RATING REPORT

Chashma Sugar Mills Limited

REPORT DATE:
28th Oct'2022

RATING ANALYST:
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 Date	*28th Oct' 2022*		*23rd Nov' 2021*	

COMPANY INFORMATION	
Incorporated in 1988	**External auditors:** M/s. A.F. Ferguson & Co. Chartered Accountants.
Public Limited Company	**Chairman of the Board:** Mr. Abbas Sarfaraz Khan
	Chief Executive Officer: Mr. Aziz Sarfaraz Khan
Key Shareholders (with stake 5% or more):	
The Premier Sugar Mills & Distillery Limited ~47.9%	
Other Group Companies ~18.7%	
Directors & Relatives ~14.0%	

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

Chashma Sugar Mills Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

CSML was incorporated in May 1988 as a public company, under the repealed Companies Ordinance 1984 (now the Companies Act, 2017). The company is engaged in production and sale of white crystalline sugar and other allied products. The head office of the company is situated in Islamabad, while manufacturing facilities are located at Dera Ismail Khan, KP.

Financial Snapshot

Tier-1 Equity: end-9M' MY22: Rs. 4.3b; end-MY21: Rs. 3.9b; end-MY20: Rs. 3.4b.

Assets: end-9M'MY22: Rs. 23.9b; end-MY21: Rs.16.8b; end-MY20: Rs 14.8b.

Net Profit: 9M'MY22: Rs. 256.5m; MY21: Rs. 310.4m, MY20: Rs. 746.1m

The ratings assigned to Chashma Sugar Mills Limited (CSML) takes into account the company's association with Premier Group. The group has presence in sugar, ethanol, high-grade polypropylene, real-estate and distribution of consumer goods and bulk storage of agriculture produce. 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. Given the projected higher crop coverage area and yields for the upcoming year, the balance of raw material demand and supply dynamics was expected to remain manageable. However, with recent catastrophic floods sugarcane crop worth USD 273m has been destroyed; the same is expected to have an adverse impact on availability of the raw material. 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 on CSML 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 has reported an uptick on account of higher annualized volumetric sale of both sugar and ethanol coupled with sizable increase in ethanol retail price. Further, the company experienced significant improvement in the gross margins in line with high sugar cane crushing resulting in increased capacity utilization and economies of scale, enhancement of sucrose recovery levels and higher ethanol process in the export market. The gross margins are expected to remain healthy going forward in line with expected improvement in recovery levels on account of recent BMR projects undertaken to minimize losses in the production process. Ratings draw strength from adequate liquidity position underpinned by improvement in cash flows; however, owing to significant procurement of borrowings to fund BMR, investment in other ventures and higher working capital requirement in lieu of significant increase in inventory levels, FFO in relation to outstanding obligations and debt service coverage declined on a timeline. In addition, sizable capital is vested in new real estate venture initiated by CSML under its own banner coupled with equity investments and advances extended to associates for set up of food related business; the turnaround of all projects and their impact on company's financial risk profile will be ascertained over time. Stemming from financing procured for capital projects undertaken, leverage indicators have increased during the rating review period; the same continue to remain on a higher side in comparison to peers. Further, given there are capex plans in perspective, leverage indicators are slightly expected to slide upwards or at least remain at current levels. Ratings remain dependent on the cyclicality of sugarcane production and prices along with maintenance of threshold financial indicators and a favorable outcome of the imposed penalty wherein it does not materially impact the risk profile of the company.

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 MY22 are expected to remain lower than the previous year.

During MY21, sugarcane procurement prices have been reported at Rs. 252 per mound in Khyber Pakhtunkhwa (KPK) against the minimum support price of Rs. 200 per mound. Sugar mills in KPK commenced their crushing season MY22 on November 15, 2021, which continued till March 24, 2022. For the most recent crushing season 2021-22, the average procurement rate was recorded at Rs. 232 per mound whereas the Provincial Government of Punjab and KPK fixed sugar cane price at Rs. 225/- per 40 kg. Even after significant and strict measure taken by the Provincial Government, the industry is procuring sugarcane at higher rates.

