

## FARAN SUGAR MILLS LIMITED

### Analyst:

Abdul Ahad Jamsa  
ahad.jamsa@vis.com.pk

### 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	May 11, 2026		April 11, 2025	

### Shareholding (5% or More)

Mr. Ahmed Ali Bawany – 32.02%  
Mrs. Rukhsana Omar Bawany – 8.52%  
National Investment Unit Trust - 8.48%  
Mr. Muhammad Omar Amin Bawany – 8.36%

### Other Information

Incorporated in 1981  
Public Limited Company  
Chief Executive: Mr. Ahmed Ali Bawany  
External Auditor: Rahman Sarfaraz Rahim Iqbal Rafiq Chartered Accountants.

### Applicable Rating Methodology

VIS Entity Rating Criteria Methodology – Corporates Ratings  
<https://docs.vis.com.pk/docs/CorporateMethodology.pdf>

### Rating Scale

<https://docs.vis.com.pk/docs/VISRatingScales.pdf>

### Rating Rationale

The assigned ratings reflect Faran Sugar Mills Limited's (FSML) long operational history in the sugar sector and its association with Amin Bawany Group. The sponsor support is evident from recent equity injection in terms of right issue on premium. The company's strategic investments in associated undertakings have started to generate sustainable income, which has, in turn, supported the company's bottom line. FSML core operations have also turned profitable after a sluggish MY24. Despite lower capacity utilization and sucrose recovery in MY25, margins improved on the back of higher sugar prices, lower average sugarcane procurement price and lower financial charges. The momentum continues in MY26 with further improvement in margins on account of significantly better sucrose recovery amid largely stable sugarcane procurement price. However, higher industry-wide production expectations may exert pressure on sugar prices, which may partially offset the benefit of improved sucrose recovery on margins, going forward.

The Company's capital structure improved on the back of equity support and debt reduction at end-MY25, while remaining broadly aligned with the seasonal working capital needs at end-1HMY26. Meanwhile, given low profitability from core operations and high payments related to financial charges, FFO remained negative, thereby having an adverse impact on coverages. Similarly, liquidity remained insufficient. Going forward, the ratings remain sensitive to the Company's ability to improve internal cash flow generation, improve coverages and liquidity while sustaining margins.

## Company Profile

Faran Sugar Mills Limited (FSML or “the Company”) is a public limited company incorporated in Pakistan on November 03, 1981. The Company’s shares are listed on the Pakistan Stock Exchange, with approximately 80% shareholding concentrated with sponsors and directors.

FSML is principally engaged in the production and sale of white crystalline sugar, forming part of Pakistan’s cyclical sugar industry, which is characterized by seasonal raw material availability and exposure to regulatory and commodity price risks. The registered office of the Company is located in Karachi, while its manufacturing facility is situated at Shaikh Bhirkio, District Tando Muhammad Khan, Sindh.

### Group Profile

The Amin Bawany Group, established in 1897, is a diversified conglomerate with interests across insurance, financial services, and sugar/ethanol manufacturing. Key group companies include Reliance Insurance Company Limited, BF Modaraba, Faran Sugar Mills Limited, and Unicol Limited (“Unicol” or “the JV”).

Unicol Limited is a joint venture among Faran Sugar Mills Limited, Mehran Sugar Mills Limited, and Mirpurkhas Sugar Mills Limited, with each partner holding an equal 33% stake. Unicol operates as an export-oriented ethanol producer, manufacturing ethanol from molasses, a key by-product of the sugar industry in Pakistan. Unicol has been operational since 2007, with a production capacity of approximately 200,000 liters per day of ethanol.

FSML, along with other sponsors, supplies molasses to Unicol at an arm’s length basis, reflecting structured inter-company commercial arrangements. Unicol expanded its operational base through the acquisition of the entire assets of Popular Sugar Mills, which added sugar crushing capacity of around 8,000 MT/day. This strategic move was aimed at strengthening backward integration and ensuring a more secure and stable molasses supply chain.

