VIS
Credit Rating Company Limited

RATING REPORT

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APPLICABLE METHODOLOGY(IES):
Corporate Rating
(https://docs.vis.com.pk/docs/CorporateMethodology.pdf)
Rating Scale:
(https://docs.vis.com.pk/docs/VISRatingScales.pdf)

Rs. Million	MY23A	MY24A	3QMY25M
Net Sales	26,375.72	32,274.65	15,436.36
Profit Before Tax	1,278.46	-4,204.20	-2,603.98
Profit After Tax	1,699.14	-2,637.26	-1,481.96
Paid up Capital	286.92	286.92	286.92
Equity (excl. Revaluation Surplus)	6,389.37	4,164.02	4,383.07
Total Debt	9,986.65	13,523.48	21,027.66
Leverage (x)	2.67	4.44	5.93
Gearing (x)	1.56	3.25	4.80
Funds From Operations (FFO)	3,138.00	-2,773.38	-1,767.45
FFO/Total Debt (x)	0.31	-0.21	-0.11
Net Margin (%)	6%	-8%	-10%

**Annualized, if required*
A - Actual Accounts

CHASHMA SUGAR MILLS LIMITED

Chief Executive: Begum Laila Sarfaraz

RATING DETAILS

RATINGS CATEGORY	LATEST RATING		PREVIOUS RATING	
	Long-term	Short-term	Long-term	Short-term
ENTITY	A-	A2	A-	A2
RATING OUTLOOK/ WATCH	Stable		Stable	
RATING ACTION	Reaffirmed		Reaffirmed	
RATING DATE	October 27th, 2025		September 6th, 2024	

RATING RATIONALE

The assigned ratings are underpinned by the Company's vertically integrated sugar and ethanol operations, its established market presence in the northern region, and its affiliation with the Premier Group, which affords enhanced financial flexibility and corporate governance oversight. The maintenance of the Stable Outlook reflects improved gross margin performance and operational stabilization observed during 9M MY25. Ratings are underpinned by the projected larger crushing of sugarcane in the upcoming crushing season and consequential improvements in the financial performance. The resumption of irrigation flows from the Chashma Right Bank Canal (CRBC) is expected to progressively strengthen production efficiency, profitability metrics, and debt service coverage ratios over the medium term.

During MY24, the Company experienced a significant contraction in profitability, recording a net loss attributable to diminished sucrose recovery rates, elevated raw material procurement costs, and increased finance expenses stemming from higher short-term debt utilization. Consequently, funds from operations (FFO) turned negative, while gearing and leverage ratios deteriorated concurrently with weakening liquidity indicators.

The 9M MY25 period, however, demonstrated a measured operational recovery with gross margin improvement, supported by favorable sugar price realization and better cost management. While overall profitability remained constrained due to elevated financing costs, operating performance exhibited notable improvement throughout the review period. The ethanol segment continued to generate stable cash flows, sustaining capacity utilization in excess of 99% despite reduced internal molasses availability, as the Company successfully secured alternative feedstock supplies to maintain production levels. Capitalization metrics remained under pressure at the conclusion of 9M MY25, primarily reflecting elevated seasonal working capital borrowings; however, these are expected to normalize following inventory liquidation. The Company continues to benefit from sponsor support provided by the Premier Group, which reinforces financial flexibility and facilitates the management of temporary liquidity constraints.

CORPORATE PROFILE

Chashma Sugar Mills Limited ("CSML" or "the Company") was incorporated in Pakistan on May 5, 1988, as a public limited company and commenced commercial production in October 1992. CSML is listed on the Pakistan Stock Exchange and is principally engaged in the manufacturing and sale of white crystalline sugar, ethanol, and allied by-products. The Company is a subsidiary of The Premier Sugar Mills & Distillery Company Limited, which holds a majority stake.