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 CSML's diversification into ethanol segment.

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. Furthermore, there is an error in the reporting of penalty imposed on CSML by CPC as the penalty instead of being calculated as 5% of sugar division's revenue of MY19, it has been computed by mistakenly equating the numerical value of sugar division's sale for MY19. Therefore, the actual penalty's amount is recorded approximately around Rs. 491m rather than the colossal amount of Rs. 6.7b quoted. Nevertheless, the material impact of penalty imposed will still be significant and hence VIS will continue to monitor further development in this matter.

Capacity Utilization & Production Update

Sugar Division

CSML's nameplate installed crushing capacity has increased to 21,000tpd (MY21: 20,300tpd) with increase manifested in both Unit 1 and Unit 2 capacities from 12500tpd to 13000tpd and 7800tpd to 8000tpd respectively during the rating review period on account of recent BMR project focused on automation and removal of certain bottle necks. As a result, the quoted installed capacity was also recorded higher at 19,000tpd (MY20: 18,000tpd) year end-MY21. This increase in capacity has translated into record high quantum of sugar crushed during the last crushing season. In addition to capacity expansion, the usage of advanced falling film evaporators leading to steam saving has also enhanced the overall efficacy of the crushing units.

Subsequently the capacitary utilization exhibited positive trajectory during the rating review period. Along with higher operational days coupled with improved sucrose recovery during the last season owing to higher proportion of variety cane in total cane crushed and late crushing season, the sugar produced increased sizably. As per the management, the recovery rate is expected to improve in the upcoming crushing season by 0.5% - 1.0% owing to company's focus on research and development (R&D), selection of better-quality cane coupled with early maturing cane variety used and anticipation of late crushing season announcement by government. The sugar production statistics are presented in the table below:

	MY'20	MY'21	MY'22
Sugarcane Crushing Capacity (TPD)	18,000	19,000	19,000
Total Cane Crushed (Ton)	1,432,075	1,468,505	1,885,437
Number of Crushing Days	107	104	129
Crushing Per Day (Ton)	13,384	14,120	14,616
Capacity Utilization	74%	74%	77%
Sugar Produced	151,013	145,987	195,219
Recovery Rate	10.55%	9.94%	10.35%

Ethanol Division

CSML has one ethanol production unit with total production capacity of 125,000 liters per day; the production capacity has remained unchanged during the period under review. On the other hand, the production was slightly higher in the outgoing year despite the plant being operational for almost same number of days primarily due to improved capacity utilization. The ethanol produced is mainly exported to Europe and Middle East as only 1% to 2% of the total produce is consumed locally. The inhouse molasses production meets around two-fifths of the overall raw material requirement for ethanol production while the remaining is bought from the open market. As per management, ethanol's prices have been relatively stable in comparison to sugar prices. Ethanol is sold three to six months in advance; the price for Jan'23 is expected to be around $1000 per ton which is higher than price at which last sales were made - $800 per ton. The management anticipates full utilization of ethanol production capacity in the upcoming years as well in line with uptick in demand. However, CSML has no future plan for expansion is in the pipeline despite operating at full capacity primarily owing to problems with acquisition of raw material and supply chain disruptions. Lastly, given its flammability. ethanol is a high-risk commodity therefore it cannot be stored for long.

	MY'20	MY'21	9M'MY22
Ethanol Capacity (LPD)	125,000	125,000	125,000
Number of Distillation Days	354	353	259
Total Ethanol Produced (Liter)	43,462,330	44,099,770	32,280,450
Ethanol Produced Per Day (Liter)	122,775	124,929	124,635
Capacity Utilization	98%	100%	100%