While ethanol supply is largely dependent on availability of molasses, demand is driven by export markets and follows its own independent pricing and demand cycles, providing some diversification benefits relative to the domestic sugar business.

## Management and Governance

The Company’s management is led by Mr. Ahmed Ali Bawany, a seasoned professional, supported by an experienced team responsible for ensuring sound operational oversight and effective execution of strategic objectives. The governance framework is reinforced by a nine-member Board of Directors, which provides strategic guidance and oversight, reflecting a structured and well-established management and governance profile at FSML.

## Industry Profile & Business Risk

The business risk profile of Pakistan’s sugar industry remains medium, reflecting structural seasonality, high regulatory sensitivity, and persistent cost pressures, despite tentative signs of production recovery. During the 2024–25 crushing season, national sugar output declined to 5.77 million metric tons (MMT) from 6.8 MMT a year earlier, primarily due to lower sucrose recovery and adverse weather conditions. The sector’s challenges were compounded by the government’s inconsistent export policy, which allowed substantial sugar exports in 2023 and early 2024 despite forecasts of domestic shortfalls. Exporters benefited from favorable international prices, leaving local markets exposed to supply constraints and price volatility. As a result, retail sugar prices surged to PKR 165–170/kg by mid-2025, peaking near PKR 180/kg amid perceived scarcity. Policy risk remains elevated, as reforms introduced under the IMF program, including the removal of the minimum support price, have heightened market exposure for both growers and mills. Sugar production is projected to recover to approximately 6.6 MMT in 2025–26, representing a 13.7% year-on-year increase, supported by improved cane yields and higher sucrose recovery rates. Total sugarcane output is expected to rise to 83.5 million MT, up roughly 4%, while domestic consumption is forecast around 6.8 MMT, driven steady demand from the food and beverage sector. Given improved production and carryover stock of 0.77 MMT, surplus sugar stock is expected by end-MY26, assuming nil exports. Retail prices are expected to remain range-bound. Elevated

input costs, including energy, fertilizer, and transport, alongside water scarcity and delayed cane payments will continue to constrain industry margins. Overall, the industry remains exposed to moderate but persistent business risk, underpinned by improving output and stable consumption, yet constrained by structural inefficiencies, high working-capital intensity, and policy-driven volatility.

### Operational Update

Crushing Season	2022-23	2023-24	2024-25	2025-26
Crushing Capacity - tpd	12,000	12,000	12,000	12,000
Cane Crushed - tons	764,606	867,332	611,266	711,054
Crushing Days	92	107	104	102
Capacity Utilization - %	69.26%	67.55%	48.98%	58.09%
Sucrose Recovery - %	10.39%	10.46%	9.82%	11.19%
Sugar Produced - tons	79,427	90,727	60,052	79,554
Molasses Produced - tons	35,562	37,690	28,160	34,558
Molasses Recovery Rate - %	4.65%	4.35%	4.61%	4.86%

During the 2024–25 crushing season, the Company's performance remained under pressure due to constrained cane availability and lower crop quality, resulting in a decline in cane crushed to 611,266 tons (2023–24: 867,332 tons) and a significant drop in capacity utilization to ~49%. In addition, sucrose recovery deteriorated to 9.82% (2023–24: 10.46%), reflecting weaker cane quality and lower extraction efficiency. Consequently, sugar production declined to 60,052 tons, indicating pressure on both volumes and operational performance. This was partially offset by higher sugar prices, lower finance costs, and improved sugarcane procurement pricing, which declined from Rs 499 per maund in MY24 to Rs 473 per maund in MY25, during the period.

In the 2025–26 crushing season, operations demonstrated a recovery in performance, supported by improved cane availability and better recovery levels. Cane crushed increased to 711,054 tons, with capacity utilization improving to ~58%, while sucrose recovery strengthened to 11.19%, indicating improved cane quality and operational efficiency. This led to a recovery in sugar production to 79,554 tons. MY26 reflects mixed pricing and supply dynamics in the sugar sector. Cane procurement prices have moderated to Rs 470 per maund, while the absence of a support price adds uncertainty to farmer incentives, potentially affecting future cane availability. On the sugar side, expectations of higher industry-wide production may weigh on prices, partly offset by improved recovery and operational efficiencies.

