RATING REPORT

Al-Noor Sugar Mills Limited

REPORT DATE:
June 06, 2022

RATING ANALYSTS:
Maham Qasim
maham.qasim@vis.com.pk

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 06, 2022*		*June 30, 2021*	

COMPANY INFORMATION

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

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Corporates (August 2021)
https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf

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

The ratings assigned to Al-Noor Sugar Mills Limited (ASML) take into account the company's association with Al-Noor Group (ANG) having business interests in sugar, ethanol, medium density fiber, modaraba and insurance. Business risk profile of sugar sector is high given inherent cyclicality in crop levels and raw material prices along with any adverse changes in regulatory duties. However, given the projected higher crop coverage area and yields, the balance of raw material demand supply dynamics is expected to remain manageable. The ratings further take note of developments with regards to penalties imposed by CCP on certain sugar mills and legal proceedings for interim relief initiated by the subject company. However, in the meanwhile, uncertainty of the outcome would persist on the sector. The material impact of penalty imposed (amounting to Rs. 517m) on ASML will be significant therefore VIS will continue to monitor further development in this matter. Furthermore, any negative decision by the court of law will be incorporated in the rating action accordingly.

The ratings incorporate extensive sponsors experience in the sugar sector, satisfactory operating track records and financial flexibility in view of diversified revenue stream. Revenue of the company was impacted by decrease in sugar division sales due to lower dispatches with higher selling price, partially offset by increase in medium density fiber board (MDFB) sales during the outgoing year. Despite increase in sugarcane procurement price, gross margins improved in line with improvement in sucrose recovery rate, increase in selling prices for both sugar and MDFB coupled with rationalization of financial expense borne by the company in line with reduction in benchmark rates. The ratings draw strength from adequate liquidity position underpinned by healthy cash flows in relation to outstanding obligations during the outgoing year. Capitalization indicators were largely maintained; however, the same continue to remain on a higher side in comparison to industry averages. Further, given there are no extensive capex plans in prospective, leverage indicators are expected to improve during the rating horizon due to equity expansion on the back of profit retention. Going forward, the growth in topline would be largely driven by enhanced operations as there is room for improvement in capacity utilization indicators in sugar segment; the same will strengthen overall risk profile of the company. The ratings will remain sensitive to maintenance of capitalization and liquidity profiles at acceptable levels while improving coverages, going forward.

Business Risk & Sector Update: Pakistan is the world's fifth largest producer of sugarcane, the sixth largest producer of cane sugar and the eighth largest consumer of sugar. Sugarcane production accounts for 3.4% in agriculture's value addition and 0.7% in the country's GDP. Sugarcane is grown on approximately 1.2 million hectares and provides the raw material for 90 sugar mills. The increase in area under cultivation was mainly on account of favorable weather conditions and higher economic returns. The sugar industry is the country's second largest agriculture-based industry after textiles. The business risk profile of sugar sector is considered high given inherent cyclicality in the crop yields and raw material prices. Moreover, there is notable disparity in pricing mechanism where major input cost, sugarcane support price, is regulated by the government while the price of end-product, granulated sugar, is determined by the equilibrium of demand and supply forces. Typically, sugarcane crop has production cycle of 3-to-5 years, driven largely by government support for farmers and crop yield.

Total sugarcane cultivation area for 2021-22 is 1,271K hectares around 9% higher than the previous year, while sugarcane production for the year is projected at 84,800K tons which is approximately 11% higher than the last year production of 76,360K tons. According to United States Department of Agriculture (USDA) semi-annual report of 28th Sep'21, sugar production in 2021-22 is forecasted at 6.7 million tons, around 11% higher than the current years' estimate of 6.0 million tons while sugar consumption, is expected to rise to 5.9 million tons (MY21: 5.8m MT). However, despite sufficient supply, sugar prices witnessed an increasing trend over the last three years with prices in Sep'21 recorded 92% higher than the prevailing prices in Oct'18. To control prices, Government of Pakistan (GoP) imported more than 350,000 tons of sugar in 2020-21. The increase in sugar production is expected to drive closing stocks to 2.8 million tons by end-MY22. Given current scenario of higher production, the imports allowed to build stocks to cater to exponential price increase are now discontinued. Resultantly, average sugar prices in MY21 are expected to remain lower than the previous year.

