RATING REPORT

JDW Sugar Mills Limited (JDWS)

REPORT DATE:
July 27, 2021

RATING ANALYSTS:
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RATING DETAILS				
Rating Category	**Latest Rating**		**Previous Rating**	
	Long-term	**Short-term**	**Long-term**	**Short-term**
Entity	A	A-2	A	A-2
Rating Outlook	*Stable*		*Stable*	
Rating Action	Reaffirmed		Reaffirmed	
Rating Date	*27th July'21*		*27th April'20*	

COMPANY INFORMATION	
Incorporated in 1990	**External auditors:** M/s Riaz Ahmad, Saqib, Gohar & Co., Chartered Accountants
Public Limited Company	**Chairman of the Board:** Mr. Mukhdoom Syed Ahmed Mahmud **Chief Executive Officer:** Mr. Raheal Masud
Key Shareholders (with stake 5% or more):	
Directors, CEO and their spouse – 47.8%	
General Public – 44.4%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria: Corporates (May 2019) ***https://www.vis.com.pk/kc-meth.aspx***

JDW Sugar Mills Limited (JDWS)

OVERVIEW OF THE INSTITUTION

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.

Profile of Chairman

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

Financial Snapshot

Tier-1 Equity: end-HY21: Rs. 9.7b; end-MY20: Rs. 9.6b; end-MY19: Rs. Rs. 8.8b.

Assets: end-HY21: Rs. 53.6b; end-MY20: Rs. 41.1b; end-MY19: Rs 48.3.

Net Profit: HY21: Rs. 83m; MY20: Rs. 1.4b; MY19: Rs. 533m.

RATING RATIONALE

JDW Sugar Mills Limited (JDWS) is a 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, significant experience of sponsors in the sugar and agriculture sector and a professional management team. The company has longstanding relationships with growers along with focus on research activities in sugarcane development.

Operating Performance

Sugar

The company's cumulative installed sugarcane crushing capacity stands at around 44,000 MT per day. The mill operated for 115 days (MY20: 105) with better availability of sugarcane in the area. Resultantly, the company crushed higher quantities of sugarcane amounting to 5.57m MT (MY20: 5.29m MT) during the season. However, sugar produced increased at a slower pace to 556,142 MT (MY20: 548,220 MT) as the impact of higher sugarcane crushed was largely offset by declined in recovery rate to 9.98% (MY20: 10.36%) mainly due to early start of crushing season by 15 to 20 days. Meanwhile, molasses production was recorded higher at 254,053 MT (MY20: 229,587 MT) with higher recovery rate of 4.56% (MY20: 4.34%) during MY21. Going forward, the forecasted increase in sugarcane crop to 83m MT (MY21: 81m MT) is expected to bode well for the company in terms of sugar production during MY22.

(In MT)	MY20	MY21
Unit 1		
Crushing capacity	3,000,000	3,000,000
Sugar production	260,845	255,396
Unit 2		
Crushing capacity	1,500,000	1,500,000
Sugar production	153,173	159,800
Unit 3		
Crushing capacity	2,100,000	2,100,000
Sugar production	134,202	140,946
Crushing Period in days	105	115
Total Cane Crushed (Tons)	5,291,732	5,570,956
Total Sugar Production (Tons)	548,220	556,142
Recovery Ratio (%)	10.36%	9.98%
Molasses Produced (Tons)	229,587	254,053
Molasses Recovery (%)	4.34%	4.56%

Power Segment

Power Division	MY20	HY21
	MWh	
Unit II		
Installed capacity (based on 8,760 hours)	233,016	233,016
Energy generated/produced	176,510	103,649

Energy delivered to CPPA-G	151,953	83,652
Unit III		
Installed capacity (based on 8,760 hours)	235,031	235,031
Energy generated/ produced	163,084	94,094
Energy delivered to CPPA-G	138,420	71,899

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 HY21, the company generated 197,742 MWh (MY20: 339,594 MWh) of electricity, out of which 79% (MY20: 86%) was delivered to the national grid. Power tariff of both units has been revised with Master Agreement and EPA Amendment Agreement signed on February 12, 2021 with the CPPA-G. In accordance with the Master Agreement, the company has received the first installment amounting to Rs. 817m (40% of Rs. 2.04b outstanding receivables as at November 30, 2020) in the form of one-third cash, one-third government Ijara Sukuk and one-third Pakistan Investment Bonds on June 4, 2021. The remaining 60% payment with similar mix is expected in December'2021.