Volatility evidenced in gross margins; the same were mainly a factor of sucrose recovery levels and retail price of ethanol: Despite significant increase in average price of sugar to 73,850/MT (MY20: 62,456/MT), CSML's revenue from the sugar segment was recorded slightly lower at Rs. 12.4b (MY20: Rs. 12.2b) owing to sizable decline in volumetric sale of sugar to 148,718 MT (MY20: 176,473 MT) during MY21. On the other hand, the revenue of ethanol division was recorded higher at Rs. 4.8b (MY20: Rs. 4.4b); the increase in revenue was an outcome of increase in ethanol price to Rs. 115/liter (MY20: Rs. 107/liter) during MY21. The export revenue of Rs. 4.4b (MY20: Rs. 3.6b) during MY21 was solely on account of sale of ethanol as no export sale of sugar was made in MY21 due to government restrictions. Subsequently, with decline in revenue of sugar segment fully offset by ethanol division, net sales of the company were recorded at prior year's level of Rs. 15.9b (MY20: Rs. 16.0b) during MY21. However, the contribution of sugar segment still remains dominant with share of 72% (MY21: 74%) of the top-line in MY21. Going forward, with recovery of economic indicators and elimination of covid-19 related restrictions, the management projects that the company would be able to reap revenue of around Rs. 5.8b from ethanol division in line with sustained international demand and higher ethanol prices. Further, 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 details of sugar and ethanol sales are tabulated below:

Sugar Division	**MY'20**	**MY'21**	**9M'MY'22**
Sugar Sold (MT)	176,473.0	148,718.0	124,550.0
Sugar Price (MT)	75,237.0	73,850.0	66,998.0
Net Sales (Less Sales tax & Others, Rs. in m)	11,442.1	12,201.8	10,175.9
Gross Profit (Rs. in m)	2,349.1	1,322.7	1,422.5
Gross Margin	21%	11%	14%

Ethanol Division	**MY'20**	**MY'21**	**9M'MY'22**
Ethanol Sold (Million Liters)	42.1	42.1	32.8
Ethanol Price/Liter	100.2	115.0	126.0
Net Sales (Less Sales tax & Others, Rs. in m)	4,487.5	4,842.3	4,128.2
Gross Profit (Rs. in m)	540.1	802.0	1,030.0
Gross Margin	12%	17%	25%

The average procurement cost of sugarcane increased to Rs. 252.3/maund vis-à-vis Rs. 210.1/maund in the previous year, the same represents major chunk of the total manufacturing cost of sugar division. Due to higher sugarcane procurement cost along with decline in sucrose recovery levels, the gross margins of the division decreased significantly to 10.8% (MY20: 19.0%) during MY21. On the contrary, owing to recovery of economic indicators, elimination of covid-19 related restrictions and improvement in retail prices of ethanol, the gross margins for ethanol segment improved to 16.6% (MY20: 12.0%) for MY21.

The selling & distribution cost decreased to Rs. 483.4m (MY20: 696.1m) during MY21 on account of reduction in freight cost incurred. Further, administrative expenses increased slightly to Rs. 600.9m (MY20: Rs. 578.4m) mainly as result of increase in employee related expenses stemming from inflationary pressure on salaries during MY21. On the contrary, other expenses declined to Rs. 30.2m (MY20: Rs. 53.2m) on account of reduced contribution to workers participation fund in line with sizable cut to profitability during the outgoing year. Moreover, an impairment allowance for receivable against Silos Project from government amounting to Rs. 80m was booked during MY21. The company is continuously pursuing for the recovery of this amount however, due to uncertainty pertaining to timing and extent of their realization, CSML as a matter of prudence, has recorded impairment allowance based on the management estimates. The other income was reported marginally lower at Rs. 64.4m (MY20: Rs. 66.3m) during MY21 in line with lower income generated from financial assets. Further, the finance cost decreased sizably to Rs. 656.3m (MY20: Rs. 903.9m) due to reduced average utilization of short-term borrowings, forex gain booked coupled with amortization of deferred government grant & loan to subsidiary company recorded for MY21. Resultantly, stemming from depressed margins, CSML's bottom line was recorded significantly lower at Rs. 310.4m (MY20: Rs. 746.1m) during MY21.

