RATING REPORT

Faran Sugar Mills Limited

REPORT DATE:

April 11, 2025

RATING ANALYSTS:

Saeb Muhammad Jafri
saeb.jafri@vis.com.pk

RATING DETAILS				
Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A-	A2	A-	A2
Outlook/Rating Watch	Stable		Stable	
Rating Action	Reaffirmed		Maintained	
Rating Date	*April 11, 2025*		*December 29, 2023*	

COMPANY INFORMATION	
Incorporated in 1981	**External auditors:** Rahman Sarfaraz Rahim Iqbal Rafiq Chartered Accountants
Public Limited Company	**Chairman of the Board:** Muhammad Omar Amin Bawany
Key Shareholding	**Chief Executive Officer:** Ahmed Ali Bawany
Ahmed Ali Bawany – 32.02%	
Omar Amin bawany – 8.21%	
Shahida Amin – 6.00%	
Gulshanra Amin – 5.20%	
Ayesha Amin – 6.00%	
Ruksana Omar Bawany- 8.52%	
National Investment Unit Trust - 8.48%	
Roshan Ara Mohammad Amin - 6.00%	
Bilal Omar Bawany – 2.20%	
Hamza Omar Bawany – 2.58%	

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

Faran Sugar Mills Limited (FSML) was incorporated in November 3, 1981 and commenced commercial operations on November 25, 1981. The principal business activity of the Company is manufacturing and selling of White Refined Sugar.

RATING Report

Company Profile.

Faran Sugar Mills Limited ('FSML' or 'the Company') was incorporated in Pakistan on November 03, 1981 as a public limited company. The shares of the Company are listed on Pakistan Stock Exchange (PSX) with approx. 80% shareholding with sponsors / directors. The principal business of the Company is the production and sale of white crystalline sugar. The registered office of the Company is located in Karachi and the manufacturing unit is located at Shaikh Bhirkio District, Tando M. Khan.

Group Profile:

The Amin Bawany Group, founded in 1897, is a diversified conglomerate with key businesses including Reliance Insurance Compamy limited, BF Modaraba, Faran Sugar Mills, and Unicol Limited ('Unicol" or "the JV").

Unicol Limited: This distillery is a joint venture by FSML, Mehran Sugar Mills, and Mirpurkhas sugar mills with 33% shareholding each. It is an export based unit and produces ethanol from molasses which is a by product of sugar production in Pakistan. Unicol has been operational since 2007 with a production capacity of 200,000 Litres or 160 MT/day for ethanol.

FSML, along with the other sponsors, supply molasses to Unicol on an arm's length basis. In the year 2023, Unicol acquired entire assets of Popular Sugar Mills with capacity of 8,000 MT crushed / day for sugar with a view to further secure its supply chain of molasses. The supply side is largely dependent upon the sugar industry while demand for ethanol has its own independent dynamics. PACRA has assigned credit rating of A/A-1 since 2021, last rating action was maintained on March 15, 2024.

Business Risk and Industry Update:

The business risk profile of the sugar sector in Pakistan is assessed as medium, shaped by seasonal and cyclical production patterns, competitive procurement pressures, government intervention, and exposure to price and interest rate risks. Sugarcane production is concentrated within a 2–3-month window (Dec – Feb/Mar), while sugar stocks must be carried throughout the year, exposing mills to price and interest rate risks. Low crop yields and variations in sucrose recovery rates persist due to the absence of R&D and mechanized farming. Despite these inefficiencies, sugar demand remains inelastic, driven by population growth and demand from ancillary industries.

The perishable nature of sugarcane necessitates proximity between farms and sugar mills, resulting in high competition for procurement and exerting pressure on raw material costs. This is further compounded by the minimum procurement price set by the government, which particularly affected smaller players. However, in line with IMF conditionalities, this policy has been discontinued from the 2024-25 season onward.

Sugar demand is primarily driven by population growth and increasing demand from the food processing and beverage industries, which account for approximately 7% of total production. Sugar, being a commodity, competition risk on the demand side is medium to low though the demand vs supply situation affects all players. However, it remains high on the supply side due to the clustering of mills near sugarcane-growing areas.

During the crushing season 2023-24, total sugarcane crushed was 67,380,000 MT compared to 65,135,310 MT in the previous year. The government increased the minimum support price (MSP) for sugarcane to Rs. 400 per 40 kg in Punjab (from Rs. 300) and Rs. 425 per 40 kg in Sindh (from Rs. 302). It should be noted that the actual procurement price for sugar mills is usually higher depending upon proximity of other sugar mills. Sugar production was 6.5 million tons as per the

US Department of Agriculture (USDA) report(2022-23: 6.8 million tons). Sucrose recovery remained largely consistent with the previous season, recorded at 10.23%.