## Financial Risk

### Capital Structure

Total equity strengthened to PKR 2.24 billion by the end of 1QMY26, supported by retained earnings from profitability, while paid-up capital remained at PKR 395 million. Total borrowings, after declining to PKR 2.7 billion in MY25, increased to PKR 4.3 billion in 1QMY26, with the rise largely concentrated in short-term facilities to support elevated working capital requirements and short-term investments. Meanwhile, long-term debt continued its downward trajectory in MY25 due to scheduled repayments under concessionary financing schemes (IFRE/ITERF) obtained for earlier plant expansion, and further eased in 1QMY26.

Capitalization metrics reflected a marked improvement in MY25, with the gearing ratio declining to 1.25x (MY24: 3.89x) and the leverage ratio easing to 1.75x (MY24: 5.35x). This strengthening was driven by issuance of right shares including share premium

amounting to PKR 507 million, alongside repayment of both long-term and short-term borrowings. However, this trend partially reversed in 1QMY26, with gearing increasing to 1.93x and leverage rising to 2.65x, primarily due to a buildup in short-term borrowings to support higher working capital requirements.

### Profitability

The Company reported net sales of PKR 11.9bn in MY25, reflecting a 7% year-on-year increase, primarily driven by higher sugar prices, which partially offset by a significant decline in sales volumes. The decline in volumes was due to lower sugar production during the season, stemming from constrained cane availability and relatively weaker recovery rates. In terms of product mix, sugar continued to dominate the revenue base, with its contribution increasing to 92% in MY25 (MY24: 86%), supported by stronger price dynamics and sustained demand. Meanwhile, revenues from molasses and bagasse declined due to lower volumes for both by-products. However, this was partially offset by divergent pricing trends, with molasses prices declining while bagasse prices improved during the period.

Gross margins improved to 8.8% in MY25 (MY24: 4.9%), driven by higher sugar prices and lower average sugarcane procurement costs, despite a decline in sucrose recovery during the period. Operating margins also strengthened, supported by a notable increase in share of profit from associate companies amounting to PKR 117 million (MY24: PKR loss 652 million). Finance costs declined to PKR 801 million (MY24: PKR 1,079 million), primarily due to the repayment of both short-term and long-term borrowings, coupled with relatively lower effective borrowing rates during the period. Consequently, the Company reported a net profit of PKR 255 million in MY25 (MY24: PKR -1,533 million), translating into a net margin of 2.1%.

During 1QMY26, net sales stood at PKR 1.5bn, supported by improved selling prices; however, overall sales remained subdued due to lower dispatch volumes, primarily on account of reduced carryover stock and the late commencement of the crushing season. Sales are expected to pick up as the crushing season progresses. Gross margins improved to 10.1%, driven by higher sugar prices, slightly lower sugarcane procurement costs, and an improved sucrose recovery rate. Operating margins also expanded to 11.4%, supported by higher share of profit from associate companies. Net margins of 4.8% were further supported by lower finance costs.

### Debt Coverage & Liquidity

In MY25, despite a return to positive profitability at the net level, Funds from Operations (FFO) remained negative at Rs. (492.5) million mainly due to higher financial charges paid, albeit showing slight improvement from Rs. (614.4) million in MY24. Consequently, debt coverage metrics remained under stress and FFO to debt coverages remained meaningless. Liquidity position weakened further, with the current ratio declining to 0.40x (MY24: 0.68x). Working capital coverage also diminished, as stock-in-trade and trade debts together provided only 0.34x coverage of short-term borrowings, down from 0.78x in the previous year. Conversely, the cash conversion cycle improved to 67 days (MY24: 90 days). Debt servicing capacity remained constrained; although the DSCR improved to 0.82x (MY24: 0.15x), it remained below 1.0x, indicating insufficient internal headroom to fully meet repayment obligations without reliance on external support. During 1QMY26, coverage indicators remained under pressure. Going forward, improvement in cash flow coverages will be critical for the assigned ratings.

