RATING REPORT

Shahmurad Sugar Mills Limited

REPORT DATE:

June 06, 2022

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 Action	Reaffirmed		Reaffirmed	
Rating Date	*6th June'22*		*30th June'21*	

COMPANY INFORMATION	
Incorporated in 1979	External auditors: Kreston Hyder Bhimji & Co. Chartered Accountants.
Public Limited Company	Chairman of the Board: Mr. Noor Mohammad Zakaria Chief Executive Officer: Mr. Zia Zakaria
Key Shareholders (with stake 5% or more):	
Al-Noor Sugar Mills Limited – 15.62% CDC-Trustee National Investment Trust Fund – 6.50%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria: Corporates (August 2021) ***https://docs.vis.com.pk/docs/CorporateMethodology202108.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. The company is involved in production of sugar and ethanol and is a part of Al-Noor Group.

Financial Snapshot

Tier-1 Equity: end-1QFY22: Rs. 3.5b; end-MY21: Rs. 3.4b; end-MY20: Rs. 3.4b.

Assets: end-1QFY22: Rs. 11.7b; end-MY21: Rs. 9.9b; end-MY20: Rs 11.3.

Net Profit: 1QMY22: Rs. 91m; MY21: Rs. 136m, MY20: Rs. 760m

RATING RATIONALE

The ratings assigned to Shahmurad Sugar Mills Limited (SSML) take into account the company's association with Al-Noor Group (ANG) having business interests in sugar, ethanol, medium density fiber, modaraba and insurance. Business risk profile of sugar sector is high given inherent cyclicality in crop levels and raw material prices along with any adverse changes in regulatory duties. However, given the projected higher crop coverage area and yields, the balance of raw material demand supply dynamics is expected to remain manageable. The ratings further take note of developments with regards to penalties imposed by CCP on certain sugar mills and legal proceedings for interim relief initiated by the subject company. However, in the meanwhile, uncertainty of the outcome would persist on the sector. The material impact of penalty imposed (amounting to Rs. 575m) on SSML will be significant therefore VIS will continue to monitor further development in this matter. Furthermore, any negative decision by the court of law will be incorporated in the rating action accordingly.

The ratings incorporate extensive sponsors experience in the sugar sector, satisfactory operating track records and financial flexibility in view of diversified revenue stream. Revenue of the company was reported lower during the outgoing year due to lower volumetric sales of both sugar and ethanol, partially offset by higher retail selling price of sugar. The company experienced significant compression of margins in line with low ethanol production resulting in reduced capacity utilization and forgone economies of scale, deliberate reduction in retail price of ethanol to keep market share intact coupled with ethanol division being the main revenue generator for the company given the gross margins of the sugar division improved during the outgoing year. The gross margins are expected to revert to healthy levels during the ongoing year in line with rectification of supply chain disruptions due to ban imposed on internal travel amid pandemic which led to compromised margins for the company. The ratings draw strength from adequate liquidity position underpinned by improvement in cash flows in relation to outstanding obligations during the ongoing year. Capitalization indicators were largely maintained; however, the same continue to remain slightly on a higher side in comparison to industry averages. Further, given there are no extensive capex plans in prospective, leverage indicators are expected to improve during the rating horizon due to equity expansion on the back of profit retention. Going forward, the growth in topline would be largely driven by enhanced operations as there is room for improvement in capacity utilization indicators in sugar segment, storage capacity expansion planned for ethanol division coupled with sustained demand for ethanol; the same will strengthen overall risk profile of the company. The ratings will remain sensitive to maintaining capitalization and liquidity profiles at acceptable levels while improving coverages, going forward.

Business Risk & Sector Update: Pakistan is the world's fifth largest producer of sugarcane, the sixth largest producer of cane sugar and the eighth largest consumer of sugar. Sugarcane production accounts for 3.4% in agriculture's value addition and 0.7% in the country's GDP. Sugarcane is grown on approximately 1.2 million hectares and provides the raw material for 90 sugar mills. The increase in area under cultivation was mainly on account of favorable weather conditions and higher economic returns. The sugar industry is the country's second largest agriculture-based industry after textiles. The business risk profile of sugar sector is considered high given inherent cyclicality in the crop yields and raw material prices. Moreover, there is notable disparity in pricing mechanism where major input cost, sugarcane support price, is regulated by the government while the price of end-product, granulated sugar, is determined by the equilibrium of demand and supply forces. Typically, sugarcane crop has production cycle of 3-to-5 years, driven largely by government support for farmers and crop yield.