During MY21, sugarcane procurement prices have been recorded as high as Rs. 350 per mound in Punjab and Rs. 275 per mound in Sindh against the minimum support price of Rs. 200 per mound and Rs. 202 per mound in respective provinces. Punjab sugar mills commenced their crushing season MY22 on November 15, 2021, which is currently underway. For the ongoing crushing season 2021-22, notified prices of sugarcane were revised to Rs. 225 per 40 Kg in Punjab and Rs. 250 per 40 Kg in Sindh. Even after substantial increase in support prices by the Provincial Governments, the industry is procuring sugarcane at higher rates. However, as per management, due to higher crop yield, the premium paid above support prices is relatively lower than the previous season. Further, sucrose recovery rates are also expected to remain at around current levels with no further decline expected in the medium term.

As per the latest USDA report issued on 15th Mar'22, sugar production in 2022/23 is forecasted to reach 7.2m MT, a marginal increase over the good 2021/22 crop, due to slight increase in area and sugarcane yields. Similarly, sugar consumption is expected to increase by around 3% to 6.1m MT for 2022/23 on account of population growth and demand from the expanding food processing sector. As a result, ending stocks are expected to be higher leading to a larger exportable surplus entering 2022/23; the same is projected to result in sugar exports of one million tons in 2022/23. However, sector's risk profile draws support from ASNL's diversification into MDF and power segments.

Regulatory Matter involving penalty imposed by Competition Commission of Pakistan (CCP): The ratings have incorporated the developments with regards to penalties imposed by CCP on certain sugar mills and legal proceedings for interim relief initiated by the subject company. However, in the meanwhile, uncertainty of the outcome would persist on the sector. The material impact of penalty imposed, amounting to Rs. 517m on ASML will be significant and hence VIS will continue to monitor further development in this matter.

Capacity Utilization & Production Update

Sugar Division

Production capacity remained unchanged at 14,500 tpd. The mill was operational for 102 days during 2021-22 season (2021-2020: 89 days; 2020-19: 98 days) and crushed 887.3K MT (2020-2021: 667.8K MT; 2019-20: 769.4K MT tons;) of sugarcane leading to improved capacity utilization of 60.0% (2020-2021: 52.5%; 2019-20: 54.1%) during the ongoing year. Along with higher operational days coupled with improved sucrose recovery to 10.4% (2021-2020: 10.1%; 2019-20: 9.7%) during the outgoing season owing to higher proportion of variety cane in total cane crushed and late crushing season, the sugar produced increased sizably 91,300 MT (2020-2021: 68,623; 2019-20: 74,665 MT;) by end-MY22. As per the management, the recovery is gradually improving in line with variety-cane development being carried out at company's 200-acre farming facility. As a result, during FY22 crushing season, the sucrose recovery even touched highest recovery at 12.1%. The sugar production statistics are presented in the table below:

	MY20	MY21	MY22
Crushing Capacity MTPD	14,500	14,500	14,500
No. of days Mill Operated	98	89	102
Capacity based on Operating Days	1,421,000	1,290,500	1,479,000
Actual Crushing (MT)	769,428	677,781	887,272
Capacity Utilization	54.15%	52.52%	60.0%
Sugar Produced (MT)	74,665	68,623	91,300
Sucrose Recovery Rate	9.71%	10.12%	10.38%
Molasses Recovery Rate	4.55%	4.54%	4.54%