Going forward, the management projects to close MY22 with a gross revenue of Rs. 19.5b with expected contribution from sugar and ethanol segment to be recorded at Rs. 14.1b and Rs. 5.4b respectively. The company booked higher net revenue of Rs. 13.4b by end-9M'MY22 as opposed to corresponding period's last year at Rs. 11.7b during 9M'MY21 so the target seems to be realistic and achievable. Further, the gross margins were also recorded higher at 18.3% (9M'MY21: 15.4%) during 9M'MY22 primarily owing to notable increase in ethanol segment margins to 25.0% (9M'MY21: 16.2%) in line with higher ethanol retail prices in the export market. Some improvement was also witnessed in sugar division margins stemming from higher sucrose recovery levels. The sucrose recovery percentage was recorded at 10.35% by end-9M'MY22 as opposed to 9.94% achieved during the corresponding period last year. Slight increase in operating expenses, both distribution and administration, to Rs. 971.2m (9M'MY21: Rs. 809.5m) was registered; however, the same is in sync with increase in scale of operations. On the other hand, finance cost increased sizably to Rs. 900.1m (9M'MY 21: Rs. 552.7m) as a combined impact of sharp increase in utilization of short-term borrowings to fund higher working capital requirements, long-term borrowing procured to finance the BMR and real estate projects coupled with increase in benchmark market interest rates. Nevertheless, in line with revenue growth along with margin improvement, CSML recorded augmented bottom line of Rs. 598.5m during 9M'MY22 as opposed to Rs. 340.7m in the corresponding period last year.

Liquidity profile has improved on a timeline in terms of cash generation; however, in line with incremental procurement of borrowings the cash coverages in terms of outstanding obligations have scaled down:

Liquidity position of the company improved during the outgoing year and onwards on account of higher Funds from Operations (FFO) recorded at Rs. 1.5b (MY21: Rs. 1.3b; MY20: Rs. 1.2b) during 9M'MY22 in line with increase in revenues and uptick in margins. However, with sizable increase in borrowings on account of capex incurred for BMR, investment in other ventures and higher working capital requirement in lieu of significant increase in inventory levels, FFO in relation to outstanding obligations and debt service coverage declined on a timeline. FFO to total debt and FFO to long-term debt were recorded at 0.18x (MY21: 0.25x; MY20: 0.25x) and 0.41x (MY21: 0.46x; MY20: 0.50x) respectively at end-9M'MY22. Similarly, debt service coverage was also marked by downward trajectory although it was still adequate at 1.97x (MY21: 1.97x; MY20: 2.25x) at end-9M'MY22. The cash coverages in terms of total debt are expected to improve at end-MY22 given sugar sector is cyclical in nature and highest stock inventory is held at end-June which results in peaked short-term borrowings for that period. Subsequently, as sugar is gradually sold the utilization of short-term funding also subsides resulting in improved FFO to total debt number. Going forward, according to the management, cash flows in terms of obligations are expected to improve on account of maintenance of market share, projected increase in revenues, efficiency improvements in the operational process and decline in utilization of total borrowings.

Furthermore, stock in trade increased significantly by end-9M'MY22; the same largely comprises of finished goods inventory of sugar owing to cyclicality of sugar sector where highest finished goods inventory buildup is seen at end-March which coincides with the end of the crushing season. 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 99% of receivables at end-FY21 and end-9MFY22 pertained to overdue up to three months bracket therefore the probability of recovery of the receivables is on the higher side. Loans and advances were recorded at Rs. 1.2b (MY21: Rs. 885.4m; MY20: Rs. 1.6b) by end-9MFY22; the same mainly constitute advances extended to suppliers for the procurement of sugarcane and has an element of cyclicality attached to it. The company has been providing unsecured and interest free loans to growers in order to assist them in purchasing seeds, fertilizers and pesticides. Further, trade deposits & other receivables declined on a timeline basis to Rs. 265.0m (MY21: Rs. 257.6m; MY20: Rs. 311.1m) by end-9M'MY22; 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 decreased to Rs. 150.2m (MY21: Rs. 300.9m; FY20: Rs. 287.7m) on a timeline at end-9M'MY22. The liquidity profile of the company is slightly impacted with aforementioned capital stuck with 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 largely remained range bound and were recorded at Rs. 939.7m (MY21: Rs. 950.3m; MY20: Rs. 942.9m) at end-9M'MY22; the same mainly include trade creditors including suppliers arising from normal course of the business. The current ratio of the company has slightly decreased on a timeline basis to 0.97x (MY21: 0.96x; MY20: 1.09x) at end-9M'MY22 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 increased during the ongoing year to 0.95x (MY21: 0.77x; MY20: 0.57x) by end-9M'MY22.

