RATING REPORT

The Thal Industries Corporation Limited (TICL)

REPORT DATE:
March 04, 2020

RATING ANALYSTS:

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RATING DETAILS				
	Latest Rating		Initial Rating	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity	A-	A2	A-	A2
Rating Date	*27th Feb 2020*		*29th Oct 2018*	
Rating Outlook	Rating Watch Developing		Stable	
Outlook Date	*27th Feb 2020*		*29th Oct 2018*	

COMPANY INFORMATION	
Incorporated in 1953	**External auditors:** Rahman Sarfaraz Rahim Iqbal Rafiq Chartered Accountants
Public Limited Company (Listed)	**Chairperson of the Board:** Mrs. Qaiser Shamim Khan **Chief Executive Officer:** Mr. Muhammad Shamim Khan
Key Shareholders (with stake 5% or more):	
Mr. Muhammad Shamim Khan - 58.9421%	
Mrs. Qaiser Shamim Khan - 15.0014%	
Mr. Adnan Ahmed Khan - 7.9721%	
Mr. Nauman Ahmed Khan - 9.9993%	

APPLICABLE METHODOLOGY

VIS Entity Rating Criteria: Corporates (May 2019)

https://www.vis.com.pk/kc-meth.aspx

The Thal Industries Corporation Limited

OVERVIEW OF THE INSTITUTION

The Thal Industries Corporation Limited (TICL) was incorporated as a public limited company in 1953 under the Companies Act, 1913, (now Companies Act 2017). The company is principally engaged in production of refined sugar and electricity. It is listed on Pakistan Stock Exchange with registered office of the company located at 23-Pir, Khurshid Colony, Gulgasht, Multan.

Profile of the CEO

Mr. Muhammad Shamim Khan serves as the Chief Executive Officer (CEO) of the company. He has over 45 years of experience in managing large manufacturing concerns. He has served thrice as the President of Multan Chamber of Commerce.

Financial Snapshot

Total Equity: end-FY19:Rs.2.79b; end-FY18:Rs. 2.46b; end-FY17: Rs. 2.91b

Assets: end-FY19: Rs 9.26b; end-FY18: Rs. 10.21b; end-FY17: Rs 11.71b

Profit/ (Loss) After Tax: FY19: Rs. 344m; FY18: Rs. (160m); FY17: Rs. 455m

RATING RATIONALE

The Thal Industries Corporation Limited (TICL) is part of an industrial conglomerate, 'Almoiz Group' engaged in the businesses of beverages, sugar manufacturing, steel melting, power generation & textile. The group companies include Naubahar Bottling Company (Pvt.) Limited, Almoiz Industries Limited, The Thal Industries Corporation Ltd & Moiz Textile Mills Limited. TICL is primarily engaged in manufacturing & sales of sugar and electricity. The company has two units for sugar production; one in Layyah and other in Chiniot. The aggregate crushing capacity of TICL is 23,000 tpd with 15,000 pertaining to Layyah Unit and 8,000 tpd to Chiniot Unit. TICL has a total power generation capacity of 41 MW out of which 22 MW is being used for sale of electricity to CPPA at an upfront tariff approved rate under cogeneration bagasse based policy 2013. The plant achieved its commercial operations in December, 2017 and has been selling electricity to CPPAGL since then. The ratings are constrained by cyclicality & price vulnerability in sugar sector along with low profit margin, leading to competitive challenges for the company.

Shareholding mainly vested with sponsoring family with adequate experience in sugar sector

TICL is a public listed company with majority shareholding vested with the sponsoring family. Mr. Muhammad Shamim Khan serves as the Chief Executive Officer (CEO) of the company. He has over 45 years of experience in managing large manufacturing concerns. He served thrice as the President of Multan Chamber of Commerce. Mrs. Qaiser Shamim Khan serves as Chairperson of the board. She is sponsoring director in most of the group companies. Board of Directors of TICL comprises 7 members, out of which two members are executive directors including the CEO, three are non-executive directors and two are Independent Directors. Board meetings are held at least on a quarterly basis.