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 1QFY22, Mande Line operated at a capacity utilization factor of 125.9% (MY21: 111.5%; MY20: 98.6%) while Sunds Line operated at 113.2% (MY21: 113.1%; FY20: 100.6%) during 1QFY22. The capacity utilization for MY21 was higher at 112.3% (MY20: 99.7%) therefore total production increased to 86,494 cubic meters (MY20: 71,280 cubic meters) during MY21. Moreover, given the capacity utilization has exhibited an increasing trend in the ongoing year as well, the management plans to enhance the production capacity of Sunds line from 120 cubic meter per day to 400 cubic meter per day; however, the timeline for the same has not been finalized yet. 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	MY21	1QFY22
Mande Line:			
Days in Operation	260	301	77
Capacity per day (Cubic meter)	120	120	120
Total Capacity Cubic meter	31,200	36,120	9,240
Actual Production Cubic meter	30,778	40,259	11,629
Capacity Utilization	98.6%	111.5%	125.9%
Sunds Line:			
Days in Operation	330	335	79
Capacity per day (Cubic meter)	122	122	122
Total Capacity	40,260	40,870	9,638
Actual Production	40,502	46,235	10,912
Capacity Utilization	100.6%	113.1%	113.2%
Total:			
Capacity	71,460	76,990	18,878
Production	71,280	86,494	22,541
Utilization	99.7%	112.3%	119.4%

Power Generation:

Power requirement of ASML is met through internal generation. Out of the total generation of 22 MW, 10 MW is utilized for sugar production and 5.0 MW for MDFB production. Given expiry of 10-year supply agreement with Sukkar Electric Supply Company (SESC), there was no sale of electricity during this rating review period. The proposal for sale of electricity which was already submitted to National Electric Power Regulatory Authority (NEPRA) in the outgoing year has been approved for 8MW electricity sale to SESC; the agreement in this regard has been signed for upcoming crushing season. Further, the company has also set up solar power unit of 6 MW during Oct'21 which is at least expected to meet one quarter of the company's power requirement; the same is projected to positively reflect on ASML's margins during FY22.

Profitability intact despite dip in quantum sales of sugar

Despite significant increase in average price of sugar to 78,777/MT (MY20: 63,187/MT), ASML's revenue from the sugar segment was recorded lower at Rs. 5.1b (MY20: Rs. 6.1b) owing to sizable decline in volumetric sale of sugar to 64,388 MT (MY20: 97,088 MT) during MY21. The decline in sugar segment's sale was majorly offset by increase in revenue of MDF segment to Rs. 5.7b (MY20: Rs. 4.8b); the increase in MDF's revenue was a combined outcome of volumetric increase to 110,893 cubic meters (MY20: 104,063 cubic meters) coupled with increase in price to Rs. 51,606/ cubic meter (MY20: Rs. 45,966/cubic meter) during MY21. Subsequently, revenue mix exhibited slight change as the contribution of the sugar segment declined to 47% (MY20: 56%) of the top-line in MY21. The export revenue of Rs. 721.6m (MY20: Rs. 2.0b) during the outgoing year was solely on account of sale of MDF sheets as no export sale of sugar was made in MY21. As per the management, in line with improved crop yield leading to higher projected sugar production for FY22-23 along with higher carryover stocks the sugar prices are expected to slightly slide by Rs. 3-5/kg for the next season. On the other hand, molasses prices are expected to remain intact in the short to medium-term given its sustained demand for ethanol.

The average procurement cost of sugarcane increased to Rs. 295/maund vis-à-vis Rs. 265/maund in the previous year, the same represented the major chunk constituting around 82% (MY20: 81%) of the total manufacturing cost for MY21. On the other hand, despite higher sugarcane procurement cost, the gross margins of the company slightly improved to 15.8% (MY20: 15.5%) owing to increase in retail prices of sugar, higher sucrose recovery, improvement in capacity utilization indicators which lead to better absorption of fixed cost components of cost of sales and increased contribution of MDF segment entailing relatively higher margins than sugar segment to total revenues.