The head office of CSML is based in Islamabad, while the sugar manufacturing facilities comprising of two separate mills, both located at Dera Ismail Khan, Khyber Pakhtunkhwa, have an aggregate crushing capacity of 18,000 tons of sugarcane per day. The Company also operates an ethanol distillery with a production capacity of 125,000 liters per day. In October 2023, Ultimate Whole Foods (Pvt.) Limited, a majority-owned subsidiary, commenced commercial operations, diversifying the Group's portfolio into wheat milling and related products.

GROUP STRUCTURE

The Premier Group, through its associated undertakings, has diversified interests spanning over sugar, ethanol, polypropylene, consumer goods distribution, real estate, and warehousing of agricultural commodities sectors. CSML remains a key entity within the Group, contributing significantly to revenues and exports through its integrated sugar and distillery operations.

GOVERNANCE

CSML is governed by a reconstituted Board of Directors following the elections held in March 2025. The Board continues to comprise seven members including executive, non-executive, and independent directors, and maintains above average female participation with three female directors. Current leadership remains unchanged with Mr. Abbas Sarfaraz Khan as Chairman and Begum Laila Sarfaraz as Chief Executive Officer. Shareholding continues to be concentrated with associated undertakings holding around two-thirds of equity. The recent reconstitution also regularized compliance with the Code of Corporate Governance, addressing the earlier concern regarding excess executive directors.

INDUSTRY PROFILE & BUSINESS RISK

Sugar

The sugar industry in Pakistan operates under a medium-risk profile influenced by seasonal production cycles, government intervention, and fluctuations in input and output prices based on crop availability as well as demand and supply mechanics for the final product. Sugarcane crushing is concentrated between November and March, requiring mills to maintain year-round inventories that expose them to price and interest rate risks. Despite a slight increase in sugarcane crushed during the 2023–24 season (67.4 MMT vs. 65.1 MMT in MY23), sugar production decreased to 6.5 MMT (MY23: 6.8 MMT). The sector continues to face structural limitations due to low mechanization and underinvestment in research and development, which constrain crop yields and sucrose recovery.

Cost pressures intensified in MY24 as provincial governments implemented higher minimum support prices (MSP)—PKR 400 per 40 kg in Punjab and PKR 425 in Sindh. This particularly affected smaller mills with tighter cost margins. However, there is a significant policy shift with discontinuation of MSP from the 2024–25 season. Domestic sugar consumption remains relatively inelastic, recorded around 6.4 MMT.

During the ongoing 2025 season, total sugarcane production is estimated around 80 MMT, due to a larger cultivation area of ~1,210,000 HA (2024: 1,175,000). However, due to unfavorable climatic conditions, as well as pests related issues, the quality of the crop was significantly impacted. This affected sugar production which fell to ~5.80 MMT, overall availability remained at par with domestic demand supported by carryover stocks of 0.66 MMT. However, due to this lower-than-expected production, domestic sugar prices started rising —averaging PKR 143.92/kg in MY24 (MY23: PKR 115.97/kg) and are currently ranging between PKR 165–175/kg—prompting the government to permit duty-free imports. Most recently, the government has also attempted to cap ex-mill prices at PKR 165/kg with incremental increases until October 2025, reportedly. While the demand outlook remains stable, the industry's future performance will depend on its ability to adapt to evolving policy frameworks, manage cost pressures, and navigate regulatory scrutiny, especially regarding pricing mechanisms and export policy. Moreover, sugar production will continue to remain sensitive to crop yields and quality. In recent years, crop production has been impacted by changing and increasingly volatile weather patterns. Climate change has become an important consideration for the sugar industry in the country.

Ethanol

The business risk profile of Pakistan's ethanol production sector, primarily dependent on sugarcane-derived molasses, is assessed as Medium to High. Feedstock availability remains the most significant risk, given its direct link to sugarcane yields, which are subject to agricultural performance and pricing factors. The 2024–2025 season has seen reduced harvests, constraining molasses supply, increasing procurement costs, and creating production bottlenecks. As molasses is a by-product of sugar production, its pricing and availability are influenced by sugar market dynamics and government export policies. Restrictions on sugar exports or upward revisions in sugarcane prices may incentivize mills to retain molasses, thereby limiting availability for distilleries and putting pressure on margins. These structural constraints heighten the sector's exposure to production volatility.

