RATING REPORT

Shahmurad Sugar Mills Limited

REPORT DATE:
April 02, 2020

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 Date	*April 02, 2020*		*February 18, 2019*	

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
Al-Noor Sugar Mills Limited – 15.6%	
CDC-Trustee National Investment Trust Fund – 8.5%	
Employees Old Age Benefits Institution – 5.5%	

APPLICABLE METHODOLOGY(IES)

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

Shahmurad Sugar Mills Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

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.

Shahmurad Sugar Limited (SSML) is part of Al-Noor Group (ANG). The group has presence in sugar, ethanol, medium density fiber, rice, modaraba and insurance business. SSML is principally engaged in manufacturing of sugar and ethanol located at Jhok, District Sajawal in the province of Sindh.

Operating Performance

Sugar

The company's installed sugarcane crushing capacity stands around 11,000 MT per day. During the outgoing year, the mill operated only 91 days (MY18: 126) primarily due to non- availability of raw material. Recovery rate has witnessed an upward trajectory and stood at 11.08% (MY18: 11.06%) during MY19. Overall sugar production declined by 33% during MY19. Management expects sugar production to decline further in the ongoing year due to limited availability of sugar cane.

	MY18	**MY19**
Installed cane crushing capacity per day (M.Tons)	11,000	11,000
No. of days Mill operated	126	91
Total crushing capacity on basis of no. of days mills operated (M.Tons)	1,386,000	1,001,000
Actual crushing (M.Tons)	744,578	500,270
Capacity utilization	53.7%	50.0%
Sugar Production (M.Tons)	82,366	55,425
Recovery (%)	11.06%	11.08%

Ethanol

SML's aggregate capacity of Ethanol production stands around 200 M.T per day via two plants. Ethanol Plant 2 came online in MY18. During the outgoing year, ethanol production increased by 21.3% and stood at 57,270 MT (MY18: 47,204 MT).

Plant -1	**MY18**	**MY19**
Installed ethanol production capacity per day	100	100
Days in operation	344	252
Production (M.Ton)	34,241	24,046
Utilization	99.5%	95.4%
Plant -2		
Installed ethanol production capacity per day (M.Ton)	100	100
Days in operation	132	350
Production (M.Ton)	12,963	33,224
Utilization	98.2%	94.9%
Aggregate Total Capacity (M.Ton)	**47,600**	**60,200**
Aggregate Total Production (M.Ton)	**47,204**	**57,270**
Capacity Utilization	**99.2%**	**95.1%**

Business risk

Business risk profile of the sugar sector is considered high given the inherent cyclicality in crop levels and raw material prices. Moreover, distortion in 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 and the resultant decline in sugar production, average sugar prices have increased by 19% in MY19 and 16% in the ongoing year. 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. While demand and supply dynamics are expected to result in an increase in sugar prices, significant politicization of sugar prices may cap increase in sugar prices. Recent decline in international sugar prices ($336/ton as of 24th March vis-à-vis average price of $413.9/ton in the month of February) is also expected to cap increase in domestic sugar prices given the threat of imports. Business risk profile draws support from diversification in distillery segment which has been the major contributor to profitability over the last few years. However, disruption in operations due to coronavirus outbreak remains a key business risk factor.

Financial Profile

Sales Mix

Net Sales of the company grew by 31.5% during the outgoing year (FY19: Rs. 9.5b: FY18: Rs. 7.2b). The growth in sales was driven by the Ethanol segment. Around two-third of the company sales are contributed by the Ethanol segment, the remainder of the sales are associated with sugar segment.

Sugar:

Sugar segments sales have depicted a decline in relation to previous year (MY19: Rs. 3.0b; MY18: Rs. 3.5b) on the back of decline in quantity sold. Resultantly, sugar contribution to total sales mix has reduced to 31.9% (MY18: 48.1%) during MY19. During the outgoing year, the Government reduced the export quota to 1.1m MT (MY18: 1.5 m MT).

	MY18		**MY19**	
	Quantity M.Ton	%	Quantity M.Ton	%
Local Sales	24,117.1	27.6%	52,441.3	88.7%
Export Sales	63,368.0	72.4%	6,650.0	11.3%
Total Sales	**87,485.1**	**100.0%**	**59,091.3**	**100.0%**

Going forward, SSML sugar sales are expected to decline on account reduction in sugarcane area cultivation and limited exports due to recent ban on sugar exports promulgated in February 2020.

Ethanol:

Ethanol Sales increased by 71% in MY19 (MY19: Rs. 6.5b; MY18: Rs. 3.8b). The increase in ethanol sales is a function of increase in average selling price coupled with growth in volumes. Contribution of ethanol in the overall sales mix has increased from 51.9% in MY18 to 68.1% in MY19. Historically, sales of ethanol almost entirely comprise export sales. Going forward, ethanol sales are expected to be lower due to decline in availability of molasses.

