

RATING REPORT

JDW Sugar Mills Limited (JDWSML)

REPORT DATE:

May 13, 2024

RATING ANALYST:

Muhammad Subhan

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RATING DETAILS				
Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	AA-	A-1	A+	A-1
Rating Outlook	Stable		Stable	
Rating Action	Upgrade		Reaffirmed	
Rating Date	13 th May, 2024		17 th May '23	

COMPANY INFORMATION

Incorporated in 1990

External auditors: M/s. Riaz Ahmad, Saqib, Gohar & Co.
Chartered Accountants.

Public Limited Company

Chairman of the Board: Mr. Makhdoom Syed Ahmed Mahmud
Chief Executive Officer: Mr. Raheel Masud

Key Shareholders (with stake 5% or more):

Directors, CEO, and their spouse and minor children – 49.48%

General Public – 47.88%

APPLICABLE RATING SCALE(S)

VIS Issue/Issuer Rating Scale:

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

APPLICABLE METHODOLOGY

VIS Entity Rating Criteria: Corporates

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

JDW Sugar Mills Limited (JDWSML)
**OVERVIEW
OF THE
INSTITUTION**
RATING RATIONALE

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.

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

Corporate Profile:

JDW Sugar Mills Limited (“JDWSML” or the “Company”) is the flagship company of the JDW Group. Established in 1990, JDW has grown as the largest sugar mill in Pakistan. The Company is also in the business of power generation and corporate farming. The Company has longstanding relationships with growers along with focus on research activities in sugarcane development.

Operational Performance:

Operating results:				
Sugar Segment	Units	MY24	MY23	MY22
Crushing Period in days	Numbers	116	110	139
Cane Crushed	Tons	7,119,539	6,426,664	7,811,556
Sugar Production	Tons	743,799	694,973	781,634
Sucrose Recovery	% age	10.45%	10.81%	10.01%
Molasses Produced	Tons	303,481	289,812	383,491
Molasses Recovery	% age	4.26%	4.51%	4.91%
Power Segment	Units	Dec23	2022-23	2021-22
Installed Capacity	MW	53.4	53.4	53.4
Electricity Generation Capacity	MWh	468,047	468,047	468,047
Electricity generated	MWh	76,680	420,500	381,745
Electric Sold	MWh	65,402	370,923	326,245
Corporate Farms	Units	Dec23	2022-23	2021-22
Land	Acres	-	25,694	24,970
Land under cultivation	Acres	-	19,166	19,712
Crop harvested	Maunds	-	14,071,232	19,045,523

Sugar Segment:

The Company has a combined crushing capacity of 71,000 tons per day including Unit I (JDW Sugar) of 35,000 TCD, Unit II (Previously United Sugar Mills) of 22,000 TCD and Unit III (Previously Ghotki Sugar Mills) of 14,000 TCD. Additionally, Deharki Sugar Mills, a wholly owned subsidiary, has 13,000 TCD of capacity.

The Company in MY23 witnessed a decline in its operational performance with a reduction in its crushing period to 110 days (MY22: 139 days) due to unavailability of sugarcane for the year. This unavailability of sugarcane was the after effects of devastation of crops due to the catastrophic floods. The cane crushed was also lesser at 6,426,664 tons (MY22: 7,811,556 tons) and sugar produced was 694,973 tons (MY22: 781,634 tons). However, the sucrose recovery was reported higher at 10.81% (MY22: 10.01%) in MY23.

Moreover, in MY24, the crushing period in days remained the same at 116 days. Resultantly the cane crushed in MY24 is higher at 7,119,539 tons (MY23: 6,426,664 tons) as compared to MY23. Sugar production in MY24 is also higher at 743,799 tons (MY23: 694,973 tons) in MY24 due to stability in the sucrose recovery at 10.45% (MY23: 10.81%).

Power Segment:

JDW operates 53.4 MW bagasse based power plants, which besides meeting internal requirements sell excess power to WAPDA system.

Corporate Farms:

The Company also owns over 25,000 acres of corporate farms, which meets around 10% of the sugarcane requirements of the mills besides providing subsidized pesticide and other agri inputs to the farmers of its sugarcane zoning area.

