# RATING REPORT

# JDW Sugar Mills Limited (JDWSML)

**REPORT DATE:**

19/May/2017

**RATING ANALYSTS:**

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## 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*** | *13 Apr' 17* | | *17 Feb'15* | |
| | | | | |
| **Rating Outlook** | Stable | | Positive | |
| ***Outlook Date*** | *13 Apr' 17* | | *17 Feb'15* | |
| | | | | |
| **Instrument Rating** | AA- | | A+ | |
| **Rating Outlook** | Stable | | Positive | |
| ***Rating Date*** | *13 Apr' 17* | | *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. Raheal Masud |
| Directors, CEO and their spouse– 52.45% | |
| General Public– 39.91% | |
| | |

## APPLICABLE METHODOLOGY(IES)

**JCR-VIS Entity Rating Criteria** *Industrial Corporate (May, 2016)*
http://www.jcrvis.com.pk/kc-meth.aspx

# 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 and was subsequently converted into a public limited company in August, 1991. Principal activities of JDWSML include production and sale of crystalline sugar, electricity and managing corporate farms. Shares of the company are listed on the Pakistan Stock Exchange.

**Profile of Chairman**

Mr. Syed Ahmed Mahmud is a renowned political figure. He served as Governor of Punjab during the years 2012-2013.

**Profile of CEO**

Mr. Raheal Masud brings with himself vast experience of the manufacturing sector. He joined JDW Sugar Mills as General Manager in 1991.

**Financial Snapshot:**

Net equity: 1QFY17 – Rs.9.1b, FY16 – Rs. 8.3b

Net profit: 1QFY17 – Rs.761.6m,FY16: Rs.2.0b

## 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. Higher volumetric sales, sustained sucrose recovery rates and improved sugar prices has benefited the company in terms of sizeable increase in sales and improved gross margins providing impetus to the profitability and cashflows. Meanwhile, revenues from co-generation continue to provide diversity to the revenue stream of the company and are considered sustainable. While major debt repayments are due in the coming years, overall financial risk profile of the institution is expected to remain commensurate with the outstanding ratings.

**Production:** JDWSML has three production units two located in Punjab and one in Sindh Province. During FY16-17 crushing season, 5,962,02MT of sugarcane has been crushed by end-Feb, 2017. The impact of lower sucrose recovery rates during the outgoing crushing season is expected to be mitigated by increased cultivation area leading to sustain level of sugar production. JDWSML co-generation power plants at unit II and unit III provide renewable electricity under Energy Purchase Agreements executed with National Transmission & Dispatch Company Limited. The company plans to establish two wholly owned subsidiaries for expansion of its existing bagasse based power plants business.

**Profitability:** During FY16**,** gross sales increased by around 15% with increased manifested in higher revenue from sugar on account to improved selling price. Accordingly, gross margins improved to 17.3 % (FY15: 14.8%). Profitability of the company was also supported by lower finance cost on account of falling interest rate regime. Revenues of the company are projected to grow at a Compounded Annual Growth Rate (CAGR) of 5% over the next five years while gross margins are expected to sustain around 18%.

**Cashflows:** With improved profitability and lower financial charges, Funds From Operations (FFO) improved to Rs. 5.0b (FY15: 2.5b). FFO amounted to Rs. 1.1b during 1QFY17. Improvement in cash flows was also reflected in the coverages ratio with Debt Service Coverage Ratio (DSCR) improving to 1.51x at end-FY16 (FY15: 1.29x). Going forward, cash flows are expected to get impetus from higher revenues and sustained margins with projected cashflows expected to remain adequate to timely service debt.

**Borrowings:** At end-1QFY17, total debt amounted to Rs. 18.2b (FY16: Rs. 16.6b) with long term debt representing around 72% of the total debt. Quantum of short term debt remains cyclical and is a function of carry over stock. Long term borrowing is expected to decline further in the coming years on account of gradual repayment. With strong internal capital generation, gearing levels of the company improved to 2.0x at end-1QFY17 (FY16: 2x; FY15: 2.9x).

**Management:** Management team of JDWSML comprises seasoned resources carrying significant experience of the sugar and agriculture sector. Healthy relationship with growers' along with 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 1

| BALANCE SHEET (Amounts in Millions) | 1QFY17 | FY16 | FY15 |
|---|---|---|---|
| Fixed Assets | 19,648.3 | 19,541.7 | 18,668.7 |
| Stock-in-Trade | 8,705.7 | 5,035.6 | 4,860.6 |
| Trade Debts | 1,259.6 | 1,025.6 | 1,108.9 |
| Cash & Bank Balances | 979.6 | 6.6 | 49.6 |
| Total Assets | 38,708.9 | 34,146.1 | 34,959.2 |
| Trade and Other Payables | 9,404.7 | 7,327.7 | 5,995.6 |
| Long Term Debt *(*incl. current maturity)* | 13,187.2 | 13,213.9 | 10,865.4 |
| Short Term Debt | 5,132.8 | 3,415.7 | 9,313.7 |
| Total Equity | 9,082.3 | 8,320.8 | 7,016.6 |
| | | | |
| **INCOME STATEMENT** | **1QFY17** | FY16 | FY15 |
| Net Sales | 10,835.1 | 37,287.4 | 32,663.4 |
| Gross Profit | 1,498.9 | 6,454.5 | 4,865.5 |
| Operating Profit | 1,238.5 | 3,979.1 | 3,453.1 |
| Profit After Tax | 761.6 | 2,033.9 | 1,517.3 |
| | | | |
| **RATIO ANALYSIS** | **1QFY17** | FY16 | FY15 |
| Gross Margin (%) | 13.8 | 17.3 | 14.9 |
| FFO to Total Debt (x) | 0.24 | 0.30 | 0.12 |
| FFO to Long Term Debt (x) | 0.33 | 0.38 | 0.23 |
| Debt Servicing Coverage Ratio (x) | 1.49 | 1.51 | 1.29 |
| ROAA (%) | 2.1 | 5.2 | 3.9 |
| ROAE (%) | 8.8 | 26.4 | 22.9 |

# 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.

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**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** | | |
| 04/13/2017 | A+ | A-1 | Stable | Upgrade |
| 10/27/2015 | A | A-1 | Positive | Reaffirmed |
| 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** | | |
| 04/13/2017 | AA- | | Stable | Reaffirmed |
| 10/27/2015 | A+ | | Positive | Reaffirmed |
| 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 100 bps. The loan is secured by joint pari pasu 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. |
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