RATING REPORT

JDW Sugar Mills Limited (JDWSML)

REPORT DATE:
November 03, 2015

RATING ANALYSTS:
Waqas Munir, FRM
waqas.munir@jcrvis.com.pk

Maham Qasim
maham.qasim@jcrvis.com.pk

RATING DETAILS

	Latest Rating		Previous Rating	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity	A	A-1	A	A-1
Rating Date	*27 Oct'15*		*17 Feb'15*	
Rating Outlook	Positive		Positive	
Outlook Date	*27 Oct'15*		*17 Feb'15*	
Instrument Rating	A+		A+	
Rating Outlook	Positive		Positive	
Rating Date	*27 Oct'15*		*17 Feb'15*	

COMPANY INFORMATION

Incorporated in 1990	**External auditors:** M/s KPMG Taseer Hadi& Co., Chartered Accountants
Public Limited Company	**Chairman of the Board:** Mr. Makhdoom Syed Ahmed Mahmud
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Jahangir Khan Tareen
Directors, CEO and their spouse– 51.8%	
General Public– 40.7%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria : Sugar Industry (October 2011)
http://www.jcrvis.com.pk/Images/2011-Sugar.pdf

JDW Sugar Mills Limited (JDWSML)

OVERVIEW OF THE INSTITUTION

JDWSML was incorporated as a private limited company in May, 1990 under the Companies Ordinance 1984. Primary activities of JDWSML include production and sale of crystalline sugar, electricity and managing corporate farms. The company is listed on the Karachi and Lahore Stock Exchanges

RATING RATIONALE

The ratings assigned to JDW Sugar Mills Limited (JDWSML) take into account leading position of company in the sugar sector of the country. Scale of operations along with operational efficiencies and diversification in revenue streams has enabled JDWSML to withstand the impact of prolonged downturn in sugar prices. Revenues from forward integration into co-generation are considered sustainable and provide impetus to the company's profitability. While major debt repayments are due in the coming years, cash coverages are expected to remain adequate.

Sugar sector is cyclical and vulnerable to price fluctuations. Sugar cane prices, the major input cost, are regulated by the Government and as such, have no relation with the sugar prices. The sugar sector is exposed to agro-climactic risks which has a bearing on the cane output. Sugar prices have remained depressed for an extended period of time owing to surplus availability of the commodity.

While volumetric sales of sugar declined, revenues (annualized) increased to Rs. 32.9b during 9MFY15 (FY14: Rs. 30.5b) attributable to higher revenues from electricity sales. Improvement in sucrose recovery and higher average sales prices reflected positively on the gross margins of the company; gross margin of JDWSML compare favorably with sector averages. Financial charges increased on account of higher average borrowings. With higher revenues from electricity sales alongwith improvement in gross margins and income from export subsidy, profit before tax (annualized) increased to Rs. 1.8b during 9MFY15 (FY14: Rs. 978.4m). Accounting for tax benefit, profit after tax (annualized) amounted to Rs. 2.0b (FY14: Rs. 979.7m). Profitability of the company is projected to grow at a compounded annual growth rate of 9% over the next five years.

Increase in debt levels during the ongoing year are cyclical and pertained to higher short-term borrowings arranged for carry over sugar stock; the same has subsided by year-end. Long term debts mainly pertain to borrowing for co-generation plant, acquisition of sugar cane cultivation activities and BMR at unit-II. Gearing indicators, after increasing in the recent years, have exhibited downward trend on account of expansion of equity base. In line with management aim of deleveraging balance sheet, gearing is projected to improve further. Debt service coverage ratio remained adequate and improved further to 1.84x (FY14: 1.33x) during 9MFY15. CAPEX requirement in the medium term is expected to be met from internal capital generation.

Company's investment in associated concern, Faruki Pulp Mills Limited, is non-earning; proportion of the same in overall asset base is low. During FY15, partial impairment was booked against the investment; additional impairment is projected in the coming years. As per management, no additional investment is planned in the associated concern in the foreseeable future.

Management team of JDWSML comprises seasoned resources carrying significant experience of the sugar and agriculture sector. Healthy relationship with growers' alongwith investments in sugarcane development activities has ensured timely and adequate availability of sugarcane. Support functions have kept up pace with the growing scale of the institution.

JDW Sugar Mills Limited (JDSML) Appendix I

BALANCE SHEET	9MFY15	30-Sep-14	30-Sep-13
Fixed Assets	18,341	17,136	10,073
Stock-in-Trade	10,577	4,384	3,324
Trade Debts	1,380	663	240
Cash & Bank Balances	416	87	41
Total Assets	40,922	33,678	23,762
Trade and Other Payables	9,338	4,627	2,789
Long Term Debt *(*incl. current maturity)*	10,417	11,722	6,570
Short Term Debt	11,868	9,067	6,834
Total Equity	7,205	5,981	5,489

INCOME STATEMENT	9MFY15	30-Sep-14	30-Sep-13
Net Sales	24,645	30,535	27,183
Gross Profit	3,712	3,229	3,202
Operating Profit	3,509	2,922	2,567
Profit After Tax	1,522	980	925

RATIO ANALYSIS	9MFY15	30-Sep-14	30-Sep-13
Gross Margin (%)	15.10	10.60	11.80
Net Working Capital	-6,278	-4,862	-2,501
FFO to Total Debt (x)	0.13	0.16	0.12
FFO to Long Term Debt (x)	0.20	0.14	0.24
Debt Servicing Coverage Ratio (x)	1.84	1.33	1.02
ROAA (%)	5.40	3.40	4.00
ROAE (%)	30.80	17.10	17.80

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix III

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: JCR-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.jcrvis.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.jcrvis.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.

'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.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-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 IV

Name of Rated Entity	JDW Sugar Mills Limited
Sector	Sugar
Type of Relationship	Solicited
Purpose of Rating	Entity Rating& Instrument Rating

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
2/17/2015	A	A-1	Positive	Maintained
10/7/2013	A	A-1	Stable	Reaffirmed
9/5/2012	A	A-1	Stable	Reaffirmed
8/16/2011	A	A-1	Stable	Upgrade
RATING TYPE: INSTRUMENT RATING				
2/17/2015	A+		Positive	Initial

Instrument Structure	The total issue comprises of 10 TFC's having a face value of Rs. 50,000,000 each. Principal repayment is in 18 equal quarterly installments commencing after a grace period of six months starting from December 2013 and ending in March 2018. The return payable on TFC-II is on 3-M KIBOR plus 250 bps. The loan is secured by joint paripasu charge on both present and future fixed assets including plant and machinery of the company and its subsidiary. The security package also includes personal guarantees of directors.
Statement by the Rating Team	JCR-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	JCR-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, JCR-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. JCR-VIS is not an NRSRO and its ratings are not NRSRO credit ratings. Copyright 2015 JCR-VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to JCR-VIS.