Projects and Investments:

Real Estate Project: CSML purchased a commercial plot in Blue Area, Islamabad with cost of Rs. 2.5 billion of which Rs. 1.8b was financed by long-term borrowings during the ongoing year. The management intends to start construction of a multistory corporate tower by end of this year, with an estimated completion time of 3-4 years. As per management, blue prints of the project have already been prepared by renowned architectural firm. CSML is planning on either selling or renting out the floors for corporate offices for reaping high yield on investment.

Ultimate Whole Food:
CSML has made an equity investment amounting to Rs. 204.0m for incorporation of a new subsidiary company by the name of "Ultimate Whole Foods Pvt Ltd. (UWFL)" located in the vicinity of Ethanol Fuel Plant (CSM-II). The main activities of the subsidiary include milling wheat, gram, cereals, pasta, noodles and other confectionary related by products. Total paid up capital of UWFL is Rs. 400.0m out of which 51% of the shareholding that is Rs. 204.0m is contributed by CSML while the remaining Rs. 196.0m was contributed by the Directors of the aforesaid new subsidiary. The entire equity investment has been made. The plant and machinery for the flour mill with total capacity of 285 TPD and projected cost of around Rs. 1.0b is currently being installed. The project is expected to generate a profit of around Rs. 500m. Further, UWFL's power requirement of 1 MW is planned to be met through surplus output of newly installed high-pressure power plant of CSM-II. The estimated sale of electricity supply to UWFL is estimated around Rs.200m. The subsidiary is expected to become operational by end-Mar'23.

Whole Food (private) Limited:
CSML holds 100% stake at Whole Foods (Pvt.) Limited (WFL), amounting to Rs. 220.0m at end-MY22. WFL was incorporated in Oct'17 and is primarily involved in setup and supervision of storage facilities for agriculture produce. WFL is establishing wheat silos in Layyah and Bhakkar, having storage capacity of 20,000 tons and intends to earn rental income from governmental contracts. The company also provided a subordinated aggregate interest free loan of Rs. 235.0m to WFL in MY21 in addition to the subordinated interest fee loan provided in preceding year for an amount of Rs. 100.0m. Pursuant to tripartite subordination agreement signed on 30th June,2021, between CSML, WFL and Soneri Bank Limited (the lender), no payment of the aforesaid amount can be made except with the prior consent of the lender. Accordingly, all payments due to company will be postponed till repayment of the loan to the lender. Owing to the substance of loan at non-market interest rate, the difference between present value and loan proceeds is recognized as an investment in WFL using effective interest method. The net amount of investment recorded after the change is recorded at Rs. 80.8m while loan extended to WFL amounts to Rs. 225.5m at end-9M'MY22. Subsequently, the aggregate capital locked in with WFL is booked at Rs. 445.5m at end-9M'MY22. However, after the ruling party changed all projects initiated by the previous government were halted. The government owes approximately Rs. 800m to CSML which is contingent upon the political party in power. As per management, the current market value of the project is more than Rs. 1.0b; however, no final timeline about the project becoming

operational has been finalized. On the other hand, the management is considering other options for storage operations.