FINANCIAL SUMMARY		(Rs. in millions)			
<b>BALANCE SHEET</b>	<b>MY22</b>	<b>MY23</b>	<b>MY24</b>	<b>MY25</b>	<b>1QMY26</b>
Property, plant and equipment	2,790	2,988	3,052	3,014	2,974
Stock-in-Trade	2,008	1,694	3,064	413	914
Trade Debts	229	361	606	321	829
Long Term Investments	1,172	1,809	1,135	1,258	1,333
Short Term Investments	1	6	6	-	900
Cash & Bank Balances	133	109	97	137	285
<b>Total Assets</b>	<b>7,277</b>	<b>7,814</b>	<b>8,920</b>	<b>5,979</b>	<b>8,189</b>
Trade Payables	196	244	193	99	154
Long Term Debt	1,177	986	726	566	539
Short Term Debt	2,955	1,138	4,731	2,144	3,792
<b>Total Debt</b>	<b>4,132</b>	<b>2,123</b>	<b>5,457</b>	<b>2,710</b>	<b>4,332</b>
Total Liabilities	5,497	4,813	7,511	3,801	5,930
Paid Up Capital	250	250	250	395	395
<b>Total Equity</b>	<b>1,781</b>	<b>3,001</b>	<b>1,409</b>	<b>2,178</b>	<b>2,259</b>
<b>INCOME STATEMENT</b>	<b>MY22</b>	<b>MY23</b>	<b>MY24</b>	<b>MY25</b>	<b>1QMY26</b>
Net Sales	6,672	9,337	11,143	11,967	1,528
Gross Profit	477	1,550	541	1,055	155
Operating Profit	646	2,318	(385)	980	174
Profit Before Tax	177	1,538	(1,802)	178	95
Profit After Tax	27	1,220	(1,533)	255	74
<b>RATIO ANALYSIS</b>	<b>MY22</b>	<b>MY23</b>	<b>MY24</b>	<b>MY25</b>	<b>1QMY26</b>
Gross Margin (%)	7.1%	16.6%	4.9%	8.8%	10.1%
Operating Margin (%)	9.7%	24.8%	-3.5%	8.2%	11.4%
Net Margin (%)	0.4%	13.1%	-13.8%	2.1%	4.8%
Funds from Operation (FFO)	-58.1	425.7	-614.4	-492.5	-24.7
Gearing (x)	2.32	0.71	3.89	1.25	1.93
Leverage (x)	3.09	1.60	5.35	1.75	2.65
Debt Servicing Coverage Ratio* (x)	0.29	1.02	0.15	0.82	0.53
Current Ratio (x)	0.78	0.79	0.68	0.40	0.64
(Stock in trade + trade debts) / STD (x)	0.76	1.81	0.78	0.34	0.46
Return on Average Assets* (%)	0.4%	16.2%	-	3.4%	4.2%
Return on Average Equity* (%)	1.6%	51.0%	-	14.3%	13.4%
Cash Conversion Cycle (days)	92	88	90	67	70

## REGULATORY DISCLOSURES Appendix II

<b>Name of Rated Entity</b>	Faran Sugar Mills Limited				
<b>Sector</b>	Sugar				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Entity Ratings				
<b>Rating History</b>	<b>RATING TYPE: ENTITY</b>				
	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	11-05-2026	A-	A2	Stable	Reaffirmed
	11-04-2025	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
<b>Statement by the Rating Team</b>	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.				
<b>Probability of Default</b>	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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<b>Due Diligence Meeting Conducted</b>	<b>S.No.</b>	<b>Name</b>	<b>Designation</b>	<b>Date</b>	
	1	Muhammad Ayub	CFO	7 <sup>th</sup> May 2026	
	2	Atif Dhedhi	Senior Manager Finance		
	3	Hassan Farrukh	Sr. Accounts Officer		