

RATING REPORT

Chashma Sugar Mills Limited

REPORT DATE:

September 06, 2024

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
Outlook/Rating Watch	Stable		Stable	
Rating Action	Reaffirmed		Reaffirmed	
Rating Date	September 06, 2024		November 6, 2023	

COMPANY INFORMATION

Incorporated in 1988	External auditors: A.F. Ferguson & Co PwC
Public Limited Company	Chairman of the Board: Mr. Abbas Sarfaraz Khan
	Chief Executive Officer: Begum Laila Sarfaraz
<i>Key Shareholders (with stake 5% or more):</i>	
<i>Associated Companies, undertakings and related parties ~ 66.66%</i>	
<i>Directors & Relatives ~19.92%</i>	
<i>Individuals ~9.37%</i>	

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>

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CSML was incorporated in May 1988 as a public company, under the repealed Companies Ordinance 1984 (now the Companies Act, 2017).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.

Company Profile.

Chashma Sugar Mills Limited ('CSML' or 'the Company') was incorporated in Pakistan on May 05, 1988, as a public limited company and commenced its commercial production from October 01, 1992. The Company has its shares quoted on the Pakistan Stock Exchange Limited. The Company is principally engaged in manufacturing, production, processing, compounding, preparation and sale of sugar, other allied compounds, intermediates and allied products. The Company is a subsidiary of The Premier Sugar Mills and Distillery Company Limited. The head office of the Company is situated at Islamabad and its manufacturing facilities are located at Dera Ismail Khan, KPK.

Group Profile

The group companies associated with the Premier Sugar Mills and Distillery Company Limited have diversified interests spanning sugar, ethanol, high-grade polypropylene, real estate and distribution of consumer goods and bulk storage of agriculture produce. In October 2023, Ultimate Whole Foods (Pvt.) Limited (UWFL), a subsidiary company of CSML, commenced commercial operations. UWFL is primarily involved in milling wheat, gram, other grains, allied products and byproducts from flours.

Operational Performance:**Sugar Division:**

Crushing Season	2021-22	2022-23	2023-24
Crushing Capacity – tpd	18,000	18,000	18,000
Cane Crushed – tpd	14,730	18,697	17,441
Crushing Days	128	105	99
Capacity Utilization – %	81.83%	103.87%	96.89%
Sucrose Recovery – %	10.35%	10.79%	9.94%
Sugar Produced – tons	195,219	211,871	171,591
Molasses Produced-Tons	82,066	83,855	74,734
Molasses Recovery Rate-%	4.35%	4.27%	4.33%

During 3QMY24, sugar production faced challenges due to heightened competition following the establishment of new sugar mills in KPK, which also increased the procurement cost of sugarcane. This resulted in a 6.7% reduction in cane crushed to 17,441 tons per day (MY23: 18,697 tpd, MY22: 14,730 tpd). Sucrose recovery was also noted lower at 9.94% (MY23: 10.79%, MY22: 10.35%).

Molasses production was recorded at 74,734 tons in 3QMY24 (MY23: 83,855 tons). However, the molasses recovery rate improved by 1.4% to 4.33% (MY23: 4.27%).

Ethanol Division:

	MY'22	MY'23	9M'MY24
Ethanol Capacity (LPD)	125,000	125,000	125,000
Number of Distillation Days	330	343	261
Total Ethanol Produced (Liter)	40,933,660	42,374,200	32,512,710
Ethanol Produced Per Day (Liter)	124,041.39	123,539.94	124,569.77
Capacity Utilization	99.23%	98.83%	99.66%

Ethanol produced per day increased marginally by 0.8%, in line with higher molasses recovery rate. Ethanol produced by using in-house molasses is exported majorly to Europe.

Key Rating Divers:

The business risk profile of the sugar industry is considered moderate.

The business risk profile of the sugar sector in Pakistan is considered as moderate. The sector demonstrates low exposure to economic cyclicity but is significantly affected by seasonal variations and fluctuations in sugarcane production and quality. This sensitivity is compounded by the inherent cyclicity in crop yields and raw material prices, which substantially impacts the sector's risk profile.

The competitive risk within the sugar sector is considered medium to low. The industry is marked by high fragmentation, with approximately 90 sugar mills organized under the Pakistan Sugar Mills Association (PSMA). However, sugar is an essential commodity with no direct alternatives, making the threat of substitutes minimal, providing support to the business risk profile of the industry.

The demand for sugar remains inelastic, driven by population growth and government export policies. The sector, however, encounters several challenges, including increased finance costs due to a high discount rate, inventory accumulation, and shorter crushing seasons. Additionally, the difference between market-driven granulated sugar prices and government-regulated sugarcane prices contributes to the sector's financial complexity. The recent stagnation in sugar prices reflects ongoing difficulties, indicating a challenging outlook. Looking ahead, the continued rise in sugarcane prices, the elevated policy rate, and relatively stable sugar prices are expected to exert pressure on margins.

Significant revenue growth in MY23, driven by PKR depreciation and higher local sugar prices, but 3QMY24 margins were impacted by elevated procurement costs.

In MY23, the Company's revenue increased by 53%, driven by the depreciation of the Pakistani rupee, enhancing export earnings from ethanol sales, and a rise in local sugar prices. Despite a reduction in ethanol sales volume, the currency devaluation supported export revenues.

