RATING REPORT

Al-Noor Sugar Mills Limited

REPORT DATE:
August 26, 2024

RATING ANALYSTS:
Saeb Muhammad Jafri
saeb.jafri@vis.com.pk

Afifa Khalid
afifa.khalid@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
Outlook/Rating Watch	*Stable*		*Negative*	
Rating Action	Maintained		Maintained	
Rating Date	*August 26, 2024*		*August 23, 2023*	

COMPANY INFORMATION	
Incorporated in 1969	**External auditors:** Kreston Hyder Bhimji & Co. Chartered Accountants.
Public Listed Company	**Chairman of the Board:** Mr. Zia Zakaria **Chief Executive Officer:** Mr. Noor Muhammad Zakaria
Key Shareholders (with stake 5% or more):	
CDC – Trustee National Investment Trust Fund – 9.3% Noori Trading Corporation (Private) Limited – 9.2% Ms. Munifa – 5.1%	

APPLICABLE METHODOLOGY(IES)
***Applicable Rating Criteria: Corporates*:** **https://docs.vis.com.pk/docs/CorporateMethodology.pdf**

APPLICABLE RATING SCALE(S)
VIS Issue/Issuer Rating Scale: **https://docs.vis.com.pk/docs/VISRatingScales.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.*

Profile of CEO:
Mr. *Noor Mohammad Zakaria* *is the Director with over 44 years of diversified Trading and Industrial experience in Sugar and Allied Industries.*

RATING RATIONALE

Company Profile:

Al-Noor Sugar Mills Limited ('ANSML' or 'the Company') is part of Al-Noor Group ('ANG' or 'the Group'). ANSML is primarily engaged in the business of manufacturing and sale of sugar, medium density fiber board (MDFB), and generation of power units which are located at District Shaheed Benazirabad and Noushero Feroze in the Province of Sindh. The sugar mill is situated over an area of 148.05 acres and MDF board division is spread over an area of 57.08 acres.

Group Profile:

Al-Noor Group is involved in the manufacturing of sugar, rice, ethanol, power and board products along with limited presence in the financial sector. Al Noor Sugar Mills Ltd., Reliance Insurance Company Ltd., and Al Noor Modaraba Management operate under the Group.

Business Segments:

Sugar: ANSML operates a sugar mill with a crushing capacity of 14,500 TPD. In 9MFY24, this segment accounted for approximately 64.1% (MY23: 56.1%; MY22: 53.2%) of total gross sales. The increase in sales mix share was attributed to rising local sugar prices along with some exports sales due to export quota allowance from the government.

MDFB: The MDFB division operates through 2 production lines, namely Mande Line and Sunds Line, used for the production of thick and thin fiber sheets respectively. Cumulative production capacity of MDFB stands around 242 cubic meters per day. Revenue from this division accounted for 35.9% (MY23: 43.8%; MY22: 46.8%) of the sales mix. Despite increased demand for MDFB due to re-expansion in the housing sector, reflected into sales growth, the proportion declined on account of the surge in revenue from sugar.

Capacity Utilization and Production Update

Sugar Division: During the crushing season of MY24, the mill's operational performance improved to 116 days (MY23: 95 days; MY22: 112 days) due to the recovery in the sugarcane production and its availability post floods. Consequently, the Company managed to crush a higher amount of sugarcane resulting in improved sugar production. The average sucrose recovery also improved due to better sugarcane quality. Molasses production increased despite slightly lower average recovery rate during MY24. The production statistics are presented in the table below:

	MY21	MY22	MY23	MY24
Crushing Capacity -TCD	14,500	14,500	14,500	14,500
No. of days Mill Operated	89	112	95	116
Capacity based on Operating Days	1,290,500	1,624,000	1,377,500	1,682,000
Actual Crushing (MT)	677,781	940,764	789,713	1,109,983
Capacity Utilization	52.52%	57.93%	57.3%	66%
Sugar Produced (MT)	68,623	98,110	79,575	119,117
Sucrose Recovery Rate	10.1%	10.4%	10.1%	10.7%
Molasses Produced	30,800	43,125	36,100	49,750

Molasses Recovery Rate	4.5%	4.6%	4.6%	4.5%

Medium Density Fiber Board (MDFB) Division: Owing to lower demand for thin sheets, the Company reduced the operating days for the Mande Line, resulting in lower capacity utilization (CU) on a timeline basis, which stood at 57.7% in 3QMY24 (MY23: 61.5%; MY22: 64.0%). The Sunds Line's production capacity has remained largely stable over the years but decreased to 75.1% in 3QMY24 (MY23: 104.0%) due to slightly lower demand. Overall CU for 3QMY24 was 66.5% (MY23: 82.9%), with aggregate sheet output at 53,087 cubic meters (MY23: 66,227 cubic meters) during the nine months.

