# RATING REPORT

# Al-Noor Sugar Mills Limited

**REPORT DATE:**
June 30, 2021

**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 Action** | Reaffirmed | | Reaffirmed | |
| **Rating Date** | *June 30, 2021* | | *March 30, 2020* | |

| COMPANY INFORMATION | |
|---|---|
| Incorporated in 1969 | External auditors: Kreston Hyder Bhimji & Co. Chartered Accountants. |
| Public Limited Company | Chairman of the Board: Mr. Zia Zakaria<br>Chief Executive Officer: Mr. Yusuf Ayoob |
| **Key Shareholders (with stake 5% or more):** | |
| CDC – Trustee National Investment Trust Fund – 9.27%<br>Noori Trading Corporation (Private) Limited – 9.16% | |

| APPLICABLE METHODOLOGY(IES) |
|---|
| **VIS Entity Rating Criteria: Corporates (May 2019)**<br>***https://www.vis.com.pk/kc-meth.aspx*** |

# Al-Noor Sugar Mills Limited

## OVERVIEW OF THE INSTITUTION

Al-Noor Sugar Mills Limited was incorporated in 1969 as a part of 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. The company is listed on the Pakistan Stock Exchange.

## RATING RATIONALE

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

**<u>Capacity Utilization</u>**

**Sugar Division**

The company's installed sugarcane crushing capacity stands at 14,500 MT per day. Actual crushing capacity was 1.29m MT (MY20: 1.42m MT) as the mill operated for 89 days (MY20: 98 days) during MY21. Due to availability constrained, the mill crushed 677,781 MT (MY20: 769,428 MT) of sugarcane during the crushing season of MY21. Resultantly, the company produced 68,623 MT (MY20: 74,665 MT) of sugar during the season as the impact of lower crushing was partially offset by improvement in sucrose recovery rate to 10.12% (MY20: 9.71%) on account of better quality of sugarcane.

| | MY20 | MY21 |
|---|---|---|
| **Crushing Capacity MTPD** | 14,500 | 14,500 |
| **No. of days Mill Operated** | 98 | 89 |
| **Capacity based on Operating Days** | 1,421,000 | 1,290,500 |
| **Actual Crushing (MT)** | 769,428 | 677,781 |
| **Capacity Utilization** | 54.15% | 52.52% |
| **Sugar Produced (MT)** | 74,665 | 68,623 |
| **Recovery Rate** | 9.71% | 10.12% |

**Medium Density Fiber Board (MDFB) Division**

The MDFB division operates through 2 production lines, namely Mande Line and Sunds Line. Cumulative production capacity of MDFB stands around 242 cubic meter per day. During HY21, Mande Line operated at a capacity utilization factor of 95% (MY20: 98.6%) while Sunds Line operated at 108% (MY20: 100.6%), with total production amounting to 44,764 cubic meter (MY20: 71,280 cubic meter). Going forward, the company is considering to enhance the production capacity of Sunds line from 120 cubic meter per day to 400 cubic meter per day. The initial cost estimate is Rs. 2.0b – Rs. 3.0b that would be funded through a mix of debt and equity.

| MDF Division | MY20 | HY21 |
|---|---|---|
| ***<u>Mande Line:</u>*** | | |
| **Days in Operation** | 260 | 182 |
| **Capacity per day (Cubic meter)** | 120 | 120 |
| **Total Capacity Cubic meter** | 31,200 | 21,840 |
| **Actual Production Cubic meter** | 30,778 | 20,762 |
| **Capacity Utilization** | 98.6% | 95.06% |
| ***<u>Sunds Line:</u>*** | | |
| **Days in Operation** | 330 | 182 |
| **Capacity per day (Cubic meter)** | 122 | 122 |
| **Total Capacity** | 40,260 | 22,204 |
| **Actual Production** | 40,502 | 24,002 |
| **Capacity Utilization** | 100.6% | 108.1% |
| ***<u>Total:</u>*** | | |
| **Capacity** | 71,460 | 44,044 |
| **Production** | 71,280 | 44,764 |
| **Utilization** | 99.7% | 101.6% |

**Power Generation**

Power requirement of ASML is met through internal generation. Out of the total generation of 18 MW, 10 MW is utilized for sugar production, 3.5 MW for MDFB production while the remaining power generated is sold to the Sukkur Electric Supply Company (SESC). Given expiry of 10-year supply agreement with SESC, the company has submitted a revised proposal to NEPRA with the consent of SESC for which NEPRA's approval is awaited.

