

SHAHMURAD SUGAR MILLS LIMITED

Chief Executive: Mr. Zia Zakaria

RATING DETAILS

RATINGS CATEGORY	LATEST RATING		PREVIOUS RATING	
	Long-term	Short-term	Long-term	Short-term
ENTITY	A	A1	A	A2
RATING OUTLOOK/ WATCH	Stable		Positive	
RATING ACTION	Upgrade		Maintained	
RATING DATE	November 21, 2025		August 26, 2025	

RATING RATIONALE

The entity ratings have been upgraded to A/A1, while the outlook has been revised from Positive to Stable. Upgradation in short term rating reflects improvement in liquidity profile.

Despite the moderation in profitability, the assigned ratings are supported by a sound debt coverage profile, adequate liquidity position, and a manageable capitalization structure. Operational cash flows remain sufficient to meet financial obligations, and the overall liquidity buffer provides flexibility to navigate working capital cycles.

The evolving regulatory framework, volatility in raw material costs, and exposure to climatic conditions remain key considerations, while the current risk absorption capacity supports the assigned rating level.

Rs. Million	MY23A	MY24A	3QMY25M
Net Sales	22,884.47	25,737.19	17,001.50
Profit Before Tax	4,410.53	423.62	1,154.78
Profit After Tax	3,827.67	52.39	652.23
Paid up Capital	211.19	211.19	211.19
Equity (excl. Revaluation Surplus)	7,854.33	7,684.11	8,330.37
Total Debt	5,129.18	5,914.24	6,398.50
Leverage (x)	1.12	1.32	1.31
Gearing (x)	0.65	0.77	0.77
Funds From Operations (FFO)	4,617.39	601.98	1,051.58
FFO/Total Debt (x)	0.90	0.10	0.22
Net Margin (%)	17%	0%	4%

*Annualized,
if required

A - Actual
Accounts
M -
Management
Accounts

COMPANY PROFILE

Shahmurad Sugar Mills Limited ("SSML" or "the Company") was incorporated in Pakistan as a public limited company on April 9, 1979. The Company's shares are quoted on the Pakistan Stock Exchange Limited. The registered office is located at 96-A, Sindhi Muslim Cooperative Housing Society, Karachi, Sindh. The Company owns and operates sugar and ethanol manufacturing units located at Jhok Sharif, District Sujawal, Sindh.

GROUP PROFILE

SSML is part of the Al-Noor Group, which is involved in the manufacturing of sugar, board products, and ethanol, with a presence in the financial services sector. Entities associated with the group include Al-Noor Sugar Mills Limited, Reliance Insurance Company Limited, and Al-Noor Modaraba Management (Private) Limited (ANMM).

GOVERNANCE

The Company's governance structure includes Mr. Noor Muhammad Zakaria as Chairman, Mr Zia Zakaria as Managing Director and CEO, Mrs. Sanobar Hamid Zakaria and Mr. Asad Ahmed Mohiuddin as Directors, supported by independent directors Mr. Rumi Moiz and Mr. Sheikh Asim Rafiq. The Board has established sub-committees to oversee audit, risk, and regulatory compliance, providing structured oversight of governance and reporting processes.

INDUSTRY PROFILE & BUSINESS RISK

Sugar

The sugar industry in Pakistan operates under a medium-risk profile influenced by seasonal production cycles, government intervention, and fluctuations in input and output prices based on crop availability as well as demand and supply mechanics for the final product. Sugarcane crushing is concentrated between November and March, requiring mills to maintain year-round inventories that expose them to price and interest rate risks. Despite a slight increase in sugarcane crushed during the 2023-24 season (67.4 MMT vs. 65.1 MMT in MY23), sugar production decreased to 6.5 MMT (MY23: 6.8 MMT). The sector continues to face structural limitations due to low mechanization and underinvestment in research and development, which constrain crop yields and sucrose recovery.

Cost pressures intensified in MY24 as provincial governments implemented higher minimum support prices (MSP)—PKR 400 per 40 kg in Punjab and PKR 425 in Sindh. This particularly affected smaller mills with tighter cost margins. However, there is a significant policy shift with discontinuation of MSP from the 2024-25 season. Domestic sugar consumption remains relatively inelastic, recorded around 6.4 MMT.

In ongoing 2025, total sugarcane production is estimated to have been around 80 MMT, due to a larger cultivation area of ~1,210,000 HA (2024: 1,175,000).