Sales remained increased marginally while profitability improved on account of higher margins

The net sales of TICL increased to Rs. 14.3b (FY18: Rs. 14.1b, FY17: Rs. 14.9b) during FY19 with revenues from sugar representing 87.7% of sales followed by molasses (7.4%) electricity (4.7%) & Misc. (0.2%). Revenue from sugar increased to Rs. 12.6b (FY18: Rs. 12.1b) during FY19. The company was able to crush 2.01m M.Tons (FY18: 2.70m M.Tons) of sugarcane during FY19 while the total sugar produced by the company reduced to 204,406 M.Tons (FY18: 260,788 M.Tons) with higher recovery rate of 10.19% (FY18: 9.67%) during the same period. The average price of sugar increased to Rs. 55/Kg (FY18: Rs. 48/Kg) during FY19 while the average procurement price of sugarcane stood at Rs. 183/40 kg (FY18: Rs. 181/40 kg). The company sells around 70% (FY18: 68%) of sugar to institutional clients while the remaining sugar sales are made to wholesalers and traders. The main customers include Punjab Beverages Limited, Coca Cola Beverages Pakistan Limited, Naubahar Bottling Co. (Pvt.) Limited, Continental Biscuits, Nestle Pakistan Limited, Shamim & Co (Pvt.) Limited etc. Concentration among top 10 customers continues to remain sizable representing 67% (FY18: 61%) of the overall sales revenue during FY19. The concentration slightly increased on a timeline basis mainly on account of higher quantum of sales to an associate concern – Naubahar Bottling Co. (Pvt) Limited. Find below the details of crushing season of last three years:

Crushing Season	FY17	FY18	FY19
Crushing Capacity LSML (MT/Day)	13,000	13,000	15,000
Crushing Capacity SSML (MT/Day)	8,000	8,000	8,000
Total Crushing Capacity (MT/ Day)	21,000	21,000	23,000

Sugar Crushing Capacity based on Operating days (MT)	3,167,000	3,003,000	2,208,000
Sugarcane Crushed (MT)	2,869,699	2,697,755	2,006,892
Recovery Rate (%)	9.73	9.67	10.19
Sugar Production (MT)	279,308	260,788	204,406
Capacity Utilization (%)	90.61	89.84	90.89

The maximum power requirement of the company is recorded at 22.5 MW. All production units operate on self-generation electricity with surplus generation sold to CPPAGL. The company produced and sold electricity worth Rs. 667m (FY18: Rs. 1.05b) to CPPAGL due to lower bagasse produced; an outcome of decrease in sugarcane crushing during the FY19.

Since sugar remained the major revenue driver, the upward trend in sugar prices positively impacted the company's bottom line and resulted in higher gross profit. The company generated gross profit of Rs. 1.74b (FY18: Rs. 369m) during FY19 while gross profit margin increased significantly to 12.1% (FY18: 2.6%). Main reason for better gross margin was higher sugar prices and better sucrose recovery rate in FY19. The operating expenses increased to Rs. 750m (FY18: Rs. 557m) mainly increased due to higher freight, legal and salaries expenses. The income from other sources decreased to Rs. 311m (FY18: Rs. 521m) which mainly constituted subsidy on export of sugar of Rs. 165m (FY18: Rs. 443m), sale of scrap of Rs. 41m (FY18: Rs. 44m) & exchange gain of Rs. 67m (FY18: Rs. 3m). The financial cost increased to Rs. 728m (FY18: Rs. 486m) on account of higher average interest rates during FY19. The company posted profit of Rs. 342m during FY19 as against net losses of Rs. 160m during FY18.

Total asset base decreased mainly on account of reduction in inventory & receivables while fixed assets showcased expansion

Total asset base of the company decreased to Rs. 9.26b (FY18: Rs. 10.21b) by end-FY19 on account of reduction in current assets of the company. The non-current assets of the company increased to Rs. 4.91b (FY18: Rs. 4.51b) by end-FY19 on account of increase in property, plant and equipment. The company completed CAPEX of around Rs. 250m during FY19 along with capital work in progress of Rs. 678m (FY18: Rs. 105m) mainly for increasing steam production and improving its efficiency at Layyah plant for its Cogeneration plants. Stores & spares increased to Rs. 641m (FY18: Rs. 531m) owing to BMR before the start of new crushing season. The stock in trade decreased to Rs. 1.54b (FY18: Rs. 2.93b) by end-FY19 which consisted of sugar inventory amounting Rs. 1.54b (FY18: Rs. 2.72b) while molasses inventory stood at nil (FY18: Rs. 204m). The trade debts also decreased to Rs. 904m (FY18: Rs. 1.27b) while receivables days decreased to 23 days (FY18: 33 days) during FY19. As per ageing schedule, around 3% of receivables are due for more than a year from CPPA and are considered good. Loans & advances increased to Rs. 523m (FY18: Rs. 320m) which mainly constituted advances to farmers & suppliers; advances to suppliers increased Rs. 271m (FY18: Rs. 150m). The taxes recoverable/ adjustable increased to Rs. 470m (FY18: Rs. 375m) was mainly an outcome of increase in advance income tax. Cash & bank balances stood at Rs. 166m (FY18: Rs. 173m) at end-FY19.