**Business Risk**

Risk profile of sugar sector is considered high given inherent cyclicality in the crop levels and raw material prices. Moreover, distortion in pricing mechanism of raw material prices and refined sugar also creates challenge for sugar mills. Typically, sugarcane production has a 3-to-5 year cycle, driven largely by government support for farmers and crop yield. Sugarcane production has increased by 22% to 81m MT on account of increase in area under cultivation and improvement in crop yield during MY21. Based on around 68% crushing and an average recovery rate of 10.2%, the sector has produced 5.62m MT of sugar in MY21. Meanwhile, sugar demand is projected at 5.9m MT for the period. While narrow demand and supply dynamics may lead to high sugar prices, government may intervene by importing sugar in order to control prices. Meanwhile, margins may also be curtailed by increasing trend in sugarcane prices. During MY21, sugarcane procurement prices have been recorded as higher against the minimum support price of Rs. 202 per mound. However, sector's risk profile draws support from diversification into distillery, power and steel segments.

**Increase in asset base mainly led by higher inventory levels due to seasonality factor.**

Asset base of the company stood higher at Rs. 12.3b (MY20: Rs. 8.7b) with non-current assets representing 46% (MY20: 65%) of overall mix at end-HY21. Property, plant and machinery remained stable at 4.9b (MY20: Rs. 4.9b) as the depreciation impact was offset by routine balancing, replacement, and modernization capex of Rs. 122m (MY20: Rs. 425m). Investment in associated concerns amounted to Rs. 729m (MY20: Rs. 748m) with 15.6% stake in Shahmurad Sugar Mills Ltd. (SSML) and 14.3% stake in Al-Noor Modaraba Management (Pvt.) Limited. The company received share of profit from SSML amounting to Rs. 20m (MY20: Rs. 119m) and dividend of Rs. 40m (MY20: Rs. 56m) during HY21.

Stock in trade increased considerably to Rs. 4.5b (MY20: Rs. 1.2b) mainly due to seasonality effect; majorly pertained to sugar inventory (around 85%) and MDFB sheets (10%). Trade debts amounted to Rs. 538m (MY20: Rs. 462m) representing 6% (MY20: 2%) of annualized revenue at end-HY21. Sugar is sold on cash/advance payment terms while a credit period of 30 days – 60 days is allowed to MDFB customers. Loans and advances against purchases and sugarcane growers amounted to Rs. 98m (MY20: Rs. 71m) and deposits and prepayment amounted to Rs. 21m (MY20: Rs. 10m). Other receivables remained largely stable at Rs. 333m (MY20: Rs. 336m) with export subsidy being the major component (90%) at end-HY21. Income tax receivable increased slightly to Rs. 181m (MY20: Rs. 154m). The company held cash and bank balance of Rs. 557m (MY20: Rs. 387m) at end-HY21.

**Profitability supported by higher revenue and improving margins**

Revenue of the company increased by 17% to 10.9b (MY19: Rs. 9.3b), emanating from both sugar and MDFB divisions during MY20. Revenue mix remained largely stable with sugar division accounting for 56% (MY19: 55%) of the top-line in MY20. Revenue from sugar division increased to Rs. 6.1b (MY19: Rs. 5.1b) as the impact of slight decrease in volumetric sales of 97,088 MT (MY19: 99,424) was more than offset by higher average selling price of Rs. 63.2 per kg (MY19: Rs. 51.5 per kg). Revenue from MDFB division also increased to Rs. 4.8b (MY19: Rs. 4.2b) on account of higher average selling price of Rs. 45,966 per cubic meter (MY19: Rs. 40,255 per cubic meter), partially offset by marginally lower volumetric sales of 104,063 cubic meter (MY19: 104,993 cubic meter) during MY20.