Business Risk

Risk profile of sugar sector is considered high given inherent cyclicality in the crop levels and raw material prices. Moreover, distortion in pricing mechanism of raw material prices and refined sugar also creates challenge for sugar mills. Typically, sugarcane production has a 3-to-5 year cycle, driven largely by government support for farmers and crop yield. Sugarcane production has increased by 22% to 81m MT on account of increase in area under cultivation and improvement in crop yield during MY21. Based on around 78% crushing and an average recovery rate of 10.2%, the sector has produced 5.62m MT of sugar in MY21. Meanwhile, sugar demand is projected at 5.9m MT for the period. While narrow demand and supply dynamics may lead to high sugar prices, government may intervene by importing sugar in order to control prices. Meanwhile, margins may also be curtailed by increasing trend in sugarcane prices. During MY21, sugarcane procurement prices have been recorded as high as Rs. 350 per mound in Punjab and Rs. 275 per mound in Sindh against the minimum support price of Rs. 200 per mound and Rs. 202 per mound in respective provinces. However, sector's risk profile draws support from diversification into distillery, power and steel segments.

Asset mix accumulation led by higher inventory levels towards the end of crushing season

Asset base of the company accumulated to Rs. 53.6b (MY20: Rs. 41.1b) by end-HY21, driven largely by higher stock in trade due to seasonality factor. Property, plant and equipment amounted to Rs. 21.2b (MY20: Rs. 21.9b) with depreciation expense exceeding the capex of Rs. 438m (MY20: Rs. 448m). Investment in subsidiaries and associated undertakings remained largely unchanged at Rs. 1.1b (MY20: Rs. 1.1b) at end-HY21. Investment in Faruki Pulp Mills Limited continued to be classified as short-term investment amounting to Rs. 570m (MY20: Rs. 570m) as the company is still looking for a potential buyer. Biological assets declined to Rs. 513m (MY20: Rs. 1.8b) mainly due to harvesting of sugarcane crop by end-HY21. Stock in trade stood higher at Rs. 20.9b (MY20: Rs. 4.0b) including sugar inventory of Rs. 18.8b (MY20: Rs. 3.7b) towards the end of crushing season, molasses inventory of Rs. 1.1b (MY20: nil), and bagasse inventory of Rs. 955m (MY20: Rs. 310m). Trade receivables mainly pertaining to power division declined to Rs. 5.4b (MY20: Rs. 8.5b) due to write-off of Rs. 3.3b against fixed energy payment receivable from the CPPA-G in accordance with the Master Agreement and EPA Amendment Agreement. Advances, deposits, and other receivables amounted to Rs. 682m (MY20: Rs. 514) with advances to suppliers/contractors and farmers being the largest components. Cash and bank balance stood at Rs. 231m (MY20: Rs. 129m) at end-HY21.

Growth in revenue and profitability mainly underpinned by favorable price trend of key products

Net revenue of the company increased to Rs. 52.3b (MY19: Rs. 49.1b) during MY20. Sugar and allied products remained the major revenue drivers with 90.3% (MY19: 88.5%) contribution, followed by power division 7.5% (MY19: 9.3%) and corporate farms 2.2% (MY19: 2.2%).

Rs. in million	MY19		MY20		HY21	
Sugar Products	43,495	88.5%	47,225	90.3%	26,227	90.0%
Co-generation Power	4,551	9.3%	3,898	7.5%	1,824	6.3%
Corporate Farms	1,074	2.2%	1,147	2.2%	1,077	3.7%
Total Sales	49,120	100.0%	52,270	100.0%	29,128	100.0%

Revenue from sugar sales amounted to Rs. 41.9b (MY19: Rs. 38.8b), driven largely by higher average selling price of Rs. 56.6/kg (MY19: 47.2/kg), partially offset by slightly lower volumetric sales of 739,300 MT (MY19: 821,335) during MY20. Revenue from molasses sales increased to Rs. 3.5b (MY19: Rs. 2.2b) due to higher average selling price of Rs. 15,037/MT (MY19: Rs. 9,646/MT) with volumetric sales of 229,587 MT (MY19: 231,337 MT). Revenue from power division decreased to Rs. 3.9b (MY19: Rs. 4.6b) due to lower electricity sold to the national grid amounting to 290,373 MWh (MY19: 348,389 MWh) due to lower availability of bagasse during MY20. Meanwhile, revenue from agri inputs and corporate farms was recorded at 1.7b (MY19: Rs. 2.2b) and 1.1b (MY19: Rs. 1.1b) respectively, during MY20.

