

RATING REPORT

Shahmurad Sugar Mills Limited

REPORT DATE

August 26, 2024

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 Date	August 26, 2024		August 23, 2023	
Rating Outlook/Rating Watch	Positive		Stable	
Rating Action	Maintained		Upgrade	

COMPANY INFORMATION

Incorporated in 1979

External auditors: Ijaz Tabassum & Co. Chartered Accountants

Public Listed Company

Chief Executive Officer (CEO): Mr. Zia Zakaria

Key Shareholders (with stake 5% or more):

Chairperson: Mr. Noor Muhammad Zakaria

Al Noor Sugar Mills Ltd. ~ 15.6%

CDC Trustee National Investment (Unit) Fund Trust ~ 6.5%

Mr. Zaid Zakaria ~ 5.5%

APPLICABLE METHODOLOGY(IES)

Applicable Rating Criteria: Corporates:

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

APPLICABLE RATING SCALE(S)

VIS Issue/Issuer Rating Scale:

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

Shahmurad Sugar Mills Limited

OVERVIEW OF THE INSTITUTION

RATNG RATIONALE

Shahmurad Sugar Mills Ltd. was incorporated in 1979, as a public limited company and is now listed on Pakistan Stock Exchange Ltd. The Company is involved in production of sugar and ethanol and is a part of Al-Noor Group.

Company Profile:

Shahmurad Sugar Mills Limited (“SSML” or “the Company”) was incorporated in Pakistan as a public limited company on April 9, 1979. Its shares are quoted at the Pakistan Stock Exchange Limited (PSX). The registered office of the Company is located at Sindhi Muslim Cooperative Housing Society (SMCHS), Karachi, Sindh. The Company owns and operates Sugar and Ethanol manufacturing units spread over 333.32 acres of land located at Jhok, District Sujawal in the Province of Sindh.

Group Profile:

Al-Noor Group (“ANG” or “the Group”) is involved in the manufacturing of sugar, rice, ethanol, power and board products along with limited presence in the financial sector. Al Noor Sugar Mills Ltd., Reliance Insurance Company Limited and Al Noor Modaraba Management operate under the Group.

Business Segments:

Sugar: The Company operates a sugar mill with a crushing capacity of 11,000 tons per day (TCD) (MY23, MY22: 11,000 TPD)). In 3QMY24, this segment accounted for approximately 39.9% (MY23: 20.5%, MY22: 23.2%) of total Company sales.

Ethanol: The Company has two units in its ethanol division with a total capacity of 200 MT per day (MT/day). In 1HMY24, this segment contributed around 61.4% (MY23: 79.6%, MY22: 76.8%) of the total sales of the Company.

Operational Performance:

Sugar:

Crushing Season	MY21	MY22	MY23	MY24
Crushing Capacity (In TCD)	11,000	11,000	11,000	11,000
Crushing Period in days	90	113	97	90
Cane Crushed (MT)	441,293	601,695	567,913	654,610
Sugar Production (MT)	47,220	66,683	60,303	71,811
Sucrose Recovery	10.7%	11.1%	10.6%	11%
Molasses Produced	19,740	25,810	26,720	30,450
Molasses Recovery	4.5%	4.4%	4.7%	4.7%

The Company faced production challenges in MY23 due to limited sugarcane availability caused by floods, resulting in a reduced crushing period of 97 days (MY22: 113 days). This reduction, alongside actual crushing per day falling short of capacity, stemmed from decreased sugarcane supply and competitive pressures from the neighboring sugar mills. The cane crushed was lower, leading to a decline in sugar and molasses output. In the MY24 season, with ease in sugarcane availability the total cane crushed increased to 654,610 metric tons (MT) (MY22: 567,913 MT), producing 71,811 metric tons of sugar. In order to improve sucrose recovery and in line with

emerging industry practice, the Company concentrated crushing between December to February period leading to reduction in operating period days to 90 days. This along with effective control over procurement of better quality sugar cane led to improvement in the sucrose recovery rate to 11% (MY23: 10.6%, MY22: 11.1%).