Total sugarcane cultivation area for 2021-22 is 1,271K hectares around 9% higher than the previous year, while sugarcane production for the year is projected at 84,800K tons which is approximately 11% higher than the last year production of 76,360K tons. According to United States Department of Agriculture

(USDA) semi-annual report of 28th Sep'21, sugar production in 2021-22 is forecasted at 6.7 million tons, around 11% higher than the current years' estimate of 6.0 million tons while sugar consumption, is expected to rise to 5.9 million tons (MY21: 5.8m MT). However, despite sufficient supply, sugar prices witnessed an increasing trend over the last three years with prices in Sep'21 recorded 92% higher than the prevailing prices in Oct'18. To control prices, Government of Pakistan (GoP) imported more than 350,000 tons of sugar in 2020-21. The increase in sugar production is expected to drive closing stocks to 2.8 million tons by end-MY22. Given current scenario of higher production, the imports allowed to build stocks to cater to exponential price increase are now discontinued. Resultantly, average sugar prices in MY21 are expected to remain lower than the previous year.

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. Punjab sugar mills commenced their crushing season MY22 on November 15, 2021, which is currently underway. For the ongoing crushing season 2021-22, notified prices of sugarcane were revised to Rs. 225 per 40 Kg in Punjab and Rs. 250 per 40 Kg in Sindh. Even after substantial increase in support prices by the Provincial Governments, the industry is procuring sugarcane at higher rates. However, as per management, due to higher crop yield, the premium paid above support prices is relatively lower than the previous season. Further, sucrose recovery rates are also expected to at around current levels with no further decline expected in the medium term.

As per the latest USDA report issued on 15th Mar'22, sugar production in 2022/23 is forecasted to reach 7.2m MT, a marginal increase over the good 2021/22 crop, due to slight increase in area and sugarcane yields. Similarly, sugar consumption is expected to increase by around 3% to 6.1m MT for 2022/23 on account of population growth and demand from the expanding food processing sector. As a result, ending stocks are expected to be higher leading to a larger exportable surplus entering 2022/23; the same is projected to result in sugar exports of one million tons in 2022/23. However, sector's risk profile draws support from SSML's diversification into ethanol segment.

Regulatory Matter involving penalty imposed by Competition Commission of Pakistan (CCP): The ratings have incorporated the developments with regards to penalties imposed by CCP on certain sugar mills and legal proceedings for interim relief initiated by the subject company. However, in the meanwhile, uncertainty of the outcome would persist on the sector. The material impact of penalty imposed, amounting to Rs. 575m on SSML will be significant and hence VIS will continue to monitor further development in this matter.

Capacity Utilization & Production Update

Sugar Division

Production capacity remained unchanged; however, the mill was operational for higher number of days during 2021-22 season, therefore the quantum of sugar crushed was recorded higher. Subsequently the capacitary utilization exhibited positive trajectory during the rating review period. Along with higher operational days coupled with improved sucrose recovery during the outgoing season owing to higher proportion of variety cane in total cane crushed and late crushing season, the sugar produced increased sizably by end-MY22. As per the management, the recovery is gradually improving in line with variety-cane development being carried out at company's 200-acre farming facility. As a result, during FY22 crushing season, the sucrose recovery even touched highest recovery at 12.0%. The sugar production statistics are presented in the table below:

	MY20	MY21	MY22
Crushing Capacity MTPD	11,000	11,000	11,000
No. of days Mill Operated	96	90	108
Capacity based on Operating Days	1,056,000	990,000	1,188,000
Actual Crushing (MT)	444,430	441,293	586,724
Capacity Utilization	42.1%	44.6%	49.4%
Sugar Produced (MT)	48,876	47,220	64,845
Sucrose Recovery Rate	11.00%	10.70%	11.06%
Molasses Recovery Rate	4.44%	4.47%	4.32%

Ethanol Division

The company has two ethanol production units, each having production capacity of 100 MT per day. Ethanol plant II is a relatively new unit which became operational in MY18. If annualized, both ethanol units were operational for higher days vis-à-vis corresponding period of last year. Therefore, in line with higher operational days coupled with improved capacity utilization of both units, ethanol production has increased on a timeline basis. The production is substantially higher when compared with the output of last year which was due to the availability of raw material. As per the management, the total ethanol production is expected to be recorded considerably higher at 65,000 MT for MY22. The ethanol production during MY21 was intentionally reduced owing to supply chain disruptions amid pandemic crisis given carry-over stocks were available. Moreover, given its flammability ethanol is a high-risk commodity thus cannot be stored for long. The in-house molasses production of 25,347 MT (MY21: 19,740 MT) during the ongoing year meets around 10% of overall requirement.