With a carryover stock of 1.129 million tons at the start of the crushing season on November 1, 2023, total available sugar supply for the year was about 7.9 million tons. Domestic sugar consumption is estimated at 6.4 MMT in 2024 which resulted in excess carryover stocks in the market. As a result of pressure from sugar mills, government allowed exports of up to 750,000 MT between Jun-Dec 2024 according to industry sources, the major chunk of which went to Afghanistan with actual exports happening late in the year.

As of the end of November 2024, sugar stocks were estimated at approximately 1.08 million tons, including unutilized export quotas of 604,000 tons. By early December, industry estimates suggested that leftover stocks—excluding exportable quantities—stood at around 554,959 tons, incorporating fresh stocks entering the market.

Sugar prices in FY24 averaged PKR 143.92/kg, marking a 24% increase from PKR 115.97/kg in FY23. Prices peaked at PKR 157/kg before stabilizing at PKR 134/kg.

During the current season 2024-25, sugarcane production is projected to reach 83.5 million metric tons (MMT), a 2% increase from the previous year, primarily due to an expansion in cultivation area. According to the USDA, domestic sugar consumption is expected to rise marginally to 6.6 MMT in 2025 (from 6.4 MMT in 2024). Meanwhile, sugar production is projected to increase to 6.8 MMT in 2025 (from 6.6 MMT in 2024) along with any carryover stocks determining the overall supply situation.

FSML's Operational Performance:

Crushing Season	FY23	FY24	FY25
Crushing Capacity – MT per day	12,000	12,000	12,000
Cane Crushed – MT per day	8,311	8,106	5,877
Season Commenced	28- Nov 2022	10 – Nov- 2023	18-Nov- 2024
Season End	27- Feb 2023	24- Feb- 2024	1-Mar- 2025
Crushing Days	92	107	104
Total Cane Crushed MT	764,612	867,342	611,265
Sugar Produced – MT	79,427	90,727	60,052
Sucrose Recovery – %	10.39%	10.46%	9.82%
Molasses Produced- MT	35,562	37,690	29,556
Molasses Recovery Rate-%	4.65%	4.35%	4.83%

In FY23, sugarcane availability was adversely affected by floods, which destroyed a significant portion of crops ready for cultivation. Conversely, FY24 benefited from improved soil fertility, resulting in enhanced crop availability for sugar mills with slightly improved recovery rates.

Molasses production grew by 6% to 37,690 tons even though the molasses recovery rate fell to 4.35% because of higher cane crushed compared to the previous year FY23. The Company continues to supply its molasses production to its associate, Unicol Limited, which processes it into ethanol for export markets.

Of the 90,727 MT of sugar production, approx. 60,000 MTs were sold during FY2024 due to oversupply situation in the local market and delayed export permission from the Government. Faran Sugar was allocated 6,253 MTs for export.

The government linked permission for sugar exports to the starting date of crushing, with a maximum deadline of 21st November. FSML started crushing on 18th November 2024, crushing 225,191 tons of cane (compared to 450,099 tons in 2023-24) and producing 19,169 tons of refined sugar (compared to 42,840 tons in 2023-24) with an average recovery rate of 9.29% (down from 10.021%) as of 31st December 2024. For the ongoing 2024- 2025 season, no support price was set by any province similar to previous season due to conditions imposed by the International Monetary Fund (IMF).

The production season for the 2024-25 crushing has concluded. It is noted that lower amount of cane was crushed during this period due to lower sugarcane yields because of environmental reasons. The quality of cane was also lower resulting in lower sucrose recovery rates. This outcome is below the industry expectations for the period. As a result, it is noted that sugar prices have surged to ~ PKR 160-170/kg.

Financial Risk Profile

Total assets amounted PKR 9 billion while total equity amounted to PKR 1,412.92 mln with debt leverage at 5.34x at end of FY2024. Long term assets mainly comprise plant and machinery of PKR 3 billion and long-term investments of PKR 1.1 billion mainly in shares of Unicol Limited originally bought at a cost of PKR 101 million. FSML divested from its entire shareholding in Unifood in FY2023 with sales proceeds of PKR 188 mln.

Based on equity method, the carrying value of Unicol investment increased over the years to PKR 1,783 million at end of FY2023 with profitable operations. However, Unicol incurred a loss of PKR 1,957 mln in FY2024 and the value has reduced to PKR 1,105 mln at end of FY2024. This is the first loss incurred by the company in past five years due to multiple challenges including reduced ethanol sales with a significant reduction in prices and subdued performance of sugar division leading to a drop in gross margins from 33% in FY2023 to 7% in FY2024 with sales revenues of PKR 13,012 mln and PKR 5,087 mln respectively. The additional financing raised to finance acquisition of the sugar plant in a high interest rate scenario further stressed the bottom line with finance cost more than doubled to PKR 2,861 mln from PKR 1,130 mln in the previous year. Loss after tax amounted to PKR 1,957 mln compared to profit of PKR 2,734 mln in the previous year. Unicol closed 1Q2025 with a positive bottom line. However, the impact of sugar operations will be clear in next two quarters.