Gross margins increased to 23.46% (MY22: 16.77%), driven by inventory and exchange gains. However, in 3QMY24, gross margin contracted to 13.57% due to higher sugarcane procurement costs, with the Minimum Support Price (MSP) rising to Rs. 400 (MY22: Rs. 300) per 40 kgs. This margin contraction contributed to the Company's net loss during the period. Management anticipates an export allowance from the KPK government in the last quarter of MY24, which will support a recovery in profitability. Nevertheless, the Company has secured a contract with a major B2B customer as a sugar supplier, which management expects will help to stabilize and support profitability going forward, regardless.

Coverage under stress with weakened profitability in 3QFY24.

The Company has historically maintained an adequate coverage profile characterized by a 5-year debt service coverage ratio (DSCR) of 1.46x. In MY23, the DSCR increased to 2.00x (MY22: 1.21x), supported by higher profitability. However, this ratio decreased to 0.49x in 3QMY24, reflecting the impact of margin contraction during the period. In response to the stress on coverage, the Company plans to sell an unused property to address the coverage gap and expects cash flow from operations to stabilize as profitability improves going forward.

After recovering in MY23, liquidity weakens in 3QMY24.

The Company's higher profitability in MY23 contributed to addressing its mismatch, resulting in an improvement in the current ratio to 1.01x (MY22: 0.87x). However, stress on profitability during 3QMY24 led to a subsequent reduction in the current ratio to 0.88x. Management anticipates that this issue will be resolved through the planned sale of unutilized property in the future.

Slightly weakened capitalization profile in MY23 due to increased short-term debt, with further deterioration in 3QMY24, though still aligned with industry trends.

The Company's capitalization profile exhibited a decline in MY23, as reflected by an increase in the gearing and leverage ratios to 1.55x (MY22: 0.85x) and 2.66x (MY22: 1.24x), respectively. This change is attributed to higher short-term debt drawdowns undertaken to address the expanding working capital gap. The trend persisted in 3QMY24, with the gearing and leverage ratios rising further to 4.07x and 5.34x, respectively. The elevated debt drawdown during the period was also influenced by pressure on profitability.

Chashma Sugar Mills Limited
Appendix I

Financial Summary				
Balance Sheet (PKR Millions)	FY21A	FY22A	FY23A	9MFY24M
Property, plant and equipment	11,833.23	18,016.73	20,371.13	19,367.82
Stock-in-trade	1,354.55	3,379.87	5,177.67	13,698.32
Trade debts	533.46	44.16	1,214.10	885.99
Cash & Bank Balances	281.46	212.85	811.31	814.50
Other Assets	2,970.75	3,249.98	4,003.54	5,442.79
Total Assets	16,973.45	24,903.59	31,577.75	40,209.42
Creditors	358.49	314.96	441.58	482.88
Long-term Debt (incl. current portion)	2,845.29	4,940.03	5,115.62	4,418.58
Short-Term Borrowings	2,466.10	4,489.51	4,871.00	16,685.16
Total Debt	5,311.39	9,429.54	9,986.62	21,103.74
Other Liabilities	2,291.73	4,043.14	6,611.47	6,104.58
Total Liabilities	7,961.61	13,787.64	17,039.67	27,691.20
Paid up Capital	286.92	286.92	286.92	286.92
Equity (excl. Revaluation Surplus)	3,946.10	11,115.96	6,389.37	5,188.10
Income Statement (PKR Millions)	FY21A	FY22A	FY23A	9MFY24M
Net Sales	16,037.08	17,094.81	26,375.72	22,147.84
Gross Profit	2,124.76	2,866.69	6,187.27	3,005.57
Operating Profit	993.68	1,618.21	4,317.65	1,616.51
Finance Costs	656.34	1,112.78	2,738.37	3,250.15
Profit Before Tax	337.34	505.43	1,579.28	-1,633.65
Profit After Tax	310.37	43.55	1,699.14	-1,429.71
Ratio Analysis	FY21A	FY22A	FY23A	9MFY24M
Gross Margin (%)	13.25%	16.77%	23.46%	13.57%
Operating Margin (%)	6.20%	9.47%	16.37%	7.30%
Net Margin (%)	1.94%	0.25%	6.44%	-6.46%
Funds from Operation (FFO) (PKR Millions)	1,322.58	1,823.91	3,138.00	-50.63
FFO to Total Debt* (%)	24.90%	19.34%	31.42%	-0.32%
FFO to Long Term Debt* (%)	46.48%	36.92%	61.34%	-1.53%
Gearing (x)	1.35	0.85	1.56	4.07
Leverage (x)	2.02	1.24	2.67	5.34
Debt Servicing Coverage Ratio* (x)	1.28	1.21	1.27	0.49
Current Ratio (x)	0.96	0.87	1.01	0.88
(Stock in trade + trade debts) / STD (x)	0.98	0.88	1.49	0.92
Return on Average Assets* (%)	1.95%	0.21%	6.02%	-5.31%
Return on Average Equity* (%)	8.37%	0.58%	19.41%	-32.93%
Cash Conversion Cycle (days)	38.24	59.09	70.43	132.52

*Annualized, if required

A - Actual Accounts

P - Projected Accounts

M - Management Accounts

REGULATORY DISCLOSURES				Appendix II	
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
	<u>RATING TYPE: ENTITY</u>				
	06-Sep-24	A	A-2	Stable	Reaffirmed
	06-Nov-23	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 Meetings	Name		Designation		Date
	Mr. Jawad Ahmad		Finance Manager		27 Aug 2024
	Mr. Asad Ullah		Assistant Manager - Tax		