	MY20	MY21	HY22
PLANT – I			
Days in Operation	191	210	165
Capacity per day (MT)	100	100	100
Total Capacity	19,100	21,000	16,500
Actual Production	17,566	17,103	14,620
Capacity Utilization	92.0%	81.4%	88.6%
PLANT – II			
Days in Operation	322	303	165
Capacity per day (MT)	100	100	100
Total Capacity	32,200	30,300	16,500
Actual Production	30,042	25,540	16,201
Capacity Utilization	93.2%	84.2%	98.2%
Total			
Capacity	51,300	51,300	33,000
Production	47,608	42,643	30,821
Utilization	92.8%	83.1%	93.4%

Shrinkage in revenue and profitability noted during the outgoing year:

Despite significant increase in average price of sugar to 80,222/MT (MY20: 63,900/MT), SSML's revenue from the sugar segment was recorded lower at Rs. 3.9b (MY20: Rs. 4.1b) owing to sizable decline in volumetric sale of sugar to 48,765 MT (MY20: 63,438 MT) during MY21. Further, the revenue of ethanol division was also recorded lower at Rs. 6.0b (MY20: Rs. 7.1b); the decrease in revenue was a combined outcome of volumetric decline to 39,690 MT (MY20: 45,808 MT) coupled with decrease in price to Rs. 151,793/ MT (MY20: Rs. 154,787/MT) during MY21. The decline in ethanol sales was an outcome of containers not available for shipment in line with international travel restrictions imposed amid pandemic situation. The export revenue of Rs. 6.0b (MY20: Rs. 7.4b) during the outgoing year was solely on account of sale of ethanol as no export sale of sugar was made in MY21. Subsequently, with decline in revenue of both divisions, net sales of the company were recorded lower at Rs. 9.9b in MY21 as opposed to Rs. 11.4b in the preceding year. However, with revenue compression in both segments the revenue mix largely remained unchanged with contribution of the sugar segment was recorded at 39% (MY20: 41%) of the top-line in MY21. Going forward, with recovery of economic indicators and elimination of covid-19 related restrictions, the management projects that the company would be able to reap revenue of around Rs. 10.0b from ethanol division in line with increased production volumes, sustained international demand and higher ethanol process. Further, in line with improved crop yield leading to higher projected sugar production for FY22-23 along with higher carryover stocks the sugar prices are expected to slightly slide by Rs. 3-5/kg for the next season. On the other hand, molasses prices are expected to remain intact in the short to medium-term given its sustained demand for ethanol.

The average procurement cost of sugarcane increased to Rs. 295/maund vis-à-vis Rs. 265/maund in the previous year, the same represented the major chunk constituting around 89% (MY20: 88%) of the total manufacturing cost of sugar division for MY21. However, despite higher sugarcane procurement cost, the gross margins of the division improved significantly to 14.3% (MY20: 7.0%) owing to increase in retail prices of sugar and improvement in capacity utilization indicators which lead to better absorption of fixed cost components of cost of sales. On the other hand, owing to low ethanol production resulting in reduced capacity utilization and forgone economies of scale coupled with freight sharing with customers and deliberate reduction in retail price to keep customer profile intact, the margins of the ethanol division were slashed to only 3.4% (MY20: 18.5%) in MY21. Subsequently, given main revenue generation of the company is from the ethanol division, SSML's margins dipped to 7.7% during MY21 in comparison to healthy 14.3% in the preceding year.