	MY19		MY20		HY21	
Rs. in million	QTY	Revenue	QTY	Revenue	QTY	Revenue
Sugar (MT)	821,335	38,756	739,300	41,861	292,340	20,304
Molasses (MT)	231,337	2,231	229,587	3,452	196,912	4,147
Power (MWh)	348,389	4,551	290,373	1,824	155,551	1,824

Cost of sales increased to Rs. 44.9b (MY19: Rs. 43.9b) mainly on account of higher average sugarcane procurement price of Rs. 214/mound (MY19: Rs. 183/mound) vis-à-vis the minimum support price of Rs. 190/mound. However, due to notable increase in selling price of sugar and molasses, gross margins improved to 14.2% (MY19: 10.6%) with gross profit amounting to Rs. 7.4b (MY19: Rs. 5.2b) during MY20. Meanwhile, increase in administrative expenses to Rs. 1.6b (MY19: Rs. 1.2b) was mainly due by higher salaries & related benefits. Other expenses amounted to Rs. 584m (MY19: Rs. 754m) including export subsidy impairment expense of Rs. 355m (MY19: Rs. 44m) and workers' profit participation fund expense of Rs. 130m (MY19: Rs. 13m). Other income was Rs. 860m (MY19: Rs. 593m) mainly including gain on agriculture produce of Rs. 335m (MY19: nil), sale of mud Rs. 187m (MY19: Rs. 127m) and gain on biological assets Rs. 153m (MY19: Rs. 1m) during MY20. Financial charges increased slightly to Rs. 3.6b (MY19: Rs. 3.5b). Accounting for taxation, the company reported net profit of Rs. 1.4b (MY19: Rs. 553m) with improved net margins of 2.7% (MY19: 1.1%).

The company recorded higher net revenue of Rs. 29.1b (HY20: Rs. 24.9b) during HY21, driven largely by sugar dispatches of 292,340 MT at an average selling price of Rs. 69.5/kg, molasses volumes of 196,912 MT at an average selling price of Rs. 21,062/MT and electricity dispatches of 155,551 MWh at an average tariff of Rs. 11,727/MWh. Cost of sales increased to Rs. 24.4b (HY20: Rs. 21.2b) on account of a combination of higher sugarcane crushed and average procurement price of Rs. 255/mound vis-à-vis the minimum support price of Rs. 200/mound during HY21. Gross margins improved further to 16.4% with gross profit of Rs. 4.8b (HY20: Rs. 3.7b), as the impact of raw material cost escalation was more than offset by higher selling price of sugar and molasses during the period. Administrative expenses amounted to Rs. 1.0b (HY20: Rs. 901m) while other expenses were recorded at Rs. 3.4b (HY20: Rs. 435m) on account of Rs. 3.3b in write off against fixed energy payment from CPPA-G during HY21. Finance cost was recorded lower at Rs. 1.1b (HY20: Rs. 1.9b) due to lower average interest rates during the period. Accounting for taxation, the company reported net profit of Rs. 83m (HY20: Rs. 380m) during HY21.

Liquidity profile supported by increasing cash flows generation on a timeline basis

Liquidity profile has improved on a timeline basis on the back of higher funds from operations (FFO). With increase in core profits (excluding the impact of non-cash write off) and lower finance cost, the company generated higher FFO of Rs. 3.6b (MY20: Rs. 3.4b) during HY21. Resultantly, the debt service coverage ratio (DSCR) improved to 2.29x (MY20: 0.66x) and the annualized FFO-to-total debt ratio improved 0.21x (MY20: 0.14x). Going forward, the company's debt servicing capacity is expected to remain adequate due to higher FFO generation and payments against receivables from CPPA-G despite projected repayments of deferred loans amounting Rs. 10.1b. Current ratio remained stable at 0.95x (MY20: 0.95x) as the impact of increased utilization of short-term borrowings was offset by higher in inventory levels. Stock in trade & trade debts as a proportion of short-term borrowing amounting to 1.44x (MY20: 1.34x) provide adequate coverage in relation to short-term borrowings.