Ethanol:

Distillery	MY21	MY22	MY23	3QMY24
Unit I				
Ethanol Capacity per day (MT)	100	100	100	100
Actual Number of days Operated	210	346	340	225
Ethanol Production Capacity (Tons)	21,000	34,600	34,000	22,500
Ethanol Actual Production (Tons)	17,103	34,001	34,055	21,799
Capacity Utilization (%)	81.4	98.3%	100.2%	96.0%
Unit II				
Ethanol Capacity per day (MT)	100	100	100	100
Actual Number of days Operated	303	347	352	240
Ethanol Production Capacity (Tons)	30,300	34,700	35,200	24,000
Ethanol Actual Production (Tons)	25,540	33,751	36,683	23,592
Capacity Utilization (%)	84.3%	97.3%	104.2%	98.3%
Total				
Ethanol Capacity per day (MT)	200	200	200	200
Ethanol Production Capacity (Tons)	51,300	69,300	69,200	46,500
Ethanol Actual Production (Tons)	42,463	67,751	70,738	45,391
Capacity Utilization (%)	82.8%	97.8%	102.2%	97.6%

During 3QMY24, ethanol production amounted to 45,391 MT (MY23: 70,738 MT, MY22: 67,751 MT). Both the units, in 9 months of MY24 operated at almost full capacity with a capacity utilization of 97.6% (MY23: 102.2%, MY22: 97.8%). Molasses is the main raw material for production of ethanol. Almost one third of the molasses requirement is met through its own sugar mills and the rest is procured from other sugar mills. Whereas the entire ethanol production is exported. Profitability from this segment is therefore dependent on molasses price in the local market and ethanol price in international market. With easing of ethanol price and rise in molasses price the Company may face pressure on profitability margins going forward. However, the management is pursuing various avenues to develop product mixes which would help improve the profit margin of ethanol division.

Key Rating Drivers:

Business risk profile of the sugar industry is considered moderate, characterized by inelastic demand and low risk of substitute products, albeit in a highly fragmented market. However, industry is highly seasonal, sensitive to sugarcane production levels, and quality.

The business risk profile of the sugar sector is assessed as medium, with low exposure to economic cyclicality but high seasonality and sensitivity to sugarcane production levels and quality. Competition risk in the industry is considered medium to low, with a low risk of substitute products for sugar. However, the industry is characterized by high fragmentation with elevated competition within the sector.

The industry experiences inelastic demand linked to the growing population, and government measures allowing exports during times of excess production further supporting demand.

The outlook for the sugar industry is challenging amid current economic conditions. The elevated discount rate set by the State Bank of Pakistan continues to exert pressure on finance costs. Inventory build-ups within the industry have led to increased short-term debt utilization, thereby exacerbating the financial burden compounded by inventory carrying costs. This build-up has also resulted in stagnating sugar prices, further complicating the operating environment for sugar manufacturers.

The company's revenue and margins increased due to higher sugar and ethanol sales in MY24 but failed to sustain these higher margins in 3QMY24 with rising costs.

In MY23, the Company's revenue increased by 28.5% to PKR 22.8 bln (MY22: PKR 17.8 bln), driven by a 13.2% increase in sugar sales and a 33.1% rise in ethanol sales. The growth in sugar sales was largely due to higher average selling prices and exports under the allocated export quota, while the increase in ethanol sales was supported by higher export value due to PKR devaluation. Gross profit improved to PKR 5.4 bln (MY22: PKR 2.5 bln), primarily due to inventory gains and currency depreciation benefits on exports, taking the gross margin to 24.6% (MY22: 19.4%). However, in 3QMY24, the gross margin declined to 10.6% due to higher costs related to sugarcane procurement and carrying costs of inventory from the previous year.

Strengthened coverage profile in MY23, nevertheless weakening depicted in 3QMY24

In MY23, the Company's debt service coverage ratio (DSCR) improved to 4.7x (MY22: 3.8x), primarily due to a 102% increase in funds flow from operations (FFO) driven by higher operating profitability. However, in 3QMY24, the DSCR declined to 1.4x, reflecting the period's operational performance. The short-term debt (STD) coverage ratio remained adequate at 1.3x (MY23: 1.6x, MY22: 1.2x) in 3QMY24.

Conservative capitalization weakens as short-term debt rises to cover increasing inventory costs in 3QMY24.