The distribution cost also increased to Rs. 43.4m (MY20: 14.8m) during MY21 on account of incremental storage charges and carriage outward cost incurred in line with delay in departure of ethanol shipments. Further, administrative expenses increased slightly to Rs. 255.6m (MY20: Rs. 245.9m) despite decrease in revenue mainly as result of increase in employee related expenses stemming from inflationary pressure on salaries along with higher miscellaneous expenses booked during MY21. On the contrary, other expenses declined to Rs. 87.0m (MY20: Rs. 129.8m) on account of reduced contribution to workers participation fund in line with sizable cut to profit reaped. The impairment allowance for receivable against export subsidy due from government amounting to Rs. 58.7m (MY20: Rs. 58.7m) is booked; the company is continuously pursuing for the recovery of these export subsidies and cane development cess. However, due to uncertainty pertaining to timing and extent of their realization, ASML as a matter of prudence, has recorded impairment allowance based on the management estimates. The other income was reported significantly higher at Rs. 288.6m (MY20: Rs. 73.6m) during MY21 in line with higher income from non-financial assets against liabilities written back. Further, the finance cost also increased to Rs. 366.6m (MY20: Rs. 344.0m) despite decease in quantum of total borrowings of the company owing to prevailing increasing interest rate scenario. Resultantly, stemming from stunted revenues and depressed margins, SSML's bottom line was recorded significantly lower at Rs. 135.7m (MY20: Rs. 760.3m) during MY21.

Going forward, the management projects to close MY22 with a topline of Rs. 15.0b with expected contribution from sugar and ethanol segment to be recorded at Rs. 5.0b and Rs. 10.0b respectively. As per the management, in SSML sugar is the by-product so the company does not plan on making majority revenue from the same. The company booked higher net revenue of Rs. 3.6b by end-1QMY22 as opposed to corresponding period last year at Rs. 2.0b with Rs. 2.7b (1QMY21: Rs. 1.2b) from ethanol segment followed by Rs. 938.3m (1QMY21: Rs. 807.7m) during 1QMY22; however, given cyclicality is vested in the sugar sector with first half of the year associated with procurement and crushing, the same is not considered a true reflective of the revenue position. Further, the gross margins were also recorded lower at 7.3% during 1QMY22 owing to early crushing season start, low sucrose recovery and high sugarcane cane support price decided. For the current crushing season the Government of Sindh notified price of sugarcane at Rs. 250/maund whereas the same was Rs.202/maund during the previous year. Subsequently, the raw material cost has increased considerably as the growers are reluctant to sell their produce even at the notified price therefore the company has no option but to purchase raw material at higher cost. In addition to the higher cost of raw material, further transportation expense has to be incurred as the material is being procured from far areas in order to run the mill economically without interruption. The sucrose recovery percentage was recorded at 10.38% by end-1QMY22 as opposed to 10.32% achieved during the corresponding period last year. Given by end of recovery season the sucrose recovery rate has improved to 11.06%, therefore gross margins are expected to return to 13% by end-MY22. Currently, the sound operating margins of ethanol segment of 6.3% are being cannibalized by weak operating margin of sugar segment at 0.01% during 1QMY22. Accounting for taxation, net profit was reported at Rs. 91.2m with net margin of 2.5% during 1QMY22.

Deterioration in liquidity and debt coverage profile during MY21; the same shows reversal in the ongoing year however the same still remains downplayed as first quarter in sugar sector is marked by sizable cyclicality: Liquidity position of the company weakened during the outgoing year on account of reduction in cash flows in relation to outstanding obligations and adequate debt service capacity, although the same despite decline still remained positive. With decline in topline and gross margins, Funds from Operations (FFO) were recorded significantly lower at Rs. 446.8m (MY20: Rs. 1.3bm) during MY21. The decline in FFO was partially offset by increase in utilization of both long-term and short-term borrowings, therefore FFO to total debt and FFO to long-term debt were recorded at 0.10x (MY21: 0.25x) and 0.39x (MY20: 0.87x) respectively at end-MY21. Similarly, debt service coverage also was marked by downward trajectory although was still adequate at 1.18x (MY20:2.71x) at end-FY21. On the other hand, the liquidity profile witnessed an improved position at end-1QMY22 with FFO to total debt recorded higher at 0.19x and DSCR reported sizable at 4.81x in line with boost to topline along with recovery of operating margins of ethanol segment; however, the same is not a true reflective of company's credit repayment capacity as sugar sector is highly cyclical therefore profitability and liquidity profile at end of first half of the accounting year is considerably understated. Moreover, in SSML the sound operating margins of ethanol segment during 1QMY22 have been offset by almost zero operating margin of sugar division. Going forward, according to the management, cash flows in terms of obligations are expected to remain intact as of MY20's position on account of maintenance of market share, projected increase in revenues and efficiency improvements in the operational process.