However, due to unfavorable climatic conditions, as well as pests related issues, the quality of the crop was significantly impacted. This affected sugar production which fell to ~5.80 MMT, overall availability remained at par with domestic demand supported by carryover stocks of 0.66 MMT. However, due to this lower-than-expected production, domestic sugar prices started rising –averaging PKR 143.92/kg in MY24 (MY23: PKR 115.97/kg) and are currently ranging between PKR 165–175/kg—prompting the government to permit duty-free imports. Most recently, the government has also attempted to cap ex-mill prices at PKR 165/kg with incremental increases until October 2025, reportedly. While the demand outlook remains stable, the industry’s future performance will depend on its ability to adapt to evolving policy frameworks, manage cost pressures, and navigate regulatory scrutiny, especially regarding pricing mechanisms and export policy. Moreover, sugar production will continue to remain sensitive to crop yields and quality. In recent years, crop production has been impacted by changing and increasingly volatile weather patterns. Climate change has become an important consideration for the sugar industry in the country.

Ethanol

The business risk profile of Pakistan’s ethanol production sector, primarily dependent on sugarcane-derived molasses, is assessed as Medium to High. Feedstock availability remains the most significant risk, given its direct link to sugarcane yields, which are subject to agricultural performance and pricing factors. The 2024–2025 season has seen reduced harvests, constraining molasses supply, increasing procurement costs, and creating production bottlenecks. As molasses is a by-product of sugar production, its pricing and availability are influenced by sugar market dynamics and government export policies. Restrictions on sugar exports or upward revisions in sugarcane prices may incentivize mills to retain molasses, thereby limiting availability for distilleries and putting pressure on margins. These structural constraints heighten the sector’s exposure to production volatility.

The sector’s dependence on international markets, with exports accounting for around 80% of total output, exposes it to fluctuations in global ethanol demand, which is driven by the use of biofuels and blending mandates in key markets such as the U.S. and EU. Competitive pressures from major producers, including Brazil and the U.S., influence pricing and market share. Furthermore, ethanol prices are inversely linked to global oil prices, with lower oil prices reducing the economic attractiveness of ethanol blending, thereby depressing demand. While domestic demand is currently limited to low-level fuel blends, the government’s blending initiatives could gradually create a more stable local market, although near-term benefits remain uncertain.

Going forward, sector performance is expected to be shaped by lower international ethanol prices and tighter feedstock availability. Molasses supply is expected to constrain operations as additional domestic distillation capacity is commissioned, independent of annual crop outcomes, increasing feedstock costs and potentially limiting utilization. Distillery margins are likely to narrow, with cash

generation and returns on new projects under pressure; continued debt-funded expansion could raise leverage without commensurate cash flow. Regulatory changes—including adjustments to EU tariffs and local ethanol-blending policy—may alter export realizations, domestic demand, and product mix. The sector risk profile will continue to reflect agricultural yield variability, input-cost volatility, exposure to global markets, and policy settings, with credit outcomes driven by feedstock procurement, pricing pass-through, working-capital discipline, and the development of domestic consumption channels. Installed ethanol capacity in Pakistan is estimated at about 4.13 million litres per day; further additions would intensify raw-material constraints unless supported by higher cane throughput or improved molasses yields.

OPERATIONAL PERFORMANCE

Sugar Segment	Units	MY23	MY24	3QMY25
Crushing Period in days	Numbers	97	87	105
Cane Crushed	Tons	567,913	654,610	471,495
Sugar Production	Tons	60,303	71,811	47,953
Sucrose Recovery (%)	% Age	10.6%	10.97%	10.20%
Molasses Produced	Tons	26,720	30,450	23,470
Molasses Recovery (%)	% Age	4.696%	4.5%	4.98%

Sugar segment:

In Sindh, during MY24, sugarcane cultivation experienced favorable weather conditions, compared to Punjab, resulting in increased crop yields. This performance was mirrored in Shahmurad's operations, with a 15% rise in the volume of sugarcane crushed. Additionally, sucrose recovery rates improved to 10.97% (MY23: 10.6%). These factors contributed to a higher production output of 71,811 MT (MY23: 60,303 MT).

In MY25, sugarcane production was adversely affected by two primary factors. The province faced significant water shortages, with irrigation dams reaching critically low levels. Furthermore, expected rainfall did not materialize, exacerbating the water supply issues. This shortage resulted in lower productivity levels. Additionally, prolonged hot and dry conditions caused the cultivated cane to have higher fiber content, which negatively impacted sucrose recovery rates.

These provincial challenges were reflected in the Company's operational performance, with the amount of sugarcane crushed decreasing by 28%. Sucrose recovery dropped to 10.2% (MY24: 10.97%), and overall sugar production declined to 47,953 MT.