PKR in millions	FY2021	FY2022	FY2023	FY2024
Total Assets	5,262	7,043	15,463	16,275
Total Equity	3,095	3,440	5,350	3,316
Net Sales	8,382	8,917	15,064	19,217
Net profits	502	1,320	2,735	-1,957
Dividend Income	212	325	275	25
Investment Value	1,032	1,167	1,783	1,105

Current assets mainly comprise stocks which nearly doubled at end of FY2024 to PKR 3 billion. Trade debtors comprised PKR 606 mln at end of FY2024. According to the management, the government has closed Utility Stores Corporation and receivables of PKR 529 million were outstanding to FSML. According to the management, FSML has received a major portion of the overdue amounting to over Rs. 400 million from USC.

Total debt amounted to PKR 5,467 mln at the end of FY2024 from Islamic banks, of which short term debt was PKR 4,730 mln. Long term debt of PKR 736 mln has been largely raised under subsidized i-TERF and Islamic Financing for Renewable Energy from Bank Islami and Bank Al-Habib in March 2020. FSML has also raised Diminishing Musharakah facilities from the same banks at 1% spread to KIBOR. The short-term facilities significantly increased to PKR 4,730 mln from PKR 1,138 mln at the end of previous year due to the increase in stock level by PKR 1,370 mln and reduction in advances from customers of PKR 940 mln and PKR 1 billion shortfall in cashflows from operations before working capital changes. Short term facilities are also priced at a spread of 0.5-1% to KIBOR which is a reflection of good credit standing in the market.

The current ratio of the company has been historically low and further declined in FY2024 to 0.68x with payoff of maturing long-term debt through refinancing from short term sources given the significant loss incurred by the company during the year due to unsold inventories.

The position at 1Q2025 depicts reduction of inventories by approx. PKR 1 billion though trade debtors slightly increased as season has started. The Company was able to clear accrued markup of PKR 600 mln approx. with cash balance of PKR 475.8 mln at quarter end with operations at full swing. The level of borrowings was maintained from the previous year-end while trade credit increased largely from sugarcane procurement to PKR 1,596 mln.

The management, being cognizant of the significant stress on capital structure, undertook a rights issue of 58% at a premium of PKR 25 per share (prevailing market price as on 4 March 2025: PKR 45/ share) raising Rs. 507 million in January 2025 largely subscribed by the sponsors which depicts their support to the company.

Compared to the period FY2019-2022, FY2023 was an year of exceptional profits for FSML while in FY2024, FSML incurred a significant level of loss due to lower cane availability leading to high procurement prices, high level of sugar inventory leading to substantial carrying costs in an environment of high interest rates and share in loss of Unicol.

In FY24, FSML recorded an increase of 19.35% in revenues to PKR 11,143 mln (FY2023: PKR 9,336 mln) driven by sugar sales of PKR 9,347 mln with improvement in prices despite a 4.7% reduction in sales volume over the previous year as inventory piled up. Sale of molasses amounting to PKR 1,347 mln were entirely made to Unicol Ltd.

However, cane procurement costs increased by around 48% due to intense competition for sugarcane procurement attributed to a shift by regional farmers toward cultivating alternative cash crops according to the management. . The management has indicated that most of these farmers have switched back to sugarcane cultivation in the current season FY2024-25 as despite removal of minimum support price, the farmers were able to procure sugarcane crop at good prices. Gross profits reduced significantly to PKR 541.4 mln (FY2023: PKR 1,549 mln) with gross margins dipping to 4.86% in FY2024. Gross margins have remained volatile during FY2021-24 ranging between 1%-17% p.a.

The Company was able to contain its operating expenses largely. However, financial charges nearly doubled to PKR 1,415 mln from the previous year leading to operating loss of PKR 1,149 mln (FY23: PKR 626 mln).

Net profitability was further hit by share in loss of subsidiary of PKR 652 mln which is an accounting loss but nevertheless has implications for dividend income flow from the JV. Overall, FSML incurred loss of PKR 1,533 mln compared to profit of PKR 1,220 mln in FY2023. As mentioned earlier, both years show major deviation in performance compared to FY2019-22 where net profit / loss ranged from profit of PKR 380 mln to net loss of PKR370 mln. In the last six years, the company paid dividends in FY2019 and FY2023 based upon profit generation.