Further, stock in trade decreased by end-1QFY22; the same largely comprises finished goods inventory of sugar owing to cyclicality of sugar sector where highest finished goods inventory buildup is seen by end-March which coincides with the end of the crushing season. Post-March as soon as sales gain momentum, the inventory levels begin to decline. The decline in stock in trade is marked by reversal of ethanol segment given successful dispatches of the product being made in the ongoing year. In line with the business model of the company involving sugar sale made on cash basis trade debts have remained on a lower side. Although all trade debts are unsecured in nature the same are considered good by the management. In addition, the aging of receivables is considered sound given all the receivables at end-FY21 and end-1QFY22 pertained to overdue up to six months bracket therefore the probability of recovery of the receivables is on the higher side. Loans and advances increased during the ongoing year to Rs. 2.0b (MY21: 155.6m; MY20: 1.5b) by end-1QFY22; the same mainly constitute advances extended to suppliers for procurement of sugarcane and has an element of cyclicality attached to it. The company has been providing unsecured and interest free loans to growers in order to assist them in purchasing seeds, fertilizers and pesticides. Further, other receivables declined on a timeline basis to Rs. 117.4m (MY21: Rs. 117.6m; FY20: Rs. 176.7m) by end-1QFY22; the decrease was manifested in export subsidy receivable from the government in line with impairment allowance booked on the same. Balance outstanding with statutory authorities constituting advance income tax decreased to Rs. 49.9m (MY21: Rs. 49.2m; FY20: Rs. 76.9m) on a timeline at end-1QFY22. The liquidity profile of the company is slightly impacted with aforementioned capital stuck with the government; however, it is an exogenous factor and inherent in the sugar sector therefore rectification of the same is beyond the control of the company.

Trade and other payables were recorded at Rs. 1.4b (MY21: Rs. 798.9m; MY20: Rs. 1.3b) at end-1QFY22 mainly due to increase in trade creditors including suppliers arising from normal course of the business. The current ratio of the company declined on a timeline basis to 1.07x (MY21: 1.10x; MY20: 1.12x) at end-1QMY22 primarily on account of substantial increase in short-term borrowings during the period under review. Meanwhile, coverage of short-term borrowings via stock in trade and trade debts also decreased during the ongoing year 0.83x (MY21: 1.26x; MY20: 0.56x) by end-1QMY22.

Leverage indicators continue to remain on the higher side

Tier-1 equity increased marginally to Rs. 3.5b (MY21: Rs. 3.4b; MY20: Rs. 3.4b) by end-1QMY22 as a result of internal capital generation. The core equity of the company includes an interest-free loan from related party amounting to Rs. 48.1m at end-1QFY22; the same is expected to remain vested in the company during the rating horizon. Short-term borrowings increased to Rs. 4.3b (MY21: Rs. 3.2b; MY20: Rs. 3.6b) by end-1QMY22 in line with increase in working capital requirements. The sizable increase in short-term funding during the period under review is partially cyclical in nature as the sugar crushing period only lasts for around four months in which maximum stock keeping of final goods takes place; the end of crushing season correlates with the highest working capital requirement period. The short-term funding mainly comprised export refinance and musawama/ Murabaha amounting to Rs. 1.8b (MY20: Rs. 2.2b) and Rs. 1.1b (MY20: Rs. 1.3b) respectively at end-MY21. Export refinance carries a markup of 0.25-1.0% over SBP ERF rate which was 2.25-3.0% (MY20: 2.25-3.0%) during MY21. Meanwhile, the effective rates of profit of Islamic facilities ranged between respective 3-6M Kibor + 0.35% to 0.50% and SBP rate + 1.00% (MY20: 3M Kibor + 0.25 - 0.30% and SBP rate + 0.50-1.0%).

The unavailed facility amounted to Rs. 2.5b (MY20: Rs. 950m) at end-MY21. The short-term lines are secured by pledge and hypothecation facilities; pledge facilities are primarily secured by pledge of sugar, molasses and ethanol ranking charge over stocks and book debts and pari passu hypothecation charge on PPE and pledge of sugar.