	MY18 (MT)	MY19 (MT)
Ethanol Exports	44,311.7	60,644.5

Profitability

GP Margin of the company has trended upwards during the outgoing year (MY19: 21.2%; MY18: 3.3%). More than four-fifth of the gross profit can be associated with Ethanol segment. Significant improvement in GP margin can be mainly attributed to growth in volumetric sales of Ethanol coupled with rupee devaluation. Net Profit of the company was reported at Rs. 1.2b (MY18: Rs. 0.6m) during MY19. Going forward, profitability of the Company will be impacted by significant increase in prices of sugar cane and molasses. However, efficient procurement of molasses through upfront payments and expected increase in prices of sugar will provide some relief to profitability indicators for MY20.

Liquidity

Funds From Operations (FFO) has increased nearly 1.5 times despite higher finance, on back of growth in profit before tax (MY19: Rs. 1.6b; MY18: Rs. 0.7b). Healthy cash flow generation has resulted in strong debt servicing ability as reflected by a debt servicing coverage ratio 3.3x (MY18: 2.2x) for MY19. Current ratio of the company was reported at 1.05x (MY18: 0.95x) at end-MY19. Besides healthy improvement in cash flows, liquidity profile draws support from sizeable liquid assets carried on the balance sheet. Short-term investments in the form of TDR placed with an Islamic Commercial Bank amounted to Rs. 853.9m at end-1QMY20.

Capitalization

Equity base (excluding revaluation) of the company has grown to Rs. 3.23b (MY19: Rs. 2.9b; MY18: Rs. 1.9b) at end-1QMY20 on the back of profit retention. Dividend payout of the company was reported at 29.7% (MY18: 24.6%) at end-MY19. SSML's total debt amounted to Rs. 4.8b (MY18: Rs. 5.3b) at end-MY19. The decline in total debt is a combination of reduction in short term and long term borrowing. Nearly, two-third of the total debt is short-term borrowing mobilized to meet working capital requirements (MY19: Rs. 3.1b: MY18: 3.4b). Short-term funding primarily comprises export refinance borrowings. Leverage indicators have depicted an improvement on a timeline basis. Gearing and leverage ratio stood at 1.6x (MY18: 2.8x) and 2.0x (MY18: 3.3x), respectively at end-MY19. Lower projected capex from FY21 is expected to result in gradual reduction in leverage indicators over the rating horizon.

Financial Summary (amounts in PKR millions)				Appendix I
	MY17	MY18	MY19	Q1MY20
BALANCE SHEET				
Fixed Assets	3,052.3	5,315.3	5,498.7	5,632.6
Other non-current assets	87.7	74.4	31.7	34.9
Stock-in-Trade	2,359.6	2,568.5	1,967.9	979.6
Trade Debts	454.6	388.0	459.6	372.9
Cash & Bank Balances	38.5	45.5	62.2	137.9
Total Assets	6,677.2	9,919.1	10,390.9	10,757.4
Trade and Other Payables	325.2	1,013.0	1,106.8	1,435.7
Long Term Debt (including current maturity)	1,714.5	1,893.2	1,699.4	1,642.0
Short Term Debt	2,722.8	3,452.9	3,112.8	2,873.3
Total Debt	4,437.3	5,346.1	4,812.2	4,515.3
Total Liabilities	4,804.3	6,418.0	5,964.9	6,023.9
Paid Up-Capital	211.2	211.2	211.2	211.2
Total Equity (without surplus revaluation)	1,326.1	1,918.1	2,949.7	3,278.9
INCOME STATEMENT				
Net Sales	5,055.7	7,220.1	9,497.6	2,694.0
Gross Profit	583.9	237.8	2010.2	459.6
Profit Before Tax	(74.4)	548.2	1,354.5	336.1
Profit After Tax	7.3	601.3	1205.5	307.6
RATIO ANALYSIS				
Gross Margin (%)	11.5%	3.3%	21.2%	17.1%
Net Profit Margin (%)	0.1%	8.3%	12.7%	11.4%
Current Ratio	1.08	0.95	1.05	1.07
Net Working Capital	275.1	(229.0)	236.3	348.4
FFO	15.6	658.2	1,612.2	416.6
FFO to Total Debt (%)	0.4%	12.3%	33.5%	36.9%
FFO to Long Term Debt (%)	0.9%	34.8%	94.9%	101.5%
Debt Servicing Coverage Ratio (x)	0.6	2.2	3.3	3.5
ROAA (%)	0.1%	7.2%	11.9%	11.6%
ROAE (%)	0.5%	37.1%	49.5%	39.5%
Gearing (x)	3.3	2.8	1.6	1.4
Leverage (x)	3.6	3.3	2.0	1.8

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	Shahmurad Sugar Mills Limited
Sector	Sugar
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
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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Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
		RATING TYPE: ENTITY		
04/02/2020	A-	Stable	A-2	Reaffirmed
02/27/2019	A-	Stable	A-2	Reaffirmed
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

Due Diligence Meetings Conducted

	Name	Designation	Date
1	Mr. Mumtaz Hussain	General Manager Finance	01/23/2020