RATING REPORT

JDW Sugar Mills Limited (JDWS)

REPORT DATE:
April 27, 2020

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-2	A	A-2
Rating Outlook	Stable		Stable	
Rating Date	*April 27, 2020*		*March 19, 2019*	

COMPANY INFORMATION	
Incorporated in 1990	**External auditors:** M/s KPMG Taseer Hadi & Co. Chartered Accountants
Public Limited Company	**Chairman of the Board:** Mr. Mukhdoom Syed Ahmed Mahmud
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Jahanghir Khan Tareen
Directors, CEO and their spouse – 52.8%	
General Public – 38.1%	

APPLICABLE METHODOLOGY(IES)
Applicable Rating Criteria: Corporates (April, 2019)
https://s3-us-west-2.amazonaws.com/backupsqlvis/docs/Corporate-Methodology-201904.pdf

JDW Sugar Mills Limited (JDWS)

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

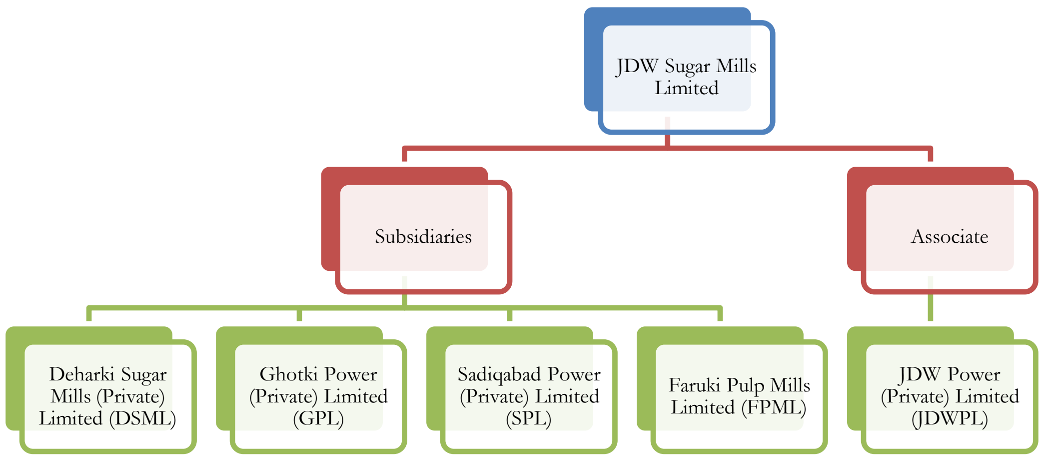
JDWS was incorporated as a private limited company in May, 1990 under the Companies Ordinance, 1984 and was subsequently converted into a public limited company in August, 1991.

Financial Statements of the company for MY19 were audited by KPMG Taseer Hadi & Co. Chartered Accountants

Profile of Chairman

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

JDW Sugar Mills Limited (JDWS) is part of JDW Group. The group has a presence in sugar, corporate farming, power generation and manufacturing of wood pulp from Eucalyptus. JDWS is principally engaged in manufacturing of sugar, production of electricity and managing corporate farms. The assigned ratings incorporate JDWS market position as the leading player in the country's sugar industry and significant experience of sponsors in the sugar and agriculture sector. Ratings also take into account strong corporate governance framework and professional management team. The company has longstanding relationships with growers alongwith focus on research activities in sugarcane development which is a competitive advantage. Support functions have kept up pace with the growing scale of the institution.



Deharki Sugar Mills (Private) Limited (DSML):

Deharki Sugar Mills (Private) Limited (DSML) is a wholly-owned subsidiary of JDW Sugar Mills Limited. The company is principally engaged in manufacturing and selling of crystalline sugar. Head office of the company is based in Lahore, whereas manufacturing unit is situated in Ghotki, Sindh. The company's installed sugarcane crushing capacity stands at around 13,000 MT per day.

Ghotki Power (Private) Limited (GPL) and Sadiqabad Power (Private) Limited (SPL):

Ghotki Power (Private) Limited and Sadiqabad Power (Private) Limited were incorporated in 2016 as wholly-owned subsidiaries of JDW Sugar Mills Limited. Both companies were incorporated for production of electricity under the expansion program of the Holding Company's existing bagasse based Co-Generation Power plants.

Faruki Pulp Mills Limited (FPML):

Faruki Pulp Mills Limited (FPML) was incorporated in 1991 and is primarily engaged in the manufacturing of wood pulp from Eucalyptus for consumption in the local and foreign paper industry. JDWS holds 57.67% shares of the subsidiary company.

Operating Performance

Sugar

The company's cumulative installed sugarcane crushing capacity stands at around 44,000 MT per day. During the outgoing year, the mill operated only 105 days (MY18: 146) primarily due to non-availability of raw material. Recovery rate has witnessed an upward trajectory and stood at 11.29% (MY18: 10.55%) during MY19. Overall sugar production declined by 28.0% during MY19. Management expects sugar production to decline further in the ongoing year due to limited availability of sugar cane and decline in recovery ratio.