Key Rating Drivers**Medium risk profile backed by high cyclicity, medium capital intensity and low energy sensitivity**

VIS characterizes the business risk profile of sugar industry as medium, primarily driven by its high cyclicity and fluctuations in demand amid economic shifts. The competitiveness is medium to low; sector's capital intensity is moderate, suggesting a medium level of technological advancement. A high regulatory risk signifies the industry's considerable exposure to government policies, which can alter market dynamics. Low energy sensitivity is advantageous, as operational costs are less affected by fluctuations in energy prices. Overall, the sugar industry in Pakistan holds a medium risk rating, balancing stable demand with the challenges of regulatory compliance and technological advancement.

Sponsor support provides comfort to the ratings

The Company being a part of JDW Group provides support to the ratings. JDW Group is a resourceful and well-reputed player present in the country. Ample experience and track record in Pakistan's sugar industry bode well for the ratings.

Wholly owned corporate farms providing buffer against raw material unavailability

JDWSML benefits from a vertically integrated operation with corporate farms located in the Sindh and Punjab regions. These farms not only ensure a stable supply of sugarcane, especially during periods of market scarcity, but also enhance the company's control over raw material quality. Currently, JDW sources approximately 15% of its sugarcane needs from these corporate-owned farms, significantly reducing the risk associated with raw material availability.

Electricity segment contributing to both energy self-sufficiency and financial strength

The Company has also diversified its operations by venturing into electricity production, leveraging cost-effective in-house generation capabilities to support its primary production activities as well as generating additional revenue through sales to the national grid. This multifaceted approach provides JDW with a competitive advantage in the industry. The Company's two power plants have a combined electricity generation capacity of 53.4 MW. In MY2023, these facilities produced 420,500 MWh, of which 307,923 MWh was supplied to WAPDA grid under Power Purchase Agreement (PPA) contract with NEPRA.

Highest equity base among the local sugar peers

JDWSML maintains the largest equity base among its sugar peers. As of the end of fiscal year MY23, the company reported total equity of PKR 15.9 bln (MY22: PKR 16.9 bln), remaining the strongest in its sector.

Installation of ethanol plant as a forward looking initiative

The management of JDW has outlined plans to establish a cutting-edge distillery/ethanol project, featuring an initial production capacity ranging from 200,000 to 230,000 liters per day. By leveraging high-quality molasses as feedstock, the distillery/ethanol project aims to produce premium-grade ethanol, positioning JDW to capitalize on international market opportunities through exports.

Topline growth on account of higher sugar prices and quantity sold

There was significant increase of 22.85% in sales in MY23, reporting at PKR 72,343 mln (MY22: PKR 58,887 mln) Increase in sugar price as well as volume sold along with across the board increase in revenue from other businesses contributed to the higher revenues in MY23. Despite rise in sales, higher operational expenses and finance costs led to decline in net profit by 45.17% to PKR 2,166 mln in MY23 (MY22:PKR 3,951 mln Sustained higher sugar price further improved performance in 1QMY24 resulting in steep increase in gross margin to 34.9% (MY23: 14.3%) and net margin to 18.4% (MY23: 3%) in 1QMY24. Going forward the margins are projected to remain comfortably at elevated levels.

Coverage profile witnessed improvement in 1QMY24

Funds From Operations						
<i>Rupees in million</i>	<i>MY-21</i>	<i>MY-22</i>	<i>MY-23</i>	<i>1QMY24</i>	<i>MY24 (P)</i>	<i>MY25 (P)</i>
Profit Before Tax	4,447.32	5,112.65	3,064.75	8,122.36	20,568.24	17,311.01
Adjustments for non-cash items	6,226.64	5,154.84	7,479.62	1,566.70	6,913.92	8,036.67
Profit Before Working Capital Changes	10,673.96	10,267.49	10,544.37	9,689.06	27,482.16	25,347.68
Taxes (Paid)/received	(1,023.83)	(749.47)	(750.82)	(430.87)	(4,110.64)	(4,317.41)
Staff Retirement benefits	(211.41)	(270.65)	(425.98)	(92.88)	(105.74)	(191.08)
WPPF	0.00	(306.34)	(458.97)	0.00	(368.34)	(1,328.31)
WWFP	(135.84)	(13.13)	-	(25.32)	(48.82)	(347.20)
Finance Cost	(2,323.00)	(2,835.91)	(5,564.07)	(1,232.95)	(3,858.53)	(4,771.43)
FFO	6,979.88	6,091.99	3,344.53	7,907.04	18,990.08	14,392.26

The Company, in MY23, reported a reduction in its debt service coverage ratio (DSCR) at 0.95x (MY22: 1.18x, MY21: 1.58x). This decline in JDWSML's DSCR is due to a 45.10% reduction in its funds flow from operations (FFO), reporting at PKR 3,345 mln (MY22: 6,092 mln) in MY23, a result of lower profitability and higher payments of finance cost. However, the Company's coverage profile in 1QMY24 has significantly improved on account of improved profitability performance and reduction in the finance cost paid.