MDFB Division	MY21	MY22	MY23	3QMY24
Mande Line (Thin Sheets):				
Days in Operation	301	171	160	167
Capacity per day (Cubic meter)	120	120	120	120
Total Capacity (Cubic meter)	39,600	39,600	39,600	39,600
Actual Production (Cubic meter)	40,259	25,349	24,359	22,844
Capacity Utilization	101.7%	64.0%	61.5%	57.7%
Sunds Line (Thick Sheets):				
Days in Operation	335	305	281	211
Capacity per day (Cubic meter)	122	122	122	122
Total Capacity	40,260	40,260	40,260	40,260
Actual Production (Cubic meter)	46,235	42,157	41,869	30,243
Capacity Utilization	114.8%	104.7%	104.0%	75.1%
Total:				
Capacity	79,860	79,860	79,860	79,860
Production	86,494	67,506	66,227	53,087
Utilization	108.3%	84.5%	82.9%	66.5%

Key Rating Drivers

Business risk profile of the sugar industry is considered moderate, characterized by inelastic demand and low risk of substitute products, albeit in a highly fragmented market. However, industry is highly seasonal and sensitive to sugarcane production levels and quality.
The business risk profile of the sugar sector is assessed as medium, with low exposure to economic cyclicality but high seasonality and sensitivity to sugarcane production levels and quality. Competition risk in the industry is considered medium to low, with a low risk of substitute products for sugar. However, the industry is characterized by high fragmentation with elevated competition within the sector.

The industry experiences inelastic demand linked to the growing population, and government measures allowing exports support its stable demand.

The future outlook for the sugar industry appears challenging due to the country's prevailing economic conditions, the State Bank of Pakistan's elevated discount rate maintaining pressure on finance costs, increases in sugarcane prices in provinces, inventory pileups, and lower crushing seasons coupled with sugarcane availability issues. Moreover, prices of sugar have stagnated in recent months.

Business risk profile of the MDFB industry incorporates high cyclicality interconnected with reducing buying power and economic instability in country
The MDFB industry's business risk profile, mostly finding it's usage in the construction and housing industry, is assessed as high due to its highly cyclical nature interconnected with the country's

fluctuating economic and political situation and reducing purchasing power in the market. The sector also faces capsizing of revenues owing to low investments in the construction activities and volatile economic environment.

The outlook of the construction sector remains constrained by the high-interest rate environment, and continued stress on consumer purchasing power with the persistent economic challenges in the country. Moreover, government projects are also expected to remain curtailed with restrictive fiscal measures and limited capacity for government spending.

Group Profile provides comfort to the ratings

The Company's affiliation with the Al Noor Group provides support to the ratings. The Al Noor Group is a well-established and financially stable entity within Pakistan. The Group's extensive experience and long-standing track record in the country's sugar industry positively contribute to the ratings.

Topline increased on the back of export sales and surge in local sugar prices

ANSML's revenue streams primarily include sales from sugar, sugar by-products, and MDFB. In MY23, the Company reported a 24.4% increase in net sales, rising to PKR 13.1 bln (MY22: PKR 10.6 bln), driven by revenue growth in both the sugar and MDFB segments. The sugar segment benefited from the government's decision to allow limited exports, which accounted for 5.7% of net sales (MY22: 0.8%), reaching PKR 748 mln, along with higher local sugar prices. MDFB sales also mostly improved on account of higher selling prices. Consequently, the gross margin increased to 16.0% (MY22: 14.3%) in MY23, supported by inventory gains. This upward trend continued into the first 3QMY24, with annualized net sales reaching PKR 19.1 bln and gross margin improving further to 17.6%. For MY24, ANSML has quota allocation of 1,250 MT for sugar exports, which is expected to positively impact revenues and margins. The Company intends to utilize quota for export to Afghanistan.

Higher gross profits absorbed the additional finance cost. Resultantly, despite a more than 80% increase in finance costs due to higher borrowing rates in MY23, the net profit improved to PKR 295.3 mln (MY22: PKR 173.3 mln), with the net margin increasing to 2.3% (MY22: 1.6%). However, in the first nine months of MY24, the net margin declined to 0.7%, reflecting the impact of higher borrowing rates amid increased short-term borrowings to finance seasonal working capital requirements.

Inventory buildup extends the cash conversion cycle. However, liquidity metrics remain in line with the sugar industry.

After declining below the benchmark of 1.0x in MY23 to 0.9x (MY22: 1.1x), ANSML's current ratio remained stable at 0.9x in 3QMY24. Meanwhile, the cash conversion cycle (CCC) deteriorated over time to 126 days (MY23: 113 days; MY22: 107 days) in 3QMY24, primarily driven by inventory accumulation. However, liquidity metrics remain consistent with industry norms in the sugar sector.

High leveraged capital structure

In MY23, ANSML's capitalization profile showed improvement, with its gearing and leverage ratios improving to 1.8x (MY22: 2.5x) and 4.1x (MY22: 3.4x), respectively. This improvement was a result of reduced short-term debt, as operational cash flows adequately covered working capital needs during MY23.