Balancing, Modernization & Replacement (BMR) Projects:

CSML has successfully completed BMR project and installed Falling Film Evaporators (FFE) in CSM-I & II last year. The mills reaped the benefits of process house BMR and saved surplus bagasse of around 136,919 MT (MY21: 89,640 MT) at the end of latest crushing season. The Company has sold more than 50,000 MT of bagasse at Rs. 5000/ MT. Moreover, the surplus bagasse is being used as fuel for powering Ethanol Fuel Plant and rest of the bagasse will fulfill the power requirement of the new flour mill being installed under WFL expected to become operational in March 2023.

The company has initiated BMR projects in both mill and process house that will improve recovery of sugar of CSM-2 by approximately 1% and also enable the process house to balance its processing capacity, thereby enabling to achieve its theoretical crushing capacity. Further, CSML has also planned to optimize the crushing capacity of 11500 TPD by installing/replacing roller mills at CSM-I. This will be done by replacing existing roller of 40x80" with new roller of 42x84" and installing various machinery components associated with the mill. This BMR at CSM-I will improve extraction by reducing total losses of residual bagasse and enable the mill to achieve additional recovery by minimum of 1%. The same initiative along with improving consumption ratio of steam in process house & boiler house from 42% to 41% will save additional bagasse of average 5000MT in a season. This BMR in CSM-I & II is projected to cost around Rs. 450m and expected to be completed before start of next crushing season.

Leverage indicators increased during the period under review; the same continue to remain on the higher side

Tier-1 equity increased to Rs. 4.3b (MY21: Rs. 3.9b; MY20: Rs. 3.5b) by end-9M'MY22 as a result of internal capital generation. Short-term borrowings increased sizably to Rs. 6.6b (MY21: Rs. 2.5b; MY20: Rs. 2.4b) by end-9M'MY22 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 mainly comprised cash/running finance and export refinance amounting to Rs. 5.1b (MY20: Rs. 230.3m) and Rs. 1.2b (MY20: Rs. 2.2b) respectively at end-9M'MY22. The cash finance and export re-finance facilities are repayable in six months to one year period. The rate of mark-up ranges from SBP Rate+1%per annum to KIBOR+ 1.75% per annum and are secured against pledge of sugar stock with margin ranging from 10% to 25%, lien on export contracts / LCs and import documents.

Moreover, long-term borrowing increased significantly to Rs. 5.0b (MY21: Rs. 2.8b; MY20: Rs. 2.5b) by end-9M'MY22 owing to financing of BMR project including replacement of old Roller Mills in both Units (Rs. 450m) and investment in real estate project (corporate tower) amounting to Rs. 1.9b. As per management, CSML might take further long-term loans for the construction on the real estate project; however, the quantum of the funding is expected to be much lower than already procured, therefore gearing and debt leverage is not projected to increase further going forward. Long-term funding includes term and demand finance repayable in 3-5 years with varied grace period. The rate of mark-up ranges from KIBOR +1%- 2.1% per annum and SBP rate +1%. The facilities are secured against first~~-/~~joint pari passu hypothecation charge over all present and future movable fixed assets of the company along with first~~-/~~joint pari passu charge by way of equitable mortgage on all present and future immovable fixed assets of the company, pledge of sugar stock and lien on export contract. The long-term funding also includes secured interest-based loans obtained from related parties entailing proper repayment schedule. With increase in both short-term & long-term borrowings owing to cyclicality element and financing of new projects, gearing and leverage indicators increased on a timeline to 2.69x (MY21: 1.35x; MY20: 1.41x) and 3.42x (MY21: 2.02x, 2.08x) respectively at end-9M'MY22. Substantial increase in capital expenditure was witnessed as addition to property, plant and equipment amounting to Rs. 3.2b (MY21: Rs. 1.3b) during 9M'MY22. Moreover, capex worth Rs. 450.0m is planned to be incurred on improving efficiency and capacity enhancement of both sugar units. The aforementioned capex is planned to be met from internal sources. Overall, given there are capex plans in perspective therefore gearing and leverage indicators are expected to tend upwards slightly or remain around current levels.