Funds from operations improved mainly on the back of higher profitability; coverages and liquidity ratios also improved

During FY19, the liquidity profile of the company improved as sugar prices increased in the local market. Funds from Operations (FFO) were sufficient during FY19 and stood at Rs. 1.01b (FY18: Rs. -50m). FFO to long-term debt improved to 57.4% (FY18: n.m) during FY19 while FFO to total debt also increased to 27.1% (FY18: n.m) during the same period. The debt service coverage ratio improved to 1.56x (FY18: 0.44x) during FY19. The inventory plus receivable to short term borrowing ratio decreased slightly to 1.24x (FY18: 1.4x) on account of reduction in inventory & receivables. The current ratio decreased slightly to 0.88x (FY18: 0.93x).

Adequate equity base with improved leverage indicators

Paid-up capital remained unchanged at Rs. 150m. The accumulated profits increased to Rs. 1.98b (FY18: Rs. 1.64b) during FY19 on the back of profit of Rs. 344m. The loan from director remained at the same level of Rs. 575m during the last three years. The advances from director under current liabilities decreased to Rs. 355m (FY18: Rs. 575m) at end-FY19 as these are interest free loans given by directors used to meet working capital requirements of the company. The debt matrix of the company is tilted towards short term debt which comprises around 53% of total debt. The long term loan of the company decreased to Rs. 1.76b (FY18: Rs. 1.95b) by end-FY19. The short term finance facilities of the company decreased to Rs. 1.96b (FY18: Rs. 2.97b) by end-FY19 on account of decrease in inventory and receivables. Given lower borrowings, debt leverage decreased to 2.3x (FY18: 3.1x) while gearing decreased to 1.3x (FY18: 2.0x) at end-FY19.

Future plans includes acquisition of ICSM Sugar Mills in Australia by Almoiz Group

For FY20, the company is not contemplating any major CAPEX. The sales are projected at Rs. 15.4b which is 7.4% increase on an annualized basis while gross margins are also projected higher at 16.2% mainly on the back of higher average price of sugar. In addition, working capital requirements of TICL is projected to be financed through a mix of internal cash flows, short-term borrowings & payables while long term debt is projected to decrease in FY20 owing to repayment of existing long term loan facilities.

The 'Almoiz Group' has shown intentions to acquire 54% equity stakes in "ISIS Sugar Mills Limited" in Australia with investment of $35 million (Australian dollar). The crushing capacity of the company is 10,000 tons per day. Three group companies of Almoiz Group namely 'Almoiz Industries Limited', 'The Thal Industries Corporation Limited' & 'Naubahar Bottling Company (Pvt.) Limited' will invest one third each of the total investment. However, the loan will be raised in Dubai while the three group companies will provide their SBLC against the loan. Hence, there will be no loan on the balance sheet of these group companies while it will appear in contingent liability.

Good corporate governance framework

There are two board committees set up by the company, 'Audit committee' and 'Human Resource & Remuneration committee'. The Audit Committee is headed by Independent Director Mr. Muhammad Ashraf Khan Durani and is consisted of three members. The Audit committee met six times during the FY19. The Human Resource & Remuneration Committee is also headed by Independent Director Mr. Muhammad Abdul Wahid Khan. The committee met once during the year. Senior management team of the company comprises experienced resources from the industry having relevant experience.