Conservative capitalization profile

JDWSML, in MY23, witnessed an improvement in its gearing ratio, reporting at 0.91x (MY22: 1.25x). This improvement in the Company's gearing is primarily attributable to the Company's strategy of reducing debt burden. Accordingly, the long-term debt during the year was reduced to PKR 7,339 mln (MY22: PKR 10,058 mln). However, the leverage remains elevated at 2.25x (MY22: 1.75x) in MY23 due to a significant increase of 509.03% in the advances from customers.

Despite increase in equity base to PKR 20,983.25 mln in 1QMY24, backed, by higher retained earnings leverage however further weakened to 2.60x in the quarter due to the increased current liabilities (namely short-term borrowings, trade payables and advances from customers) while gearing falls slightly to 0.96x in the quarter due to higher draw down of short term borrowings.

Adequate liquidity profile

The Company maintains a 3-year average current ratio of 1.00x reflecting an adequate liquidity position. The current ratio, in MY23, reduced to 0.82x (MY22: 1.08x) as JDWSML retired their short term borrowings earlier than planned. Concurrently, the short-term debt (STD) coverage improved to 2.64x (MY22: 1.42x) in MY23 on account of higher sugar stocks and prepayment of short term debt.

The current ratio in 1QMY24 witnessed improvement at 0.98x primarily due to higher inventory, a result of crushing season. The STD coverage, however, reduced at 1.76x as JDWSML procured short-term borrowings to meet it working capital needs.

Pending litigation

The developments in relation to penalties imposed by Competition Commission of Pakistan (CCP) on selected sugar mills and the subsequent legal proceedings initiated by the subject company is still pending. The impact of the imposed penalty amounting PKR 774.4 mln on JDWSML would be significant. However, the Company has filed an appeal before the Competition Appellate Tribunal against the order of CCP. The Appellate Tribunal has restrained the CCP from adopting any coercive measures against the Company for recovery of the fine. The Company also challenged the same order of CCP before the Lahore High Court (LHC) in a writ petition. The operation of the said order has been suspended and CCP has been restrained from recovering penalty imposed in terms of the order of the LHC dated Oct 18, 2021. The matter is pending adjudication before the LHC. Given uncertainty and materiality of the outcome, VIS will continue to monitor further developments in this matter.