Leverage indicators remained high; growth in equity base impacted by write off charges against receivables from CPPA-G

Equity base increased steadily to Rs. 9.7b (MY20: Rs. 9.6b) by end-HY21 on account limited profitability as the company recorded a substantial write-off against the fixed energy receivables from CPPA-G. Total liabilities was recorded higher at Rs. 43.9b (MY20: Rs. 31.5b) on account of increased utilization of short-term borrowings amounting to Rs. 18.3b (MY20: Rs. 9.3b) due to elevated working capital requirements towards the end of crushing season and increase in advances from customers amounting Rs. 5.8b (MY20: Rs. 2.7b) which are against the sugar sale. Long-term borrowings remained largely stable at Rs. 15.8b (MY20: Rs. 15.8b) as the impact of scheduled repayments was offset by availing of the SBP's refinance scheme for payment of wages & salaries. During MY20, increase in overall long-term borrowings was led by re-profiling of existing borrowings and the SBP's refinance scheme for payment of wages & salaries. Gearing and leverage ratios were recorded higher at 3.53x (MY20: 2.62x) and 4.55x (MY20: 3.29x) respectively, at end-HY21. Going forward, higher internal capital generation, reduction in stock levels and projected repayments of deferred loans are projected to result in gradual reduction in leverage indicators over the rating horizon.

JDW Sugar Mills Limited Annexure I

FINANCIAL SUMMARY *(amounts in PKR millions)*			
BALANCE SHEET	**MY19**	**MY20**	**HY21**
Property Plant and Equipment	21,959	21,930	21,229
Investment Property	219	186	186
Long-term Investment	1,652	1,083	1,084
Intangibles	617	615	614
Stores, Spares, and Loose Tools	1,527	1,541	1,655
Stock-in-Trade	11,506	3,985	20,919
Trade Debts	7,255	8,452	5,434
Biological Assets	2,019	1,820	514
Short-term Investment	-	570	570
Cash & Bank Balances	92	129	231
Other Assets	1,415	783	1,115
Total Assets	**48,260**	**41,093**	**53,550**
Trade and Other Payables	3,051	2,252	2,847
Advances from Customers	9,092	2,678	5,798
Long-Term Debt *(including current maturity)*	9,260	15,809	15,751
Short-Term Debt	16,513	9,308	18,296
Total Debt	25,774	25,117	34,047
Other Liabilities	1,571	1,473	1,202
Total Liabilities	39,487	31,520	43,894
Tier-I/Total Equity	**8,773**	**9,573**	**9,656**
Paid Up-Capital	598	598	598
INCOME STATEMENT	**MY19**	**MY20**	**HY21**
Net Sales	49,120	52,270	29,128
Gross Profit	5,216	7,402	4,769
Other Expense	754	584	3,364**
Finance Cost	3,512	3,550	1,136
Profit/(Loss) Before Tax	240	2,421	158
Profit/(Loss) After Tax	553	1,399	83
FFO	2,446	3,404	3,573
RATIO ANALYSIS	**MY19**	**MY20**	**HY21**
Gross Margin (%)	10.6	14.2	16.4
Net Profit Margin (%)	1.1	2.7	0.3
Net Working Capital	(9,814)	(932)	(1,698)
Current Ratio (x)	0.71	0.95	0.95
FFO to Long Term Debt (x)	0.26	0.22	0.45*
FFO to Total Debt (x)	0.09	0.14	0.21*
Debt Servicing Coverage Ratio (x)	0.77	0.66	2.29
Gearing (x)	2.94	2.62	3.53
Leverage (x)	4.50	3.29	4.55
Inventory plus Receivables/Short-term Borrowings	1.14	1.34	1.44

**Annualized*

*** includes write-off amounting Rs. 3.3b against receivable from CPPA-G*

ISSUE/ISSUER RATING SCALE & DEFINITIONS Annexure 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 — Annexure III

Name of Rated Entity	JDW Sugar Mills Limited (JDWS)
Sector	Sugar
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
07/27/2021	A	A-2	Stable	Reaffirmed
04/27/2020	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
Mr. Ali Saeed	Sr. GM Accounts	June 15, 2021
Mr. Muhammad Jaffar	Sr. Manager Accounts	June 15, 2021