Ethanol Segment:

Molasses recovery rate is a key determinant of ethanol production. Molasses recovery and sucrose recovery rates are usually inversely correlated. In MY24, the molasses recovery rate decreased to 4.50% (MY23: 4.68%). However, total molasses production increased to 30,450 MT (MY23: 26,720 MT), driven by a higher volume of sugarcane crushed.

In MY25, the trend reversed. Molasses recovery rate increased to 4.96%, while total molasses production declined to 23,470 MT. This was primarily due to reduced sugarcane availability at the provincial level.

FINANCIAL RISK

Capital Structure

In MY24, SSML reported a gearing ratio of 0.77x and a leverage ratio of 1.32x, compared to 0.65x and 1.12x, respectively, in MY23. The ratios although slightly higher than the previous year, remain comparatively better than 5-year historical gearing and leverage averages of 1.25x and 1.63x, respectively.

For the 3QFY25, the gearing ratio remained at 0.77x, and the leverage ratio stood at 1.31x. These changes were primarily due to seasonal working capital requirements being managed without a significant increase in additional borrowings.

Profitability

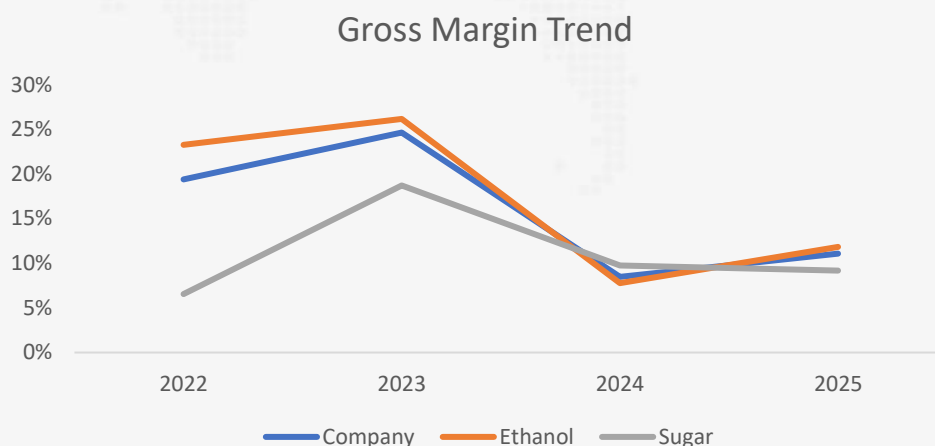
In MY24, the Company's revenue increased by 12.47% to PKR 26bln (MY23: PKR 23bln), primarily supported by volumetric and price increase in the sugar segment. Despite this, the ethanol segment remained the principal revenue contributor, accounting for ~60% of total revenue (MY23: ~77%), with its share averaging around 70% in recent periods. The moderation in ethanol contribution during MY24 was attributed to the continued normalization of international demand following the COVID-19 peak period, while ethanol prices remained largely stable, recording a growth of approximately 3%.

The sugar segment reported improved performance, with volumetric growth of 56% supported by higher production and carryover stock of ~27 MMT (MY23: 18 MMT) in MY24; SSML carried forward ~19 MMT into 2025. Additionally, sugar selling prices were higher by ~24%. Despite this, the Company's gross margins declined significantly to 8.48% (MY23: 24.64%), primarily driven by a contraction in ethanol margins to ~7.77% (MY23: 26.17%) due to higher raw material costs, elevated packing expenses, and increased export freight charges within the ethanol segment. Given ethanol's position as the primary revenue driver, changes in its cost structure has a material impact on overall margins, which generally follow a similar trajectory.

In MY24, the cost of ethanol production increased by ~29%, substantially outpacing selling price growth. Approximately 80% of the Company's molasses requirements are sourced externally, with the remaining 20% met through internal

production. Sugar segment margins also declined to 9.76% (MY23: 18.71%) due to a ~38% increase in sugar production costs, which exceeded the rise in sugar prices.

In MY25, gross margins partially recovered to 11.09%, supported by an improvement in ethanol margins to ~12%. However, overall revenue is expected to remain broadly unchanged by year-end 2025 as reduced production offsets the impact of higher sugar prices. Going forward, any material recovery in margins is expected to remain constrained due to normalized international ethanol prices and continued volatility in sugar prices, which are closely linked to annual crop yields and quality. Furthermore, molasses costs are anticipated to increase as domestic ethanol production capacity expands, potentially resulting in elevated demand and tightening supply over the long term.