The sector's dependence on international markets, with exports accounting for around 80% of total output, exposes it to fluctuations in global ethanol demand, which is driven by the use of biofuels and blending mandates in key markets such as the U.S. and EU. Competitive pressures from major producers, including Brazil and the U.S., influence pricing and market share. Furthermore, ethanol prices are inversely linked to global oil prices, with lower oil prices reducing the economic attractiveness of ethanol blending, thereby depressing demand. While domestic demand is currently limited to low-level fuel blends, the government's blending initiatives could gradually create a more stable local market, although near-term benefits remain uncertain.

Going forward, sector performance is expected to be shaped by lower international ethanol prices and tighter feedstock availability. Molasses supply is expected to constrain operations as additional domestic distillation capacity is commissioned, independent of annual crop outcomes, increasing feedstock costs and potentially limiting utilization. Distillery margins are likely to narrow, with cash generation and returns on new projects under pressure; continued debt-funded expansion could raise leverage without commensurate cash flow. Regulatory changes—including adjustments to EU tariffs and local ethanol-blending policy—may alter export realizations, domestic demand, and product mix. The sector risk profile will continue to reflect agricultural yield variability, input-cost volatility, exposure to global markets, and policy settings, with credit outcomes driven by feedstock procurement, pricing pass-through, working-capital discipline, and the development of domestic consumption channels. Installed ethanol capacity in

Pakistan is estimated at about 4.13 million liters per day; further additions would intensify raw-material constraints unless supported by higher cane throughput or improved molasses yields.

OPERATIONAL PERFORMANCE

Sugar Segment	Units	MY23A	MY24A	9MMY25
Crushing Period in days	Numbers	105	99	103
Cane Crushed	Tons	1,963,169	1,726,610	1,484,965
Sugar Production	Tons	211,871	171,591	144,654
Sucrose Recovery (%)	% Age	10.80%	9.94%	9.74%
Molasses Produced	Tons	83,855	74,734	64,249
Molasses Recovery (%)	% Age	4.27%	4.33%	4.33%

Ethanol Segment	Units	MY23A	MY24A	9MMY25
Ethanol Capacity	Liters/day	125,000	125,000	125,000
Number of Distillation Days	Days	343	347	264
Total Ethanol Produced	Litres	42,374,200	43,053,990	32,688,470
Ethanol Produced Per Day	Liters	123,540	124,075	123,820
Capacity Utilization	% Age	98.83%	99.26%	99.05%

Sugar segment:

CSML operates both of its sugar mills with most of the sugarcane procured at the mill gate area. The fields in this region are irrigated through the Chashma Right Bank Canal (CRBC). Prior to MY24, flooding caused damage to water distributaries near Head Jumma, constraining water supply to the cane cultivated areas near the mills. As 70–80% of cane is typically procured from this zone, the impact extended over two crop seasons. Consequently, in MY24, cane crushed declined by 12% compared to MY23. Recovery rates also fell to 9.94% (MY23: 10.80%) as a greater proportion of cane was sourced from outside the mill gate area, where longer transportation time between harvesting and crushing led to lower sucrose content. Resultantly, sugar output reduced by nearly 20%. In MY25, continued water shortages led to a further decline of 14% in cane crushed, with recovery also declining to 9.74%, resulting in proportional fall in sugar production. Going forward, operational performance is projected to revert to pre-MY24 levels following the completion of CRBC repair works.

Ethanol Segment:

The ethanol plant, with a designed capacity of 125,000 liters per day, has continued to demonstrate high operational efficiency, maintaining capacity utilization above 99% across the review periods (MY23: 98.8%; MY24: 99.3%; 9MMY25: 99.1%). Despite lower in-house molasses availability due to reduced cane crushing, the Company effectively mitigated the impact through procurement from external sources, enabling sustained production levels. Consequently, ethanol output stood at 32.7

million liters in 9MMY25, compared to 32.6 million liters and 42.4 million liters in MY24 and MY23, respectively. Average daily production remained stable at around 124,000 liters, reflecting strong plant reliability and operational consistency, while segment margins continue to be influenced by feedstock pricing and supply dynamics.