	MY18	MY19
Unit 1		
Crushing capacity	3,000,000.0	3,000,000.0
Sugar production	409,507.0	287,394.0
Unit 2		
Crushing capacity	1,500,000.0	1,500,000.0
Sugar production	255,879.0	190,304.0
Unit 3		
Crushing capacity	2,100,000.0	2,100,000.0
Sugar production	223,325.0	162,580.0
The crushing capacity is based on 150 days (2018: 150 days)		
Crushing Period in days	146	105
Total Cane Crushed (Tons)	8,422,435.0	5,671,495.0
Total Sugar Production (Tons)	888,711.0	640,278.0
Recovery Ratio (%)	10.55%	11.29%
Molasses Produced (Tons)	422,602	231,294
Molasses Recovery (%)	5.04%	4.08%

Power Segment

	MY18	MY19
Co-Generation Power	MWh	
Unit II		
Installed capacity (based on 8,760 hours)	233,016.0	233,016.0
Energy generated/produced	211,109.0	218,608.0
Energy delivered to Central Power Purchasing Agency (Guarantee) Limited	176,740.0	192,313.0
Unit III		
Installed capacity (based on 8,760 hours)	235,031.0	235,031.0
Energy generated/ produced	210,533.0	176,429.0
Energy delivered to Central Power Purchasing Agency (Guarantee) Limited	187,007.0	156,076.0

The company's total installed power generation capacity stands at 468,047 MWh via two units. Power requirement of JDWS is met through the internal generation and the company does not rely on any sanctioned load from the grid. The remaining unutilized energy is sold to the Central Power Purchasing Agency (Guarantee) Limited. During the outgoing year, energy generated declined due to lower availability of bagasse.

Business risk

The business risk profile of the sugar sector is considered high given the inherent cyclicality in crop levels and raw material prices. Moreover, distortion in the pricing mechanism of raw material prices and refined sugar also creates challenges for sugar mills. Given the decline in area under cultivation in MY19 and the ongoing year, sugar production has declined and prices have trended upwards. However, increase in profitability is expected to be limited (barring those players that have sizeable carryover stock) due to significant jump in sugar cane prices and decline in recovery ratio (Tiddi Dal pest attack) in the ongoing year. Business risk profile draws support from diversification in revenue streams achieved through forward integration into co-generation segment which has consistently contributed to profitability over the years. While the crushing season has largely ended, disruption in operations/sales due to coronavirus outbreak remains a business risk factor.

Financial Profile

Sales Mix

Net Sales of the company grew by 31.8% during the outgoing year (FY19: Rs. 49.1b: FY18: Rs. 37.3b). The growth in sales was driven by the sugar segment. More than four-fifth of the revenues pertain to the sugar segment while the remaining sales have been generated from power and corporate farms segment.

Rs. In million	MY18		MY19	
Sugar	31,976.6	85.8%	43,495.1	88.5%
Co-generation Power	4,357.4	11.7%	4,550.9	9.3%
Corporate Farms	930.5	2.5%	1,073.8	2.2%
Total Sales	37,264.5	100.0%	49,119.9	100.0%

Sugar:

Sugar segment sales have grown by 36.0% in relation to the previous year (MY19: Rs. 43.5b; MY18: Rs. 32.0). The growth in sales was a combination of volumetric growth coupled with the increase in average selling price. Resultantly, sugar contribution to total sales mix has increased to 88.5% (MY18: 85.8%) during MY19. Majority of the sales have been generated through brokers with limited direct sales. During the outgoing year, the Government reduced the export quota resulting in a decline in quantity exported during MY19.

	MY18		MY19	
	Quantity M.Ton	%	Quantity M. Ton	%
Local Sales	423,071	69.0%	704,922	85.8%
Export Sales	190,329	31.0%	116,413	14.2%
Total Sales	613,400	100.0%	821,335	100.0%

Co-generation segment

Power segment sales increased by 4.4% in MY19 (MY19: Rs. 4.6b; MY18: Rs. 4.4b). Despite decline in energy generated due to the lower availability of bagasse, revenues were higher due to increase in tariff. Resultantly, contribution of co-generation segment in the overall sales mix has reduced from 11.7% in MY18 to 9.3% in MY19. Going forward, revenue from the power segment will increase due to tariff increment due to indexation.

Corporate Farms

Corporate Farm segment sales have grown by 15.4% in relation to the previous year (MY19: Rs. 1.1b; MY18: Rs. 0.9b). Overall, this segment has the lowest contribution in the total sales mix.

Profitability

Gross profit margin trended upwards during the outgoing year (MY19: 10.6%; MY18: 7.4%). Improvement in gross margin can be attributed to volumetric growth and increase in average selling prices of sugar. Despite sizeable increase in finance cost and impairment against investment in FPML, overall profitability improved due to increase in revenues and improvement in margins. Net Profit of the company was reported at Rs. 0.6b (MY18: Rs. -0.2b) during MY19. Going forward, the profitability of the company is expected to improve due to sizeable carryover stock carried at lower cost. Moreover, efficient procurement of sugar cane is expected to keep cost of production within manageable levels despite weakening expected in recovery ratio.