Cost of sales increased to Rs. 9.2b (MY19: Rs. 8.2b) mainly on account of higher average sugarcane procurement price of Rs. 230 per mound) vis-à-vis the minimum support price of Rs. 192 per mound for MY20. Gross profit increased to Rs. 1.7b (MY19: Rs. 1.2b) due to a combination of higher sales and notable improvement in gross margins. Gross margins were recorded higher at 15.5% (MY19: 12.5%) mainly on account of improvement in sucrose recovery rate, 23% increase in sugar price, and 14% increase in MDFB price. Increase in operational expenses was mainly manifested in staff related expenses and impairment allowance for receivables against export subsidy amounted to Rs. 103m (MY19: nil).

During MY20, the company recorded other income of Rs. 20m compared to the preceding year income which stood higher at Rs. 297m due to reversal of provision of sugarcane cost. Meanwhile, share of profit from associate (SSML) was recorded at Rs. 119m (MY19: Rs. 188m). Financial charges incurred by the company amounted to Rs. 555m (MY19: Rs. 496m). Accounting for taxation, the company reported net profit of Rs. 202m (MY19: Rs. 189m) with net margins of 1.9% (MY19: 2.0%).

Revenue of the company amounted to Rs. 4.5b (HY20: Rs. 4.7b) during HY21 as the impact of decrease in sugar division revenue to Rs. 1.4b (HY20: Rs. 2.2b) due to lower dispatches was partially offset by favorable sugar price coupled with increase in MDFB division revenue to Rs. 3.1b (HY20: Rs. 2.5b) owing to higher volumes and price. Gross profit increased to Rs. 828m (HY20: Rs. 607m) driven by improvement in gross margins to 18.5% (HY20: 13.0%) due to higher selling price of both sugar and MDFB. The company incurred operational expenses of Rs. 398m. Other income amounted to Rs. 21m while finance cost amounted to Rs. 181m during HY21. Accounting for taxation, net profit was reported at Rs. 134m with improved net margin of 3.0%.

**Liquidity profile has improved in line with profits; there is room for improvement in coverages**
Liquidity profile of the company has exhibited improvement over the review period. In line with the profitability, funds from operations (FFO) increased to Rs. 501m (MY19: Rs. 201m) in MY20. FFO amounted to Rs. 329m in HY21. The company's repayment capacity deems adequate with debt service coverage ratio of 1.2x (MY20: 0.91x) and FFO-to-total debt of 0.12x (MY20: 0.14x) in HY21; there is room for improvement. The current ratio decreased to 1.1x (MY20: 1.36x). Inventory and trade debt provide adequate coverage for short-term borrowing as reflected in ratio of 1.84x (MY20: 4.09x) at end-HY21.

**Leverage indicators continue to remain on the higher side**
Paid up capital of the company remained unchanged at Rs. 250m at end-HY21. Tier-1 equity (excluding revaluation) increased to Rs. 2.0b (MY20: Rs. 1.9b) with partial retention of profits on account of dividend payment. Revaluation surplus amounted to Rs. 1.3b (MY20: Rs. 1.4b) at end-HY21. Increase in total liabilities to Rs. 9.0b (MY20: Rs. 5.4b) was led by higher trade & payables of Rs. 2.7b (MY20: Rs. 1.4b), which mainly pertained to payables to sugarcane growers and advances from customers against sugar, and increased utilization of short-term borrowings to finance the elevated working requirements due to seasonality factor. Long-term borrowings decreased to Rs. 2.9b (MY20: Rs. 3.1b) by end-HY21 on account of scheduled repayment of Rs. 252m (MY20: Rs. 617m) exceeding the fresh debt mobilization of Rs. 29m (MY20: Rs. 800m). During MY20, the company mobilized two new long-term facilities of Rs. 500m for a tenor of five and a half years with a grace period of 18 months at markup rate of 3-month KIBOR plus 1.6% and Rs. 300m for a tenor of 12 years with a grace period of 2 years at SBP rate plus 1.5%. With the increase in overall debt levels, gearing and debt leverage of the company was recorded higher at 2.78x (MY20: 1.84x) and 4.47x (MY20: 2.85x) at end-HY21. With lower expected working capital requirements by end-MY21, leverage indicators are expected to decrease from the current levels, though are expected to remain high.