FINANCIAL RISK

Capital Structure

At end- MY24, CSML's capitalization profile weakened as gearing rose to 3.25x (MY23: 1.56x) and leverage to 4.44x (MY23: 2.67x), driven by higher short-term borrowings to fund seasonal working capital. In 9M MY25, long-term debt declined to PKR 2.39 billion (MY23: PKR 5.12 billion; MY24: PKR 5.20 billion), following the disposal of a non-revenue-generating asset, the proceeds of which were utilized for debt repayment. At the same time, total debt increased to PKR 21.03 billion (MY24: PKR 13.52 billion), as short-term borrowings rose to finance build up in sugar stocks and elevated sugarcane procurement costs. Equity remained broadly stable at PKR 4.38 billion (MY24: PKR 4.16 billion), following the decline from PKR 6.39 billion in MY23. Consequently, gearing and leverage further deteriorated to 4.80x and 5.93x, respectively, by the end of 9M MY25.

The debt mix has shifted more heavily toward short-term obligations, reflecting the increase in working capital requirement, while the reduction in long-term liabilities was one-off in nature. Short-term borrowings are expected to decline by year-end as a significant portion of sugar stocks are likely to be liquidated to generate cash inflows. As per the management, sponsor support remains available to the Company, if needed.

Profitability

In MY24, CSML's net sales increased to PKR 32.27 billion (MY23: PKR 26.38 billion), supported by higher average sugar prices. Despite topline growth, gross margins contracted sharply to 6.9% (MY23: 23.5%) as procurement costs rose and recoveries weakened, resulting in sharp decline in gross profit to PKR 2.22 billion compared to PKR 6.19 billion in MY23. Operating profit declined steeply to PKR 259 million (MY23: PKR 4.32 billion), while finance costs escalated to PKR 4.07 billion (MY23: PKR 2.74 billion), further squeezing earnings. Consequently, the Company posted a net loss of PKR 2.64 billion in MY24, against a profit of PKR 1.70 billion in MY23.

During 9M MY25, net sales stood at PKR 15.44 billion, reflecting lower crushing volumes amid supply constraints. Gross margins improved to 9.1%, translating into gross profit of PKR 1.40 billion. Operating profit for the nine-month period amounted to PKR 253 million, indicating the start of a recovery phase. On a quarterly basis, operating profitability has improved sequentially, reflecting better price realizations and cost discipline as the year progressed. However, finance costs remained elevated at PKR 2.66 billion, continuing to weigh on bottom-line performance, resulting in a net loss of PKR 1.48 billion for 9M MY25.

Going forward, profitability will hinge on the liquidation of existing sugar inventory at favorable price levels and stabilization of cane supply. The restoration of irrigation flows from the Chashma Right Bank Canal (CRBC) is expected to enhance cane availability and recovery rates, supporting a rebound in operating performance toward pre-MY24 levels.

Debt Coverage & Liquidity

Coverage indicators have weakened over the review period. Funds from Operations (FFO) turned negative in MY24 at PKR -2.77 billion (MY23: PKR 3.14 billion) and remained negative at PKR -1.77 billion during 9M MY25, reflecting sustained operating losses and elevated finance costs. Consequently, FFO-to-total debt fell to -11.2% in 9M MY25 (MY23: 31.4%; MY24: -20.5%), while the Debt Service Coverage Ratio (DSCR) declined to 0.17x (MY23: 1.27x; MY24: 0.26x), indicating limited internal capacity to service obligations.

Liquidity remained constrained, with the current ratio at 0.85x as of 9M MY25 (MY23: 1.01x; MY24: 0.73x). The stock-in-trade and trade debts to short-term debt ratio stood at 0.76x in 9M MY25 (MY23: 1.49x; MY24: 0.60x), reflecting continued reliance on future cashflows to meet obligations. Finance costs rose to PKR 2.66 billion in 9M MY25 (MY24: PKR 4.07 billion; MY23: PKR 2.74 billion), further pressurizing coverage indicators.

