Corporate-Methodology-201904.pdf

Al-Noor Sugar Mills Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

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 MY19 have been audited by Kreston Hyder Bhimji & Co.

Al-Noor Sugar Mills Limited (ASML) is part of Al-Noor Group (ANG). The group has presence in sugar, ethanol, medium density fiber, rice, modaraba and insurance business. ASML is principally engaged in manufacturing of sugar, medium density fiber board (MDF) and power generation for internal use located at Shahpur Jahania.

Capacity Utilization:

Sugar:

The company's installed sugarcane crushing capacity stands around 14,500 MT per day. Actual crushing capacity for the outgoing year was lower in comparison to preceding year 0.9m MT (MY18: 1.1m MT), on the back of lower no. of days the mill operated (MY19: 97 days; MY18: 139 days). According to the management, the sugar production was overall low in MY19 due to limited availability of raw material. Management expects sugar production to decline further in the ongoing year due to limited availability of sugar cane and lower recovery ratio. Recovery rate has depicted an increasing trend, the same stood at 10.6% (MY18: 10.0%) during MY19.

	MY18	MY19
Installed cane crushing capacity per day (M.Tons)	14,500	14,500
No. of days Mill operated	139	97
Total crushing capacity on basis of no. of days mills operated (M.Tons)	2,015,500	1,406,500
Actual crushing (M.Tons)	1,108,106	894,494
Capacity utilization	55.0%	63.6%
Sugar Production (M.Tons)	110,810	94,825
Recovery (%)	10.0%	10.6%

Medium Density Fibre Board Division (MDFB):

The MDFB division operates via 2 production lines which are the Mande Line and Sunds Line. Cumulative capacity of MDFB stands around 242 cubic meter per day. During MY19, both lines operated above 100% capacity utilization, with a combined production of 71,762 Cubic Meter (MY18: 70,561).

Mande line	**MY18**	**MY19**
No. of Days Mill Operated	255	260
Capacity Per Day (Cubic Meter)	120	120
Total Capacity on basis of no. of days (Cubic Meter) mill operated	30,600	31,200
Actual Production (Cubic Meter)	26,835	31,407
Capacity Utilization	87.7%	100.7%
Sunds Line		
No. of Days Mill Operated	327	330
Capacity Per Day (Cubic Meter)	122	122
Total Capacity on basis of no. of days (Cubic Meter) mill operated	39,894	40,260
Actual Production (Cubic Meter)	43,726	40,355
Capacity Utilization	109.6%	100.2%
Cumulative Capacity on basis of no. of days mill operated (Cubic Meter)	70,494.0	71,460.0
Actual Production	70,561.0	71,762.0
Cumulative Capacity Utilization	100.1%	100.4%

Power Generation

Power requirement of ASML is met through internal generation and the company does not rely on any load sanctioned from the grid. Out of the total generation of 18 MW per day, 10 MW is utilized by the sugar production, 3.5 MW for MDFB production and the remaining power generated is sold to Sukkur Electric Supply Company.

Business risk

Business risk profile of the sugar sector is considered high given the inherent cyclicality in crop levels and raw material prices. Moreover, distortion in pricing mechanism of raw material prices and refined sugar also creates challenges for sugar mills. Given the decline in area under cultivation in MY19 and the ongoing year and the resultant decline in sugar production, average sugar prices have increased by 19% in MY19 and 16% in the ongoing year. However, increase in profitability is expected to be limited (barring those players that have sizeable carryover stock) due to significant jump in sugar cane prices and decline in recovery ratio (Tiddi Dal pest attack) in the ongoing year. While demand and supply dynamics are expected to result in an increase in sugar prices, significant politicization of sugar prices may cap increase in sugar prices. Recent decline in international sugar prices ($336/ton as of 24th March vis-à-vis average price of $413.9/ton in the month of February) is also expected to cap increase in domestic sugar prices given the threat of imports. Business risk profile draws support from diversification in MDFB segment which has consistently contributed to profitability over the years. However, disruption in operations due to coronavirus outbreak remains a key business risk factor.

Financial Profile

Sales Mix

Sales grew marginally during the outgoing year (MY19: Rs. 9.3b; MY18: Rs. 9.1b). The growth in sales can be associated with MDFB sales growth. More than half of the company's sales are contributed by the sugar segment, the remainder of the sales are associated with the MDFB segment.

Sugar

Sugar segment sales have depicted a decline in relation to previous year (MY19: Rs. 5.1b; MY18: Rs. 5.6b) on the back of decline in quantity sold. Resultantly, sugar contribution to total sales mix has reduced to 54.8% (MY18: 62.4%) during MY19. In contrast to MY18, sales mix during MY19 was dominated by local sales. Going forward, ASML sugar sales are expected to fall on account of lower production.