The distribution cost increased to Rs. 68.5m (MY20: 61.4m) during MY21 on account of increase in sales promotion expenses; the same were increased in order to keep the market share of the company intact. Further, administrative expenses increased to Rs. 662.4m (MY20: Rs. 611.2m) despite decrease in revenue mainly as result of increase in employee related expenses stemming from inflationary pressure on salaries along with increase in average number of employees to 813 (MY20: 800) during MY21. Further, other expenses also stood higher at Rs. 195.1m (MY20: Rs. 174.1m) owing to impairment allowance for receivable against export subsidy amounting to Rs. 148.2m (MY20: Rs. 103.3m) due from federal government booked during the outgoing year. The company is continuously pursuing for the recovery of these export subsidies and cane development cess. However, due to uncertainty pertaining to timing and extent of their realization, ASML as a matter of prudence, has recorded impairment allowance based on the management estimates. The other income was reported higher at Rs. 40.2m (MY20: Rs. 20.3m) during MY21 in line with higher profit reaped on bank placements. On the contrary, the finance cost was rationalized to Rs. 389.5m (MY20: Rs. 554.8m) despite increase in quantum of total borrowings of the company owing to sharp dip in benchmark interest rates during the period under review. Meanwhile, share of profit from associate (SSML) was recorded significantly lower at Rs. 21.0m (MY20: Rs. 118.5m) during the outgoing year. Further, despite slight dent to topline, ASML reported nominally higher profit of Rs. 210.1m (MY20: Rs. 202.5m) during MY21 as a result of enhanced margins and curtailment of interest expense.

Going forward, the management projects to close MY22 with a topline of Rs. 14.3b with expected contribution from sugar and MDF segment to be recorded at Rs. 7.8b and Rs. 6.5b respectively. The company booked net revenue of Rs. 2.8b by end-1QMY22 with equal contribution of Rs. 1.4b from both segments; however, given cyclicality is vested in the sugar sector with first half of the year associated with procurement and crushing, the same is not considered a true reflective of the revenue position. Further, the gross margins were also recorded lower at 13.4% during 1QMY22 owing to early crushing season start, low sucrose recovery and high sugarcane cane support price decided. For the current crushing season the Government of Sindh notified price of sugarcane at Rs. 250/maund whereas the same was Rs.202/maund during the previous year. Subsequently, the raw material cost has increased considerably as the growers are reluctant to sell their produce even at the notified price therefore the company has no option but to purchase raw material at higher cost. In addition to the higher cost of raw material, further transportation expense has to be incurred as the material is being procured from far areas in order to run the mill economically without interruption. The sucrose recovery percentage was recorded at 9.54% by end-1QMY22 as opposed to 9.39% achieved during the corresponding period last year. Going forward, the margins are expected to return to MY21's level on account of increase in recovery level as the crushing season progresses coupled with cost rationalization from installation of solar power unit. The company incurred operational expenses of Rs. 219.5m as opposed to Rs. 197.3m in the concerned quarter of MY20. Accounting for taxation, net profit was reported at Rs. 42.5m with net margin of 1.5% during 1QMY22.

Improvement in liquidity and debt coverage profile during MY21; the same shows reversal in the ongoing year however the same is not an accurate representation of the company's performance as sugar sector is marked by cyclicality: Liquidity position of the company has improved during the outgoing year on account of sizable cash flows in relation to outstanding obligations and adequate debt service capacity. Despite reduction in topline, Funds from Operations (FFO) exhibited considerable improvement to Rs. 681.4m (FY20: Rs. 500.8m) in line with improvement in margins and lower financial expense borne during MY21. The sizable improvement in the liquidity profile can be assessed from the fact that the FFO for MY21 is higher than the FFO for the last five years. Although, there has been an increase in total borrowings during the outgoing year, FFO in terms of outstanding obligations was sizable and showcased an improving trend with FFO to total debt and

FFO to long-term debt recorded higher at 0.17x (MY21: 0.14x) and 0.25x (MY20: 0.16x) respectively at end-MY21. Similarly, debt service coverage also exhibited improving trend and was also adequate at 1.28x (MY20:0.91x) at end-FY21. On the other hand, the liquidity profile witnessed a compromised position at end-1QMY22 with FFO to total debt recorded lower at 0.10x and DSCR reported less than 1.0x; however, the same is not a true reflective of company's credit repayment capacity as sugar sector is highly cyclical therefore profitability and liquidity profile at end of first half of the accounting year is considerably downplayed. Going forward, according to the management, cash flows in terms of obligations are expected to remain intact as of MY21's position on account of maintenance of market share, projected increase in revenues and efficiency improvements in the operational process.