In MY23, SSML's capitalization metrics showed improvement, with its gearing and leverage ratio improving to 0.7x (MY22: 1.1x) 1.1x (MY22: 1.5x), respectively. This positive shift was due to an increase in the equity base, which resulted from a 66.4% rise in unappropriated profit during the year. Conversely, in 3QMY24, the capital structure weakened, with the gearing and leverage ratio weakening to 1.3x and 1.8x. This elevation was due to a higher drawdown of short-term debt, which increased to PKR 9.7 bln (MY22: PKR 4.6 bln), to support the seasonal working capital requirements for the MY24 season.

Adequate liquidity profile

The Company has historically maintained an adequate liquidity profile with an average 5-year current ratio of 1.2x between MY19-23, remaining stable at 1.3x in 3QMY24. Meanwhile the cash conversion cycle ('CCC') has improved slightly to 69 days (MY22: 78 days) mainly due to lower crop availability and production during the year. CCC was inflated by inventory buildup in 3QMY24.

Shahmurad Sugar Mills Limited
Appendix I

Financial Summary				
Balance Sheet (PKR Millions)	MY21A	MY22A	MY23A	3QMY24M
Property, plant and equipment	5,260.90	5,551.15	10,859.04	10,769.51
Stock-in-trade	3,574.69	3,537.70	4,562.11	10,882.70
Trade debts	415.50	1,059.15	870.40	1,505.64
Cash & Bank Balances	53.76	1,016.21	5,099.54	2,546.92
Other Assets	626.40	1,886.49	1,206.95	2,081.46
Total Assets	9,931.25	13,050.70	22,598.04	27,786.23
Creditors	564.54	646.68	812.35	706.95
Long-term Debt (incl. current portion)	1,133.32	895.10	566.87	464.40
Short-Term Borrowings	3,176.98	4,532.14	4,562.31	9,740.00
Total Debt	4,310.30	5,427.24	5,129.18	10,204.40
Other Liabilities	395.00	962.21	2,837.97	3,194.54
Total Liabilities	5,269.84	7,036.13	8,779.50	14,105.89
Paid up Capital	211.19	211.19	211.19	211.19
Equity (excl. Revaluation Surplus)	3,354.64	4,804.63	7,854.33	7,933.15
Income Statement (PKR Millions)	MY21A	MY22A	MY23A	3QMY24M
Net Sales	9,934.50	17,806.81	22,884.47	18,741.89
Gross Profit	762.12	3,451.26	5,638.47	1,978.48
Operating Profit	665.05	2,455.46	5,423.39	1,939.18
Finance Costs	366.61	488.79	1,012.86	1,368.12
Profit Before Tax	298.44	1,966.67	4,410.53	571.06
Profit After Tax	135.67	1,650.85	3,827.67	284.20
Ratio Analysis	MY21A	MY22A	MY23A	3QMY24M
Gross Margin (%)	7.67%	19.38%	24.64%	10.56%
Operating Margin (%)	6.69%	13.79%	23.70%	10.35%
Net Margin (%)	1.37%	9.27%	16.73%	1.52%
Funds from Operation (FFO) (PKR Millions)	446.70	2,285.26	4,617.39	1,273.81
FFO to Total Debt* (%)	10.36%	42.11%	90.02%	16.64%
FFO to Long Term Debt* (%)	39.42%	255.31%	814.54%	365.72%
Gearing (x)	1.28	1.1	0.7	1.3
Leverage (x)	1.57	1.5	1.1	1.8
Debt Servicing Coverage Ratio* (x)	1.34	3.8	4.7	1.4
Current Ratio (x)	1.08	1.2	1.6	1.3
(Stock in trade + trade debts) / STD (x)	1.26	1.0	1.2	1.3
Return on Average Assets* (%)	1.28%	14.37%	21.47%	1.50%
Return on Average Equity* (%)	4.02%	40.47%	60.47%	4.80%
Cash Conversion Cycle (days)	86.98	78.13	69.31	123.52

*Annualized, if required

A - Actual Accounts

P - Projected Accounts

M - Management Accounts

Shahmurad Sugar Mills Limited

Appendix II

REGULATORY DISCLOSURES					
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 Watch	Rating Action
	RATING TYPE: ENTITY				
	08/26/2024	A	A-2	Positive	Maintained
	08/23/2023	A	A-2	Stable	Upgrade
	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	
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	S.No.	Name	Designation	Date	
	1.	Mr. Mumtaz Hussain	Director - Finance	August 19, 2024	