Other income of approximately 442M in MY25, primarily derived from financial investments and ancillary operations, provided additional support to earnings and contributed to an improvement in net margins. Furthermore, finance costs declined compared to the prior year due to easing local policy rates. Combined, these factors supported an increase in net margins by 3.63%.

Debt Coverage & Liquidity

In MY24, SSML's debt coverage ratios declined, though remained adequate with Debt Service Coverage Ratio (DSCR) at 1.3x (MY23: 4.67x). The decline was mainly as result of lower FFO and increased financial pressure from higher debt utilization, compounded by the elevated interest rates. However, in 3QMY25, the DSCR improved to 2.61x, primarily due to partial recovery in FFO along with lower finance costs, stemming from a more favorable interest rate environment.

SSML's current ratio has remained stable over the years, at 1.55x (MY23: 1.58x) at end-MY24, indicating adequate short-term liquidity. The ratio increased slightly to 1.63x by end-3QMY25.

Financial Summary			
Balance Sheet (PKR Millions)	FY23A	FY24A	9MFY25M
Property, plant and equipment	10,859.04	10,770.74	10,422.65
Long-term Investments	0.97	1.21	1.21
Stock-in-trade	4,562.11	5,443.49	7,972.45
Trade debts	870.40	778.14	1,169.02
Short-term Investments	24.24	2,824.31	523.76
Cash & Bank Balances	5,099.54	810.81	412.38
Other Assets	1,181.74	1,206.79	2,602.28
Total Assets	22,598.04	21,835.49	23,103.75
Creditors	812.35	902.91	1,047.85
Long-term Debt (incl. current portion)	566.87	338.65	286.18
Short-Term Borrowings	4,562.31	5,575.59	6,112.32
Total Debt	5,129.18	5,914.24	6,398.50
Other Liabilities	2,837.97	3,297.84	3,432.51
Total Liabilities	8,779.50	10,114.99	10,878.86
Paid up Capital	211.19	211.19	211.19
Revenue Reserve	7,643.14	7,472.92	8,119.18
Equity (excl. Revaluation Surplus)	7,854.33	7,684.11	8,330.37
Income Statement (PKR Millions)	FY23A	FY24A	9MFY25M
Net Sales	22,884.47	25,737.19	17,001.50
Gross Profit	5,638.47	2,181.42	1,885.98
Operating Profit	5,423.39	2,073.66	1,737.67
Other Income	665.17	551.31	442.92
Finance Costs	1,012.86	1,650.04	582.89
Profit Before Tax	4,410.53	423.62	1,154.78
Profit After Tax	3,827.67	52.39	652.23
Ratio Analysis	FY23A	FY24A	9MFY25M
Gross Margin (%)	24.64%	8.48%	11.09%
Operating Margin (%)	23.70%	8.06%	10.22%
Net Margin (%)	16.73%	0.20%	3.84%
Funds from Operation (FFO) (PKR Millions)	4,617.39	601.98	1,051.58
FFO to Total Debt* (%)	90.02%	10.18%	21.91%
Gearing (x)	0.65	0.77	0.77
Leverage (x)	1.12	1.32	1.31
Debt Servicing Coverage Ratio* (x)	4.67	1.30	2.61
Current Ratio (x)	1.58	1.55	1.63
(Stock in trade + trade debts) / STD (x)	1.27	1.21	1.58
Return on Average Assets* (%)	21.47%	0.24%	3.87%
Return on Average Equity* (%)	60.47%	0.67%	10.86%
Cash Conversion Cycle (days)	85.66	75.92	119.50

*Annualized, if required

A - Actual Accounts

P - Projected Accounts

M - Management Accounts

REGULATORY DISCLOSURES						Appendix II
Name of Rated Entity	Shahmurad Sugar Mills Limited					
Sector	Sugar Sector					
Type of Relationship	Solicited					
Purpose of Rating	Entity Ratings					
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook/Rating Watch	Rating Action	
	RATING TYPE: ENTITY					
	11/21/2025	A	A1	Stable	Upgrade	
	08/26/2024	A	A2	Positive	Maintained	
	08/23/2023	A	A2	Stable	Upgrade	
	06/06/2022	A-	A2	Stable	Reaffirmed	
	06/30/2021	A-	A2	Stable	Reaffirmed	
	04/02/2020	A-	A2	Stable	Reaffirmed	
	02/27/2019	A-	A2	Stable	Reaffirmed	
	11/30/2017	A-	A2	Stable	Reaffirmed	
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.					
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Copyright 2025 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.					
Due Diligence Meetings Conducted	Name		Designation		Date	
	Mumtaz Hussain		Director Finance		07/30/2025	