While short-term borrowings are expected to ease with the liquidation of inventory in the remaining part of MY25, debt serviceability will remain dependent on timely offtake of sugar stocks and stabilization of margins.

Financial Summary

Balance Sheet (PKR Millions)	MY23A	MY24A	9MMY25M
Property, plant and equipment	20,371.13	21,545.19	16,667.27
Long-term Investments	638.36	1,652.82	1,848.82
Stock-in-trade	5,177.67	3,988.48	12,449.87
Trade debts	1,214.10	276.29	1,082.45
Short-term Investments	0.00	0.00	0.00
Cash & Bank Balances	811.31	898.78	1,268.90
Other Assets	3,487.42	3,283.34	4,993.61
Total Assets	31,699.99	31,644.90	38,660.60
Creditors	441.58	331.48	463.50
Long-term Debt (incl. current portion)	5,115.62	5,198.47	2,388.54
Short-Term Borrowings	4,871.00	8,325.01	18,639.12
Total Debt	9,986.62	13,523.48	21,027.66
Other Liabilities	7175.27	4,978.18	4,970.69
Total Liabilities	17,161.89	18,502.66	25,998.35
Paid up Capital	286.92	286.92	286.92
Revenue Reserve	6,102.45	3,877.10	4,096.15
Equity (excl. Revaluation Surplus)	6,389.37	4,164.02	4,383.07

Income Statement (PKR Millions)	MY23A	MY24A	9MMY25M
Net Sales	26,375.72	32,274.65	15,436.36
Gross Profit	6,187.27	2,220.56	1,404.45
Operating Profit	4,317.65	258.69	253.16
Finance Costs	2,738.37	4,072.52	2,663.47
Profit Before Tax	1,579.28	-3,813.83	-2,410.31
Profit After Tax	1,699.14	-2,637.26	-1,482.31

Ratio Analysis	MY23A	MY24A	9MMY25M
Gross Margin (%)	23.46%	6.88%	9.10%
Operating Margin (%)	16.37%	0.80%	1.64%
Net Margin (%)	6.44%	-8.17%	-9.60%
Funds from Operation (FFO) (PKR Millions)	3,138.00	-2,773.38	-1,767.45
FFO to Total Debt* (%)	31.42%	-20.51%	-11.21%
FFO to Long Term Debt* (%)	61.34%	-53.35%	-98.66%
Gearing (x)	1.56	3.25	4.80
Leverage (x)	2.67	4.44	5.93
Debt Servicing Coverage Ratio* (x)	1.27	0.26	0.17
Current Ratio (x)	1.01	0.73	0.85
(Stock in trade + trade debts) / STD (x)	1.49	0.60	0.76
Return on Average Assets* (%)	6.02%	-8.34%	-5.62%
Return on Average Equity* (%)	32.15%	-49.98%	-46.25%
Cash Conversion Cycle (days)	79.23	59.39	164.64

**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 Industry
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings
Rating History	(see table below)

Rating Date	Medium to Long Term	Short Term	Rating Outlook/Rating Watch	Rating Action
RATING TYPE: ENTITY				
10/27/2025	A-	A2	Stable	Reaffirmed
09/06/2024	A-	A2	Stable	Reaffirmed
11/06/2023	A-	A2	Stable	Reaffirmed
10/28/2022	A-	A2	Stable	Reaffirmed
11/23/2021	A-	A2	Stable	Reaffirmed
11/10/2020	A-	A2	Stable	Reaffirmed
10/18/2019	A-	A2	Stable	Upgrade
11/15/2018	BBB+	A2	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.
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Due Diligence Meetings Conducted	(see table below)

Name	Designation	Date
Saqib Khan	Chief Financial Officer	09/19/2025
Jawad Azam	Senior Manager Finance	
Asad Ullah	Deputy Manager Taxation	