FINANCIAL SUMMARY							
(PKR millions)							
<u>BALANCE SHEET</u>	MY21	MY22	MY23	1HMY24	MY24 (P)	MY25 (P)	MY26 (P)
Non-Current Assets	23,853	23,640	24,223	24,651	28,132	31,778	30,232
Stores, Spares. And Loose Tools	1,382	1,916	2,428	2,727	2,575	2,729	2,891
Stock-in-Trade	1,880	12,146	15,823	27,410	15,161	14,093	14,353
Trade Debts	4,196	3,552	3,178	4,080	5,729	6,293	6,909
Short term investments	652	652	1,068	1,068	-	1,850	12,600
Cash and Bank Balances	247	290	159	11,452	169	120	187
Total Assets	35,546	46,496	51,901	75,594	57,257	62,844	73,700
Trade and Other Payables	2,200	3,028	3,024	9,846	9,433	9,938	10,123
Short-Term Borrowings	3,015	11,034	7,193	17,867	5,141	455	976
Long-Term Borrowings	13,164	10,058	7,339	2,232	9,755	9,542	8,889
Total Liabilities	21,098	29,591	35,909	54,611	29,549	25,587	25,763
Paid-Up Capital	598	598	578	578	578	578	578
Tier-1 Equity	14,448	16,905	15,991	20,983	27,708	37,257	47,937
Total Equity	14,448	16,905	15,991	20,983	27,708	37,257	47,937
<u>INCOME STATEMENT</u>	MY21	MY22	MY23	1HMY24	MY24 (P)	MY25 (P)	MY26 (P)
Net Sales	56,800	58,888	72,343	27,170	120,845	131,980	143,891
Gross Profit	10,136	9,150	10,311	9,495	27,450	24,160	26,572
Finance Cost	(2,252)	(3,404)	(5,453)	(826)	(4,591)	(4,930)	(5,348)
Other Income	2,211	1,968	1,033	760	1,984	2,980	3,486
Profit Before Tax	4,447	5,113	3,065	8,122	20,568	17,311	18,995
Profit After Tax	4,878	3,951	2,166	4,992	13,739	11,860	13,568
FFO	6,980	6,092	3,345	7,907	18,990	14,392	15,172
<u>RATIO ANALYSIS</u>	MY21	MY22	MY23	1HMY24	MY24 (P)	MY25 (P)	MY26 (P)
Gross Margin (%)	17.8%	15.5%	14.3%	34.9%	22.7%	18.3%	18.5%
Net Margin (%)	8.6%	6.7%	3.0%	18.4%	11.4%	9.0%	9.4%
Net Working Capital	961.0	1,620.2	-5,941.2	-933.5	12,436.9	18,300.4	29,393.3
ROAA (%)*	12.7%	9.6%	4.4%	31.3%	20.7%	19.7%	19.9%
ROAE (%)*	40.6%	25.2%	13.2%	108.0%	56.4%	36.5%	31.9%
Current Ratio (x)	1.09	1.08	0.82	0.98	1.75	2.43	3.09
FFO to Long-Term Debt*	0.53	0.61	0.46	14.17	1.95	1.51	1.71
FFO to Total Debt*	0.43	0.29	0.23	1.57	1.27	1.44	1.54
DSCR (x)*	1.58	1.18	0.95	2.68	3.35	3.37	2.97
Inventory + Receivable/Short-term debt (x)	2.02	1.42	2.64	1.76	4.06	44.83	21.78
Net Operating Cycle (Days)	46.17	56.30	81.46	90.56	60.33	33.35	29.79
Gearing (x)	1.12	1.25	0.91	0.96	0.54	0.27	0.21
Leverage (x)	1.46	1.75	2.25	2.60	1.07	0.69	0.54

REGULATORY DISCLOSURES
Annexure II

Name of Rated Entity	JDW Sugar Mills Limited (JDWSML)				
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				
	05/13/2024	AA-	A-1	Stable	Upgrade
	05/17/2023	A+	A-1	Stable	Reaffirmed
	04/15/2022	A+	A-1	Stable	Upgrade
	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	Reaffirmed
	04/13/2017	A+	A-1	Stable	Upgrade
	10/27/2015	A	A-1	Positive	Reaffirmed
	02/17/2015	A	A-1	Positive	Maintained
	10/7/2013	A	A-1	Stable	Reaffirmed
	09/5/2012	A	A-1	Stable	Reaffirmed
08/16/2011	A	A-1	Stable	Upgrade	
Instrument Structure	<p>JDW Sugar Mills Limited (“JDWSML” or the “Company”) issued a Rated, Unsecured and Privately Placed Sukuk, structured on the basis of Musharakah (Shirkat-ulAqd) (“Musharaka Structure”) as a redeemable capital (under Section 66 of the Companies Act 2017) of up to PKR 8 bln (inclusive of a Green Shoe Option of PKR 3 bln) on December 18, 2023. The funds will be utilized for fulfilling the working capital requirements of the Company related to sugar production and sales. The issue has a tenor of six (06) months from the Issue Date and maturing on June 14, 2024. The principal will be redeemed as bullet payment six (06) months after the Issue Date. Profit will be payable at the time of redemption of ST Sukuk on the outstanding principal amount with a base rate of 6-Month KIBOR plus a spread of 0.90% per annum. The ST Sukuk is Unsecured on best effort basis.</p> <p>JDWSML’s Sukuk, issued on 15th February 2024, is of PKR 5 bln with a tenor of 6 months. The principal shall be paid in bullet after 6 months of the issuance and JDWS may repay the entire outstanding facility amount or part thereof through Company’s internal cash flows with fifteen (15) days prior written notice at a rate of 6M KIBOR + 75-80 bps per annum.</p>				
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		
	Muhammad Jaffar	Deputy General Manager Accounts	03/25/2023		