Metric Ton	**MY18**		**MY19**	
Local Sales	34,357.9	23.3%	97,423.5	98.0%
Export Sales	113,150.0	76.7%	2,000.0	2.0%
Total Sales	147,507.9	100.0%	99,423.5	100.0%

MDFB:

MDFB sales represented around 45.2% of the total sales mix (FY18: 37.6%). The increase in MDFB sales were a combination of increase in average selling price coupled with volumetric growth. A major proportion of MDFB was sold in the local market, while the remaining proportion comprised exports. With the Company operating at high utilization levels, growth in sales will primarily be a function of increase in prices. As per management, the Company enjoys strong pricing power for its products in the market given its brand strength.

Profitability

GP Margin of the company has trended upwards during the outgoing year (MY19: 12.5%; MY18: -7.2%) primarily due to improved performance of the sugar segment. GP margin of the sugar segment stood at MY19: 11.3% (MY18: -20.7%), whereas MDFB segment GP margin stood at MY19: 13.9% (MY18: 15.3%). However, higher finance cost created a drag on net profit. Net Profit of the company was reported at Rs. 0.2b (MY18: Rs. -0.1b) during MY19. While significant increase in sugar cane prices and lower recovery ratio is expected to impact profitability of sugar produced in the ongoing year, overall profitability for MY20 is expected to improve given the sizeable carryover stock from the preceding year, expected increase in profitability of the MDFB segment and sizeable revenues from sale of molasses and bagasse.

Liquidity

Fund From Operations (FFO) (MY19: Rs. 201.2m; MY18: Rs. -213.1m) of the company has improved during the outgoing year on account of improvement in profitability. Overall liquidity profile of the company has room for improvement in view of limited cash flows in relation to outstanding obligations and weak debt service coverage ratio (MY19: 0.6x; MY18: 0.2x). ASML's current ratio has marginally improved to 1.1x (MY18: 1.0x) at end-MY19. Inventory and trade debts provide adequate coverage for short-term borrowing.

Capitalization

Equity base (excluding revaluation) of the company stood at Rs. 1.7b (MY18: 1.5b) at end-MY19. Growth in equity base was due to profit retention during the outgoing year. ANL's total debt was reported at Rs. 4.4b (MY18: 4.6b) at end-MY19. More than three-fourth of the total debt is long-term debt mobilized for BMR, while the remaining debt comprises short term borrowing to meet the working capital needs. While declining on a timeline basis leverage indicators continue to remain on the higher side; gearing and leverage ratio stood at 2.6x (MY18: 3.1x) and 3.6x (MY18: 4.4x) at end-MY19. Going forward, leverage indicators are expected to gradually improve on account of debt repayments and growth in equity base due to internal capital generation.

Financial Summary (amounts in PKR millions)				Appendix I
	MY17	MY18	MY19	Q120
BALANCE SHEET				
Property Plant and Equipment	4,417.5	4,841.7	4,771.5	4,750.6
Other non-current assets	273.6	532.3	698.2	746.6
Stock-in-Trade	3,928.2	2,219.5	2,153.0	1,547.6
Trade Debts	205.3	374.4	506.8	534.6
Cash & Bank Balances	129.2	92.5	93.2	293.0
Total Assets	9,520.2	9,441.6	9,253.7	8,972.1
Trade and Other Payables	630.9	1,388.4	1,113.6	1,574.2
Long Term Debt (including current maturity)	2,477.4	2,699.0	2,901.7	2,970.0
Short Term Debt	3,189.7	1,931.3	1,529.2	720.3
Total Debt	5,667.2	4,630.3	4,431.0	3,690.3
Total Liabilities	6,920.2	6,439.9	6,122.5	5,784.8
Paid Up-Capital	204.7	204.7	204.7	204.7
Total Equity (without surplus revaluation)	1,541.6	1,473.7	1,701.9	1,774.3
INCOME STATEMENT				
Net Sales	6,895.7	9,080.9	9,340.0	3,157.8
Gross Profit	705.1	(652.6)	1,167.1	363.2
Profit Before Tax	(126.8)	(243.3)	456.9	102.4
Profit After Tax	(30.3)	(120.8)	189.3	56.1
RATIO ANALYSIS				
Gross Margin (%)	10.2%	-7.2%	12.5%	11.5%
Net Profit Margin	-0.4%	-1.3%	2.0%	1.8%
Current ratio	1.2	1.0	1.1	1.2
Net Working Capital	651.6	86.3	259.3	627.0
FFO (Annualised for Q120)	34.8	(213.1)	201.2	81.4
FFO to Total Debt (%)	0.6%	-4.6%	4.5%	2.2%
FFO to Long Term Debt (%)	1.4%	-7.9%	6.9%	2.7%
Debt Servicing Coverage Ratio (x)	0.5	0.2	0.6	0.5
ROAA (%)	-0.4%	-1.3%	2.0%	2.5%
ROAE (%)	-1.9%	-8.0%	11.9%	12.9%
Gearing (x)	3.7	3.1	2.6	2.1
Leverage (x)	4.5	4.4	3.6	3.3

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: 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	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				
03/30/2020	A-	Stable	A-2	Reaffirmed
02/27/2019	A-	Stable	A-2	Reaffirmed
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
08/27/2012	A-	Stable	A-2	Reaffirmed

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
1	Mr. Mumtaz Hussain	General Manager Finance	23/01/2020