However, despite the timely debt repayments in 3QMY24, the capitalization metrics weakened due to inflated short-term borrowing of PKR. 8.6 bln (MY23: PKR 1.9 bln; MY22: PKR 2.7 bln), significantly weakening the gearing and leverage ratio at 4.2x and 5.8x, respectively. This weakening occurred owing to seasonal borrowing to finance the build-up of inventory.

Improvement in the coverage profile

The Company in MY23 witnessed improvement in its coverage profile with its debt service coverage ratio (DSCR) slightly improving to 0.6x (MY22: 0.4x). This modest improvement in the DSCR is attributed to lower debt servicing with a reduction in debt utilization. Moreover, DSCR in 3QMY24 further improved to 1.0x due to higher FFO on account of higher operational profitability during the period.

The Debt Service Coverage Ratio (DSCR) remains constrained due to the long-term facility the Company has received, which primarily functions as a permanent working capital and is replenished every year as per ANSML's needs rather than reducing over time. The inclusion of its current portion in the calculations impacts the coverage ratio, resulting in a DSCR below 1.0x. Management has indicated that they are in discussions with their lenders to gradually convert this facility into short-term debt, with Rs. 800m already converted in 3QMY24 and plans to further convert Rs. 700m in MY25.

Going forward, the coverage profile is expected to be supported by an improvement in the profitability from reduced finance costs as policy rates gradually decline.

Al-Noor Sugar Mills Limited — Annexure I

Financial Summary				
Balance Sheet (PKR Millions)	**MY21A**	**MY22A**	**MY23A**	**3QMY24M**
Property, plant and equipment	4,839.75	4,913.86	9,658.82	9,384.58
Stock-in-trade	1,871.50	3,351.34	4,254.52	8,588.86
Trade debts	390.87	571.33	405.29	300.87
Cash & Bank Balances	231.48	253.55	179.36	654.60
Other Assets	1,766.84	2,195.51	3,615.44	3,840.88
Total Assets	9,100.44	11,285.59	18,113.43	22,769.79
Creditors	427.84	449.18	927.04	417.84
Long-term Debt (incl. current portion)	2,708.82	3,060.62	2,746.29	2,296.29
Short-Term Borrowings	1,364.84	2,658.45	1,905.02	8,645.87
Total Debt	4,073.66	5,719.07	4,651.31	10,942.16
Other Liabilities	1,177.13	1,655.86	4,851.11	3,813.58
Total Liabilities	5,678.63	7,824.11	10,429.46	15,173.58
Paid up Capital	204.74	204.74	204.74	204.74
Equity (excl. Revaluation Surplus)	2,120.79	2,275.79	2,519.46	2,631.74

Income Statement (PKR Millions)	**MY21A**	**MY22A**	**MY23A**	**3QMY24M**
Net Sales	10,791.88	10,546.36	13,122.46	14,327.25
Gross Profit	1,704.67	1,511.55	2,100.18	2,525.70
Operating Profit	840.58	893.30	1,709.85	1,712.76
Finance Costs	389.46	680.02	1,231.55	1,378.49
Profit Before Tax	451.12	213.28	478.30	334.27
Profit After Tax	210.89	173.32	295.34	96.53

Ratio Analysis	**MY21A**	**MY22A**	**MY23A**	**3QMY24M**
Gross Margin (%)	15.80%	14.33%	16.00%	17.63%
Operating Margin (%)	7.79%	8.47%	13.03%	11.95%
Net Margin (%)	1.95%	1.6%	2.3%	0.7%
Funds from Operation (FFO) (PKR Millions)	684.46	77.92	65.60	1,030.43
FFO to Total Debt* (%)	16.80%	1.36%	1.41%	12.56%
FFO to Long Term Debt* (%)	25.27%	2.55%	2.39%	59.83%
Gearing (x)	1.92	2.5	1.8	4.2
Leverage (x)	2.68	3.4	4.1	5.8
Debt Servicing Coverage Ratio* (x)	0.98	0.4	0.6	1.0
Current Ratio (x)	1.15	1.1	0.9	0.9
(Stock in trade + trade debts) / STD (x)	1.33	1.3	1.9	1.0
Return on Average Assets* (%)	2.37%	1.70%	2.01%	0.63%
Return on Average Equity* (%)	10.46%	7.88%	12.32%	5.00%
Cash Conversion Cycle (days)	44.78	107.24	113.18	126.41

**Annualized, if required*

A - Actual Accounts

P - Projected Accounts

M - Management Accounts

REGULATORY DISCLOSURES	Annexure II
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	Outlook/Rating Watch	Rating Action
		RATING TYPE: ENTITY		
08/26/2024	**A-**	**A-2**	**Stable**	**Mainatined**
08/23/2023	A-	A-2	Negative	Maintained
06/06/2022	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.
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Due Diligence Meeting Conducted	Name	Designation	Date
	Mr. Mumtaz Hussain	Director - Finance	August 19, 2024