Liquidity

Liquidity profile has improved on a timeline basis due to increase in Funds From Operations (FFO) in MY19. Moreover, FFO is expected to further increase in the ongoing year which along with reprofiling of long-term debt is expected to improve debt servicing ability. For MY19, debt servicing coverage ratio stood at 0.8x (MY18: 0.6x). Working capital cycle is extended due to sizeable receivables pertaining to the power sector and high stock in trade levels. Stock in trade & trade debts as a proportion of short-term borrowing provide adequate coverage in relation to short term borrowings (MY19: 1.14x; MY18: 1.07x).

Capitalization

Equity base (excluding revaluation) of the company has grown to Rs. 8.9b (MY19: Rs. 8.7b; MY18: Rs. 8.2b) at end-1QMY20 on the back of internal capital generation. JDWS's total debt amounted to Rs. 25.6b (MY18: Rs. 36.4b) at end-MY19. The decline in total debt is a combination of a reduction in the short term and long term borrowing. More than three-fourths of the total debt is short-term borrowing mobilized to meet working capital requirements (MY19: Rs. 16.5b: MY18: 23.6b). During the ongoing year, the company has also re-profiled the long term debt, whereas the short term debt borrowing has reduced significantly on account of reduction in stock levels. While improving on a timeline basis, leverage indicators continue to remain elevated. Gearing and leverage ratio stood at 2.9x (MY18: 4.4x) and 4.5x (MY18: 6.0x), respectively at end-MY19. Higher internal capital generation, reduction in stock levels and projected debt repayments are expected to result in gradual reduction in leverage indicators over the rating horizon.

Financial Summary (amounts in PKR millions)				Appendix I
	MY17	MY18	MY19	Q1'20
BALANCE SHEET				
Property Plant and Equipment	21,476.8	22,010.2	21,958.9	21,831.2
Other non-current assets	3,201.1	3,185.4	2,538.3	2,544.4
Stock-in-Trade	7,939.8	19,730.0	11,505.7	10,086.7
Trade Debts	2,941.2	5,471.5	7,255.0	6,320.1
Cash & Bank Balances	133.8	105.9	92.0	218.4
Total Assets	42,362.0	57,813.5	48,260.2	45,240.7
Trade and Other Payables	8,301.0	2,618.2	3,050.6	4,344.9
Long Term Debt (including current maturity)	13,161.1	12,891.7	9,108.7	8,212.1
Short Term Debt	10,053.2	23,553.7	16,513.3	12,221.0
Total Debt	23,214.2	36,445.4	25,622.0	20,433.0
Total Liabilities	33,742.4	49,586.0	39,487.4	36,328.9
Paid Up-Capital	597.8	597.8	597.8	597.8
Total Equity (without surplus revaluation)	8,619.6	8,227.5	8,772.9	8,911.8
INCOME STATEMENT				
Net Sales	45,432.0	37,264.5	49,119.9	13,199.4
Gross Profit	4,624.5	2,747.0	5,216.2	1,448.9
Profit Before Tax	2,179.7	(140.8)	240.1	261.5
Profit After Tax	1,588.4	(203.4)	553.3	138.9
RATIO ANALYSIS				
Gross Margin (%)	10.2%	7.4%	10.6%	11.0%
Net Profit Margin	3.5%	-0.5%	1.1%	1.1%
Net Working Capital	(4,329.3)	(6,366.8)	(9,813.5)	(10,366.8)
Current Ratio	0.8	0.8	0.7	0.7
FFO	2,884.2	1,297.4	2,738.5	1,249.2
FFO to Total Debt (%)	12.4%	3.6%	10.7%	6.1%
FFO to Long Term Debt (%)	21.9%	10.1%	30.1%	15.2%
Debt Servicing Coverage Ratio (x)	0.9	0.6	0.8	0.7
ROAA (%)	3.7%	-0.4%	1.1%	1.2%
ROAE (%)	18.4%	-2.5%	6.3%	6.2%
Gearing (x)	2.7	4.4	2.9	2.3
Leverage (x)	3.9	6.0	4.5	4.1

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

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: 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.vis.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.vis.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.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

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

'SD' Rating: An 'SD' rating is assigned when 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 III

Name of Rated Entity	JDW Sugar Mills Limited (JDWS)
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				
04/27/2019	A	A-2	Stable	Reaffirmed
03/13/2019	A	A-2	Stable	Downgrade
10/31/2017	A+	A-1	Stable	Upgrade
04/13/2017	A+	A-1	Stable	Maintained
10/27/2015	A	A-1	Positive	Reaffirmed
02/17/2015	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

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.
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

	Name	Designation	Date
1	Mr. Muhammad Jaffar	Senior Manager Accounts	03/10/20
2	Mr. Muhammad Ashar	Assistant Manager Accounts	03/10/20