Long-term borrowing on the other hand have exhibited a declining tend with the same reported lower at Rs. 1.1b (MY21: Rs. 1.1b; MY20: Rs. 1.5b) by end-1QMY22 in line with regular periodic repayments made. The capex incurred during MY21 amounted to only Rs. 232.6m; the capex pertained to normal balancing, modernization and replacement (BMR) carried out and was financed by own sources as no new long-term funding was obtained. The main long-term facility with outstanding balance of Rs. 372.0m has a tenor of ten years with a grace period of 2 years and carries a markup charge of SBP rate plus 0.75%. SSML's all long-term loans would be fully retired by end-Oct'28. With increase in equity largely offset by increase in utilization of short-term credit during the ongoing year owing to cyclicality element, gearing and leverage indicators increased slightly on a timeline to 1.54x and 1.97x respectively (MY21: 1.27x, 1.54x; MY20: 1.48x, 1.89x) by end-1QMY22. Capital expenditure amounting to only Rs. 450.0m is planned to be incurred during MY22, with bifurcations of Rs. 300m in sugar division entailing to investment in more efficient boilers to improve the steam to cane ratio coupled with storage capacity enhancement of ethanol division with procurement of 250-liter drums amounting to Rs. 150.0m by end-FY23. The debt-to-equity contribution for the aforementioned expansion is projected at 20:80 given SSML's management has formulated a strategy of incurring capex majorly from internally generated capital. Therefore, as the commercial funding proportion is projected to be very nominal, capitalization indicators are expected to improve during the rating horizon in line with equity augmentation.

Shahmurad Sugar Mills Limited **Annexure I**

FINANCIAL SUMMARY *(amounts in PKR millions)*

BALANCE SHEET	MY19	MY20	MY21	1QMY22
Property, Plant & Equipment	5,499	5,387	5,261	5,328
Stock-in-Trade	1,968	1,603	3,575	2,684
Trade Debts	460	207	416	876
Loans and Advances	1,586	1,468	156	2,007
Short-term Investment	201	2,104	0.4	1.0
Cash & Bank Balances	62	36	54	321
Total Assets	**10,391**	**11,312**	**9,931**	**11,725**
Trade and Other Payables	1,107	1,329	799	1,396
Short-Term Borrowings	3,113	3,641	3,177	4,299
Long-Term Borrowings *(Inc. current matur)*	1,699	1,456	1,133	1,106
Total Liabilities	5,965	6,484	5,222	6,924
Tier-1 Equity	**2,950**	**3,438**	**3,400**	**3,510**
Total Equity	4,426	4,827	4,710	4,801
Paid up Capital	211	211	211	211

INCOME STATEMENT	MY19	MY20	MY21	1QMY22
Net Sales	9,498	11,144	9,934	3,616
Gross Profit	2,010	1,592	762	263
Operating Profit	1,705	1,276	665	175
Profit Before Tax	1,355	932	298	127
Profit After Tax	1,206	760	136	91
FFO	1,612	1,263	447	257

RATIO ANALYSIS	MY19	MY20	MY21	1QMY22
Gross Margin (%)	21.2	14.3	7.7	7.3
Net Margin (%)	12.7	6.8	1.4	2.5
Current Ratio	1.05	1.12	1.10	1.07
Net Working Capital	236	616	409	401
FFO to Long-Term Debt	0.95	0.87	0.39	0.93*
FFO to Total Debt	0.34	0.25	0.10	0.19*
Debt Servicing Coverage Ratio (x)	3.30	2.71	1.18	4.81
Gearing (x)	1.63	1.48	1.27	1.54
Debt Leverage (x)	2.02	1.89	1.54	1.97
Inventory + Receivable/Short-term Borrowings (x)	0.78	0.50	1.26	0.83

**Annualized*

ISSUE/ISSUER RATING SCALE & DEFINITIONS Annexure II

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

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	Shahmurad Sugar Mills Limited
Sector	Sugar
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings
Rating History	see table below
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				
06/06/2022	A-	A-2	Stable	Reaffirmed
06/30/2021	A-	A-2	Stable	Reaffirmed
04/02/2020	A-	A-2	Stable	Reaffirmed
02/27/2019	A-	A-2	Stable	Reaffirmed
11/30/2017	A-	A-2	Stable	Reaffirmed
04/28/2016	A-	A-2	Stable	Reaffirmed
2/11/2015	A-	A-2	Stable	Upgrade
11/25/2013	BBB+	A-2	Stable	Reaffirmed
08-30-2012	BBB+	A-2	Stable	Reaffirmed

Due Diligence Meeting Conducted

Name	Designation	Date
Mr. Mumtaz Hussain	CFO	March 24, 2022