Financials - The Thal Industries Corporation Limited Appendix I

BALANCE SHEET *(amounts in PKR millions)*	Sep 30, 2017	Sep 30, 2018	Sep 30, 2019
Non-Current Assets	3,940	4,512	4,919
Stock-in-Trade	2,797	2,938	1,542
Stores & Spares	477	531	641
Trade Debts	405	1,271	904
Loans and advances	423	320	523
Trade deposits, prepayments & other receivables	247	95	97
Taxes recoverable/adjustable	483	375	470
Cash & Bank Balances	77	173	166
Total Assets	8,849	10,215	9,262
Trade and Other Payables	1,024	1,825	1,740
Short Term Borrowings	2,207	2,977	1,968
Long-Term Borrowings *(Inc. current maturity)*	1,724	1,955	1,768
Total Bank Borrowing	3,930	4,932	3,736
Other Liabilities	985	998	987
Total Liabilities	5,940	7,755	6,463
Paid up Capital	150	150	150
Total Equity including sponsors loan	2,909	2,460	2,799
INCOME STATEMENT	Sep 30, 2017	Sep 30, 2018	Sep 30, 2019
Net Sales	14,919	14,104	14,360
Gross Profit	1,843	369	1,738
Operating Profit	1,287	333	1,271
Profit Before Tax	942	(153)	543
Net Profit	708	(160)	342
FFO	1,182	(50)	1,015
RATIO ANALYSIS	Sep 30, 2017	Sep 30, 2018	Sep 30, 2019
Gross Margin (%)	12.4	2.6	12.1
Net Profit Margin (%)	4.7	(1.1)	2.4
Current Ratio	1.12	0.93	0.88
Net Working Capital	540	(404)	(615)
FFO to Long-Term Debt (%)	68.6	(2.6)	57.4
FFO to Total Debt (%)	30.1	(1.0)	27.1
Debt Servicing Coverage Ratio (x)	2.09	0.44	1.56
(Inventory + Receivables) / Short Term Debt	1.45	1.41	1.24
ROAA (%)	8.0	(1.6)	3.7
ROAE (%)	24.4	(6.5)	12.3
Debt Leverage (x)	2.0	3.1	2.3
Gearing (x)	1.4	2.0	1.3

Projections - The Thal Industries Corporation Limited Appendix II

BALANCE SHEET *(amounts in PKR millions)*	Sep 30, 2020	Sep 30, 2021	Sep 30, 2022
Non-Current Assets	4,701	4,505	4,245
Stock-in-Trade	1,314	1,381	1,487
Stores & Spares	705	775	853
Trade Debts	771	815	885
Loans and advances	604	701	811
Trade deposits, prepayments & other receivables	115	138	165
Taxes recoverable/adjustable	514	591	650
Cash & Bank Balances	223	189	237
Total Assets	8,947	9,095	9,333
Trade and Other Payables	1,642	1,638	1,828
Short Term Borrowings	1,677	1,594	1,432
Long-Term Borrowings *(Inc. current maturity)*	1,227	900	597
Total Bank Borrowing	2,903	2,494	2,028
Other Liabilities	1,020	1,120	953
Total Liabilities	5,566	5,252	4,810
Paid up Capital	150	150	150
Total Equity including sponsors loan	3,381	3,843	4,523
INCOME STATEMENT	Sep 30, 2020	Sep 30, 2021	Sep 30, 2022
Net Sales	15,416	16,301	17,706
Gross Profit	2,492	2,652	3,006
Operating Profit	1,752	1,843	2,114
Profit Before Tax	882	988	1,223
Net Profit	728	753	982
FFO	1,243	1,312	1,453
RATIO ANALYSIS	Sep 30, 2020	Sep 30, 2021	Sep 30, 2022
Gross Margin (%)	16.2	16.3	17.0
Net Profit Margin (%)	4.7	4.6	5.5
Current Ratio	0.99	1.07	1.27
Net Working Capital	(63)	319	1,087
FFO to Long-Term Debt (%)	101.3	145.8	243.5
FFO to Total Debt (%)	42.7	52.6	71.6
Debt Servicing Coverage Ratio (x)	4.93	4.09	4.01
(Inventory + Receivables) / Short Term Debt	1.24	1.38	1.66
Debt Leverage (x)	1.65	1.37	1.06
Gearing (x)	0.86	0.65	0.45

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix III

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.

REGULATORY DISCLOSURES	Appendix IV
Name of Rated Entity	The Thal Industries Corporation 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
RATING TYPE: ENTITY				
10/29/2018	A-	A-2	Stable	Initial

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	

	Name	Designation	Date
1	Mr. Wasif Mehmood	CFO	23-Dec-2019
2	Mr. Farhan Ahmad	Manager Accounts	23-Dec-2019