## Al-Noor Sugar Mills Limited Annexure I

| FINANCIAL SUMMARY *(amounts in PKR millions)* | | | |
|---|---|---|---|
| **BALANCE SHEET** | **MY19** | **MY20** | **HY21** |
| Property, Plant & Equipment | 4,771 | 4,925 | 4,906 |
| Long-term Investment | 685 | 748 | 729 |
| Stock-in-Trade | 2,153 | 1,181 | 4,462 |
| Trade Debts | 507 | 462 | 538 |
| Store, Spare and Loos Tools | 362 | 425 | 495 |
| Other Receivables | 440 | 336 | 333 |
| Cash & Bank Balances | 93 | 387 | 557 |
| Other Assets | 242 | 244 | 309 |
| Total Assets | **9,254** | **8,707** | **12,329** |
| Trade and Other Payables | 1,114 | 1,356 | 2,718 |
| Short-Term Borrowings | 1,529 | 402 | 2,723 |
| Long-Term Borrowings *(Inc. current matur)* | 2,902 | 3,107 | 2,875 |
| Other Liabilities | 578 | 569 | 668 |
| Total Liabilities | 6,123 | 5,434 | 8,984 |
| Tier-1 Equity | **1,702** | **1,908** | **2,011** |
| Total Equity | 3,131 | 3,272 | 3,345 |
| Paid up Capital | 205 | 205 | 205 |
| | | | |
| **INCOME STATEMENT** | **MY19** | **MY20** | **HY21** |
| Net Sales | 9,340 | 10,907 | 4,482 |
| Gross Profit | 1,167 | 1,692 | 828 |
| Operating Profit | 765 | 866 | 451 |
| Profit Before Tax | 457 | 430 | 291 |
| Profit After Tax | 189 | 202 | 134 |
| FFO | 201 | 501 | 329 |
| | | | |
| **RATIO ANALYSIS** | **MY19** | **MY20** | **HY21** |
| Gross Margin (%) | 12.5 | 15.5 | 18.5 |
| Net Margin (%) | 2.0 | 1.9 | 3.0 |
| Current Ratio | 1.1 | 1.4 | 1.1 |
| Net Working Capital | 259 | 797 | 629 |
| FFO to Long-Term Debt | 0.07 | 0.16 | 0.23* |
| FFO to Total Debt | 0.05 | 0.14 | 0.12* |
| Debt Servicing Coverage Ratio (x) | 0.62 | 0.91 | 1.19 |
| Gearing (x) | 2.60 | 1.84 | 2.78 |
| Debt Leverage (x) | 3.60 | 2.85 | 4.47 |
| Inventory + Receivable/Short-term Borrowings (x) | 1.74 | 4.09 | 1.84 |

**Annualized*

## ISSUE/ISSUER RATING SCALE & DEFINITIONS Annexure II

**VIS Credit Rating Company Limited**

### RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

**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 — Annexure III

| | |
|---|---|
| **Name of Rated Entity** | Al-Noor Sugar Mills Limited |
| **Sector** | Sugar |
| **Type of Relationship** | Solicited |
| **Purpose of Rating** | Entity Ratings |

**Rating History**

| Rating Date | Medium to Long Term | Short Term | Rating Outlook | Rating Action |
|---|---|---|---|---|
| **RATING TYPE: ENTITY** | | | | |
| 06/30/2021 | A- | A-2 | Stable | Reaffirmed |
| 03/30/2020 | A- | A-2 | Stable | Reaffirmed |
| 02/27/2019 | A- | A-2 | Stable | Reaffirmed |
| 11/30/2017 | A- | A-2 | Stable | Reaffirmed |
| 04/27/2016 | A- | A-2 | Stable | Reaffirmed |
| 12/31/2014 | A- | A-2 | Stable | Reaffirmed |
| 11/25/2013 | A- | A-2 | Stable | Reaffirmed |
| 08-27-2012 | A- | A-2 | Stable | 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 Meeting Conducted**

| Name | Designation | Date |
|---|---|---|
| Mr. Mumtaz Hussain | CFO | May 06, 2021 |