

RATING REPORT

Shahmurad Sugar Mills Limited

REPORT DATE:5th December, 2017**RATING ANALYSTS:**

Jazib Ahmed, CFA
jazib.ahmed@jcrvis.com.pk

Muhammad Tabish

mubhammad.tabish@jcrvis.com.pk

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 Date	November 30, 2016		April 28, 2016	

COMPANY INFORMATION

Incorporated in 1979	External auditors: Kreston Hyder Bhimji & Co., Chartered Accountants
Public Limited Company	Chairman of the Board: Mr. Ismail H. Zakaria
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. Yusuf Ayoob
<i>Al-Noor Sugar Mills Limited – 15.6%</i>	
<i>CDC-Trustee National Investment Trust Fund – 8.5%</i>	
<i>Employees Old Age Benefits Institution – 5.5%</i>	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria *Industrial Corporates (May 2016)*

<http://jcrvis.com.pk/docs/Corporate-Methodology-201605.pdf>

Shahmurad Sugar Mills Limited

OVERVIEW OF THE INSTITUTION

Incorporated in 1979, Shahmurad Sugar Mills Limited (SSML) is a public limited company and is listed on Pakistan Stock Exchange (PSX). The company operates under the umbrella of Al-Noor group, under which Al-Noor Sugar Mills Limited, Reliance Insurance Company Limited and Al-Noor Modaraba Management Company also operates.

RATING RATIONALE

Shahmurad Sugar Mills Limited (SSML) belongs to Al-Noor Group (ANG), involved in the manufacturing of sugar, rice, ethanol, power and board products along with limited presence in the financial sector. SSML is primarily engaged in the business of manufacturing and selling of sugar and ethanol. Production facilities of SSML include sugar and ethanol manufacturing units located at Jhok, District Sajawal in the province of Sindh.

Rating Drivers

Industry Dynamics: Sugarcane, a key input for sugar production retained its industry yield of 10.2% in FY17. During the outgoing year sugarcane production was higher vis-à-vis the previous period. Furthermore, bumper sugarcane crop is expected to resurface during next year due to favorable climatic conditions, intensifying supply glut situation in the sector. Sugarcane prices are regulated by the government whereas the sugar prices are determined by the market forces causing a cost-price mismatch. On account of excess production, local sugar prices have remained depressed.

Sugar Production: Given the abundant supply of sugarcane crop during the period, crushing volume of sugarcane was 36% higher than last year. Overall capacity utilization also increased to 80% (FY16: 59%) in FY17 with an improved recovery rate of 10.8% (FY16: 10.6%). Total sugar production exhibited an improvement of 38% compared to last year.

Sales & Margins:

Sugar

On account of depressed sugar prices, net sales of sugar division declined to Rs. 2.3b (FY16: Rs. 3.9b) in 9MFY17 (Annualized) with a gross loss of Rs. 92.8m (FY16 (profit): Rs. 296.2m), depicting a decline of 131.3%.

Ethanol

In contrast to sugar sales, ethanol division outperformed with net sales amounting to Rs. 2.1b (FY16: Rs. 2.0b) in 9MFY17 (Annualized) with a gross profit of Rs. 561.9 (FY16: Rs. 374.2m), depicting an increase of 50.2% on the back of higher ethanol prices. The ongoing capacity enhancement project in the ethanol division will result in a twofold increase in production which is expected from May, FY18. Moreover, the same will have a positive impact on the profitability and resultantly cash flows generated from operations.

Assets Mix: The asset base of the company grew sizably on the back of higher inventory level amounting to Rs. 3.8b at end 9MFY17 which resulted in increased short term borrowings. However, on account of higher sales post 9MFY17, short term borrowings are expected to reduce significantly.

Liquidity and Coverage: SSML's Fund Flow from Operations (FFO) dropped sharply to Rs. 58.2m (FY16: Rs. 267.8m) in 9MFY17 (Annualized). FFO to long term debt declined to 0.05 (FY16: 0.23) in FY17. Lower cash flows also led to a decline in debt service coverage ratio. However, during 1QFY18 positive momentum in sugar sales is expected to favorably impact FFO. Moreover, on the back of volumetric growth in ethanol sales, higher FFO is expected in FY18 with full year impact in FY19.

Capitalization and Leverage: Total equity of the company has witnessed a decline on account of 9MFY17 net loss and dividends paid pertaining to FY16. Furthermore, due to lackluster sales in 9MFY17, inventory and short term borrowings increased. This led to an increase in debt leverage and gearing to 4.8x (FY16: 2.0x) and 3.6x (FY16: 1.3x) respectively, at end 9MFY17. Leverage indicators are expected to improve in the short term owing to the aforementioned increase in expected sales.

Outlook

Going forward, performance of SSML would be primarily dependent on its ethanol segment and dynamics of sugar industry. Keeping in view the ongoing developments in ethanol division, projected FFO is expected to improve. However, Ratings remain contingent on timely achievement of expansion in ethanol segment.

Shahmurad Sugar Mills Limited
Appendix I

FINANCIAL SUMMARY <i>(amounts in Rs. in millions)</i>			
BALANCE SHEET	JUNE 30, 2017*	SEP 30, 2016	SEP 30, 2015
Fixed Assets	2,556.2	2,541.1	2,424.3
Investments	3.1	3.1	3.8
Stock-in-Trade	3,785.1	991.8	1,839.0
Trade Debts	19.7	31.5	85.0
Cash & Bank Balances	50.5	57.4	306.6
Total Assets	6,997.0	3,956.7	5,130.4
Trade and Other Payables	1,230.2	685.8	781.7
Long Term Debt <i>(*incl. current maturity)</i>	1,188.1	1,146.2	946.2
Short Term Debt	2,845.6	332.3	1,558.9
Total Equity	1,673.5	1,717.1	1,657.2
INCOME STATEMENT			
	JUNE 30, 2017	SEP 30, 2016	SEP 30, 2015
Net Sales	3,204.5	5,909.7	5,199.2
Gross Profit	351.9	670.4	805.2
Operating Profit	86.0	343.0	541.6
Profit After Tax	2.7	125.1	184.7
RATIO ANALYSIS			
	JUNE 30, 2017	SEP 30, 2016	SEP 30, 2015
Gross Margin (%)	10.8	11.3	15.5
Net Working Capital	(78.8)	(20.9)	54.8
FFO to Total Debt (x)	0.01	0.18	0.16
FFO to Long Term Debt (x)	0.05	0.23	0.43
Debt Servicing Coverage Ratio (x)	0.43	0.99	1.47
ROAA (%)	0.05	2.5	3.3
ROAE (%)	0.23	11.5	18.3

* Actual figures

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: 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.

JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

REGULATORY DISCLOSURES		Appendix III			
Name of Rated Entity	Shahmurad Sugar Mills Limited				
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
	<u>RATING TYPE: ENTITY</u>				
	11/30/2017	A-	Stable	A-2	Reaffirmed
	4/28/2016	A-	Stable	A-2	Reaffirmed
	2/11/2015	A-	Stable	A-2	Upgrade
	11/25/2013	BBB+	Stable	A-2	Reaffirmed
	8/30/2012	BBB+	Stable	A-2	Reaffirmed
Instrument Structure	N/A				
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.				
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