Further, stock in trade increased by end-1QFY22; the same largely comprises finished goods inventory owing to cyclicality of sugar sector where highest finished goods inventory buildup is seen by end-March which coincides with the end of the crushing season. Post-March as soon as sales gain momentum, the inventory levels begin to decline. Sugar is sold on cash/advance payment terms while a credit period of 30 days – 60 days is allowed to MDFB customers. In line with the business model of the company involving sugar sale made on cash basis trade debts have remained on a lower side. Although all trade debts are unsecured in nature the same are considered good by the management. In addition, the aging of receivables is considered sound given the three-fourths of the receivables at end-FY21 and end-1QFY22 pertained to overdue up to six months bracket therefore the probability of recovery of the receivables is on the higher side. On the other hand, ASML booked expected credit loss provision of Rs. 7.9m (MY20; Rs. 6.9m) during the outgoing year. Loans and advances increased on a timeline basis to Rs. 136.6m (MY21: 121.8m; MY20: 71.4m) by end-1QFY22; the same mainly constitute advances extended to suppliers for procurement of sugarcane. The company has been providing unsecured and interest free loans to growers in order to assist them in purchasing seeds, fertilizers and pesticides. Further, other receivables declined on a timeline basis to Rs. 181.9m (MY21: Rs. 184.2m; MY20: Rs. 335.9m) by end-1QFY22; the decrease was manifested in export subsidy receivable from the government in line with impairment allowance booked on the same. Balance outstanding with statutory authorities constituting advance income tax and sales tax refundable increased to Rs. 241.7m (MY21: Rs. 213.6m; FY20: Rs. 153.6m) at end-1QFY22. The liquidity profile of the company is slightly impacted with aforementioned capital stuck with the government; however, it is an exogenous factor and inherent in the sugar sector therefore rectification of the same is beyond the control of the company.

Trade and other payables were recorded at Rs. 1.5b (MY21: Rs. 946.4m; MY20: Rs. 1.4b) at end-1QFY22 mainly due to increase in trade creditors including suppliers arising from normal course of the business. The current ratio of the company declined on a timeline basis to 1.19x (MY21: 1.15x; MY20: 1.4x) at end-1QMY22 primarily on account of substantial increase in short-term borrowings during the period under review. Meanwhile, coverage of short-term borrowings via stock in trade and trade debts also decreased on a timeline, albeit comfortable, to 2.28x (MY21: 1.66x; MY20: 4.09x) by end-1QMY22. Further, investment in associated concerns amounted to Rs. 743.6m (MY21: Rs. 729.3m; MY20: Rs. 747.8m) 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. 14.2m (MY20: Rs. 21.0m) during 1QMY22 and dividend of Rs. 39.6m (MY20: Rs. 56.1m) during MY21.