In 1Q2025, net sales were higher than in the corresponding period last year as the company offloaded the piled-up inventory even as additional production took place. Gross margins were slightly improved at 7.4%. While operating profits remained in line with last year, bottom line remains constrained with net profits at PKR 9.2 mln due to the high level of financial charges due to the quantum of borrowing.

The rights share issue is a well-timed and much needed decision made by the sponsors to strengthen the capital structure of the company operating in a cyclical and seasonal industry. The funds generated will reduce the mismatch and improve liquidity position. Further, ability and opportunity to offload sugar stocks timely will be key to maintain profitability during the

	year and improve ability for debt servicing without resorting to re-financing. Support from dividend cashflow from subsidiary is also uncertain for FY2025. Unicol also posted a profit during the quarter, however, the impact of sugar operations remains to be seen in the next two quarters.

Faran Sugar Mills Limited   Appendix I

Financial Summary

Balance Sheet (PKR Millions)	FY22A	FY23A	FY24A	3MFY25M
Property, plant and equipment	2,789.63	2,987.76	3,051.98	3,034.51
Long-term Investments	1,171.59	1,808.76	1,134.65	1,137.14
Stock-in-trade	2,008.43	1,694.00	3,063.79	2,270.16
Trade debts	228.67	360.94	606.09	736.76
Short-term Investments	1.16	5.51	6.23	7.67
Cash & Bank Balances	132.67	109.49	97.33	475.88
Other Assets	945.27	847.36	968.65	1,044.17
Total Assets	7,277.42	7,813.82	8,928.72	8,706.29
Creditors	195.67	244.07	192.87	0.00
Long-term Debt (incl. current portion)	1,176.88	985.65	736.09	681.04
Short-Term Borrowings	2,955.41	1,137.72	4,730.90	4,676.26
Total Debt	4,132.29	2,123.37	5,466.99	5,357.30
Other Liabilities	1,168.73	2,445.35	1,860.15	1,931.98
Total Liabilities	5,496.69	4,812.79	7,520.01	7,289.28
Paid up Capital	250.07	250.07	250.07	250.07
Revenue Reserve	1,521.51	2,741.54	1,146.00	1,155.17
Other Equity (excl. Revaluation Surplus)	8.47	8.47	8.47	8.47
Sponsor Loan	0.00	0.00	0.00	0.00
Equity (excl. Revaluation Surplus)	1,780.05	3,000.08	1,404.54	1,413.71

Income Statement (PKR Millions)	FY22A	FY23A	FY24A	3MFY25M
Net Sales	6,671.78	9,336.73	11,143.05	3,616.87
Gross Profit	476.94	1,549.68	541.39	266.40
Operating Profit	646.18	2,317.80	265.80	205.76
Finance Costs	469.56	779.78	1,415.16	155.30
Profit Before Tax	176.62	1,538.02	-1,801.71	53.95
Profit After Tax	27.39	1,220.04	-1,533.02	9.16

Ratio Analysis	FY22A	FY23A	FY24A	3MFY25M
Gross Margin (%)	7.15%	16.60%	4.86%	7.37%
Operating Margin (%)	9.69%	24.82%	2.39%	5.69%
Net Margin (%)	0.41%	13.07%	-13.76%	0.25%
Funds from Operation (FFO) (PKR Millions)	-58.11	425.74	66.95	-486.20
FFO to Total Debt* (%)	-1.41%	20.05%	1.22%	-36.30%
FFO to Long Term Debt* (%)	-4.94%	43.19%	9.10%	-285.56%
Gearing (x)	2.32	0.71	3.89	3.79
Leverage (x)	3.09	1.60	5.35	5.16
Debt Servicing Coverage Ratio* (x)	0.29	1.02	0.57	1.14
Current Ratio (x)	0.78	0.79	0.68	0.67
(Stock in trade + trade debts) / STD (x)	0.80	1.96	0.80	0.69
Return on Average Assets* (%)	0.42%	16.17%	-18.31%	0.42%
Return on Average Equity* (%)	1.55%	51.05%	-69.61%	2.60%
Cash Conversion Cycle (days)	92.26	87.99	90.22	86.95

**Annualized, if required*

A - Actual Accounts

M - Management Accounts

REGULATORY DISCLOSURES	Appendix II
Name of Rated Entity	Faran 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				
11-Apr-25	A-	A2	Stable	Reaffirmed
29-12-2023	A-	A2	Stable	Maintained
31-10-2022	A-	A2	Negative	Reaffirmed
11-08-2021	A-	A2	Negative	Maintained
20-03-2020	A-	A2	Stable	Reaffirmed
20-02-2019	A-	A2	Stable	Initial

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 Meetings

Name	Designation	Date
Mr. Muhammad Ayub	CFO	17^{th} Dec 2024
Mr. Atif Dhedhi	Senior Manager Finance	