Chashma Sugar Mills Limited (Financial Summary) Annexure I

BALANCE SHEET	30-Sep-18	30-Sep-19	30-Sep-20	30-Sep-21	30-Jun-22
Non-Current Assets	9,646.0	9,339.0	10,502.5	12,837.3	15,236
Stock-in-Trade	2,242.6	1,724.8	1,242.0		6,132.7
Stores & Spares	342.7	469.7	502.3	522.6	495.2
Trade Debts	219.1	57.0	143.0	533.5	154.8
Loan & Advances					
Trade Deposits & Receivables	812.0	338.9	311.1	257.6	265.0
Cash & Bank Balances	188.8	203.9	281.9	281.5	294.5
Total Assets	**13,815.7**	**13,526.3**	**14,890.0**	**16,973.4**	**23,901.8**
Trade and Other Payables	712.3	689.0	942.9	950.3	939.8
Short Term Borrowings	3,796.2	3,100.9	2,419.7	2,466.1	6,611.7
Long Term Borrowings	2,339.0	2,328.6	2,484.7	2,845.3	5,012.8
Total Borrowings	6,135.2	5,429.5	4,904.5	5,311.4	11,624.5
Total Liabilities	**8,010.2**	**7,204.9**	**7,199.4**	**7,961.6**	**14,776.9**
Paid Up Capital	286.9	286.9	286.9	286.9	286.9
Core Equity	**1,786.5**	**2,608.0**	**3,467.5**	**3,946.1**	**4,324.9**
Total Equity	5,805.5	6,321.5	7,690.5	9,011.8	9,124.9
INCOME STATEMENT	**30-Sep-18**	**30-Sep-19**	**30-Sep-20**	**30-Sep-21**	**30-Jun-22**
Net Sales	10,383.8	12,420.7	15,929.7	16,037.1	13,369.7
Gross Profit	1,379.0	2,237.1	2,910.4	2,124.8	2,452.5
Profit Before Tax	340.7	1,407.4	742.7	337.3	598.5
Profit After Tax	193.6	578.6	746.1	310.4	256.5
FFO	835.7	1,385.1	1,240.2	1,322.6	1,548.0
RATIO ANALYSIS	**30-Sep-18**	**30-Sep-19**	**30-Sep-20**	**30-Sep-21**	**30-Jun-22**
Gross Margin (%)	13.3%	18.0%	18.3%	13.2%	18.4%
Net Margin (%)	1.9%	4.7%	4.7%	1.9%	1.9%
Current Ratio (x)	0.80	0.92	1.09	0.96	0.97
FFO to Total Debt (x)	0.14	0.26	0.25	0.25	0.18
FFO to Long Term Debt (x)	0.36	0.59	0.50	0.46	0.41
Debt Service Coverage Ratio (x)	1.31	2.67	2.25	1.64	1.97
ROAA (%)	1.6%	4.2%	5.3%	1.9%	1.7%
ROAE (%)	11.9%	26.3%	24.6%	8.4%	8.2%
Gearing (x)	3.43	2.08	1.41	1.35	2.69
Debt Leverage (x)	4.48	2.76	2.08	2.02	3.42
Stock+ Trade debts/ Short-term Borrowings (x)	0.65	0.57	0.57	0.77	0.95
Cash Conversion Cycle (days)	70	39	12	23	122

**Annualized*

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix 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					Appendix III
Name of Rated Entity	Chashma 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				
	09/28/2022	A-	A-2	Stable	Reaffirmed
	11/23/2021	A-	A-2	Stable	Reaffirmed
	11/10/2020	A-	A-2	Stable	Reaffirmed
	10/18/2019	A-	A-2	Stable	Upgrade
	11/15/2018	BBB+	A-2	Stable	Initial
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 Meetings Conducted	**Name**		**Designation**		**Date**
	Mr. Rizwan Ullah Khan		Chief Financial Officer		Aug 24,2022