Leverage indicators continue to remain on the higher side

Tier-1 equity increased to Rs. 2.2b (MY21: Rs. 2.1b; MY20: Rs. 1.9b) by end-1QMY22 as a result of internal capital generation. Short-term borrowings increased to Rs. 1.1b (MY21: Rs. 1.4b; MY20: Rs. 402.1m) by end-1QMY22 in line with increase in working capital requirements. The sizable increase in short-term funding during the period under review is partially cyclical in nature as the sugar crushing period only lasts for around four months in which maximum stock keeping of final goods takes place; the end of crushing season correlates with the highest working capital requirement period. The short-term funding was recorded highest at end-MY21 as the company procured Murabaha / Istisna facilities from Islamic banks amounting to Rs. 500.0m (MY20: nil) at respective Kibor+0.30% and 6-month kibor+0.50%. The profit is payable with principal amount on the date of maturity of transaction. The short-term lines are secured by pledge and hypothecation facilities; pledge facilities are primarily secured by pledge of sugar and collaterally secured by ranking charge on current assets while hypothecation facilities are secured by 1st pari passu hypothecation charge over plant and machinery. The aggregate limit of Murabaha/Istisna arrangements is up to Rs. 2.1b (MY20: Rs. 600m); the unavailed facility at the end-MY21 amounted to Rs. 1.6b (MY20: Rs. 600m). Long-term borrowing on the other hand exhibited a mixed trend with the same decreasing to Rs. 2.7b (MY20: Rs. 3.1b) by end-MY21 in line with regular periodic repayments made; however, the same increased to Rs. 2.9b at end-1QMY22 in line with capex made of Rs. 98.6m during 1QFY22. The capex pertained to normal balancing, modernization and replacement (BMR) carried out during the rating review period. No new long-term loan was mobilized by the company during MY21 apart from Rs. 49.8m additional disbursement from a DFI; ASML has now utilized the entire limit of the facility (Rs. 350.0m) maturing in FY32. The loan has a tenor of twelve years with a grace period of 2 years and carries a markup charge of SBP rate plus 1.5%. Except for the aforementioned facility, all long-term loans would be fully retired by end-July'25. With increase in equity largely offset by increase in utilization of borrowings, gearing and leverage indicators only improved slightly on a timeline to 1.82x and 2.80x respectively (MY21: 1.92x, 2.68x; MY20: 1.84x, 2.85x) by end-1QMY22. Capital expenditure amounting to only Rs. 450.0m is planned to be incurred on capacity enhancement of sugar division to 16,000 MPTD by end-FY23. The debt to equity contribution for the aforementioned expansion is projected at 20:80 given that ASML's management has formulated a strategy of incurring capex majorly from internally generated capital. Therefore, as the commercial funding proportion is projected to be very nominal, capitalization indicators are expected to improve during the rating horizon in line with equity augmentation.

Al-Noor Sugar Mills Limited — Annexure I

FINANCIAL SUMMARY *(amounts in PKR millions)*				
BALANCE SHEET	**MY19**	**MY20**	**MY21**	**1QMY22**
Property, Plant & Equipment	4,771	4,925	4,850	4,861
Long-term Investment	685	748	729	744
Stock-in-Trade	2,153	1,181	1,871	2,146
Trade Debts	507	462	391	328
Store, Spare and Loos Tools	362	425	492	545
Other Receivables	440	336	184	182
Cash & Bank Balances	93	387	231	345
Total Assets	**9,254**	**8,707**	**9,100**	**9,558**
Trade and Other Payables	1,114	1,356	946	1,465
Short-Term Borrowings	1,529	402	1,365	1,084
Long-Term Borrowings *(Inc. current maturity)*	2,902	3,107	2,709	2,871
Total Liabilities	6,123	5,434	5,679	
Tier-1 Equity	**1,702**	**1,908**	**2,118**	**2,175**
Total Equity	3,131	3,272	3,422	3,464
Paid up Capital	205	205	205	205
INCOME STATEMENT	**MY19**	**MY20**	**MY21**	**1QMY22**
Net Sales	9,340	10,907	10,792	2,784
Gross Profit	1,167	1,692	1,705	374
Operating Profit	765	866	820	160
Profit Before Tax	457	430	451	101
Profit After Tax	189	202	211	43
FFO	201	501	681	99
RATIO ANALYSIS	**MY19**	**MY20**	**MY21**	**1QMY22**
Gross Margin (%)	12.5	15.5	15.8	13.4
Net Margin (%)	2.0	1.9	2.0	1.5
Current Ratio	1.1	1.4	1.15	1.19
Net Working Capital	259	797	445	617
FFO to Long-Term Debt	0.07	0.16	0.25	0.14*
FFO to Total Debt	0.05	0.14	0.17	0.10*
Debt Servicing Coverage Ratio (x)	0.62	0.91	1.28	0.83
Gearing (x)	2.60	1.84	1.92	1.82
Debt Leverage (x)	3.60	2.85	2.68	2.80
Inventory + Receivable/Short-term Borrowings (x)	1.74	4.09	1.66	2.28

**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				
05/06/2022	A-	A-2	Stable	Reaffirmed
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.
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Copyright 2022 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.

Due Diligence Meeting Conducted

Name	Designation	Date
Mr. Mumtaz Hussain	CFO	March 24, 2022