RATING REPORT

The Thal Industries Corporation Limited

REPORT DATE:
February 01, 2021

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	*Positive*		Rating Watch-Developing	
Rating Action	Maintained		Maintained	
Rating Date	*1st Feb 21*		*27th Feb'20*	

COMPANY INFORMATION

Incorporated in 1953	External auditors: Rahman Sarfaraz Rahim Iqbal Rafiq Chartered Accountants
Public Listed Company (Listed)	Chairperson: Mrs. Qaiser Shamim Khan CEO: Mr. Muhammad Shamim Khan
Key Shareholders (with stake 5% or more):	
Mr. Muhammad Shamim Khan - 59.94% Mrs. Qaiser Shamim Khan - 15.0% Mr. Adnan Ahmed Khan - 8.94% Mr. Nauman Ahmed Khan - 9.99%	

APPLICABLE METHODOLOGY(IES)

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.

CEO Profile:
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-9MFY20: Rs. 3.5b; end-FY19: Rs.2.8b; end-FY18: Rs. 2.5b

Assets: end-9MFY20: Rs. 14.2b; end-FY19: Rs 9.3b; end-FY18: Rs. 10.2b

Profit/(Loss) After Tax: 9MFY20: Rs. 773m; FY19: Rs. 343m; FY18: Rs. (160m)

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, TICL & 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 sold to CPPA at an upfront tariff approved rate under cogeneration bagasse based policy 2013. The plant achieved its commercial operations in Dec'17 and has been selling electricity to CPPA since then. The ratings are constrained by cyclicality & price vulnerability in sugar sector leading to competitive challenges for the company.

Previously, 'Almoiz Group' was planning to acquire 54% equity stakes in "ISIS Sugar Mills Limited" in Australia with investment of $35 million (Australian dollar). Three group companies of Almoiz Group namely 'Almoiz Industries Limited', 'The Thal Industries Corporation Limited' & 'Naubahar Bottling Company (Pvt.) Limited' were to invest one-third each of the total investment and the loan was to be raised in Dubai while the three group companies were to provide their SBLC against the loan. However, the project has been scraped due to delays and challenges in regulatory approval process.

Rating Drivers

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.

Revenue and profitability supported by higher selling prices despite some decrease in sugar production
In line with the lower crop production, the company crushed 1.97m tons (FY19: 2.00m tons; FY18: 2.70m tons) of sugarcane during FY20. Sucrose recovery decreased to 9.63% (FY19: 10.19%; FY18: 9.67%) on account of relatively low quality produce of sugarcane during FY20. Resultantly, sugar production decreased to 189,843 tons (FY19: 204,406 tons; FY18: 260,788 tons) during the year. Given lower sugarcane supply, the average sugarcane procurement price was recorded considerably higher at Rs. 223 per 40kg against the support price of Rs. 190 per 40kg.

Net revenue stood at Rs. 10.5b (FY19: Rs. 14.3b; FY18: Rs. 14.1b) during 9MFY20, with sugar being the largest contributor (83.6%) followed by molasses (11.2%) and electricity (5.2%). Revenue from sugar was recorded at Rs. 8.6b (FY19: Rs. 12.6b; FY18: Rs. 12.1b) during 9MFY20 as the company sold 130,502 MT of sugar (FY19: 230,355 MT; FY18: 262,080 MT) at an average selling price of Rs. 67 per kg (FY19: Rs. 55 per kg; FY18: Rs. 48 per kg). The outbreak of COVID-19 and supply chain disruption led to slowdown in sugar deliveries to institutional clients during 9MFY20. However, significant quantity of sugar was sold during the last quarter of FY20. Institutional clients, which mainly include Coca Cola Beverages Pakistan Limited, Naubahar Bottling Co. (Pvt.) Limited, Mondelez Pakistan Limited, Utility Stores Corporation of Pakistan (Pvt) Ltd, Continental Biscuits, Nestle Pakistan Limited, Shamim & Co (Pvt.) Limited, Uneliver Pakistan Limited, accounted for nearly three-fourth of total sugar sales while remaining sales were made to wholesalers and traders.

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 CPPA. The company dispatched 36.8m units (FY19: 54.7m units; FY18: 99.1m units) electricity to the national grid while generating revenue of Rs. 548m (FY19: Rs. 667m; FY18: Rs. 1.1b) during 9MFY20, as the impact of slightly lower generation was more than offset by increase in per unit price.

Cost of sales amounted to Rs. 8.4b (FY19: Rs. 12.6b; FY18: Rs. 13.7b) during 9MFY20. Despite higher sugarcane procurement price and lower sucrose recovery, the company's gross margin increased to 20.2% (FY19: 12.1%; FY18: 2.6%) mainly on account of higher selling prices of both sugar and molasses. Operating expenses was recorded at Rs. 509m (FY19: Rs. 750m; FY18: Rs. 557m) while other income decreased to Rs. 46m (FY19: Rs. 311m; FY18: Rs. 521m) in the absence of any export subsidy during 9MFY20. In line with higher average interest rates and short-term borrowings, the company incurred finance cost of Rs. 692m (FY19: Rs. 728m; FY18: Rs. 486m) during 9MFY20. Despite that, the company reported higher net income of Rs. 773m (FY19: Rs. 343m; FY18: -160m) with an improved net margin of 7.3% (FY19: 2.4%; FY18: -1.1%).

Increase in asset base was led by higher sugar inventory and receivables owing to temporary slowdown in sugar off-take by institutional clients amidst the outbreak of COVID-19
Total assets increased to Rs. 14.2b (FY19: Rs. 9.3b; FY18: Rs. 10.2b) by end-9MFY20, driven largely by higher stock-in-trade and trade receivables. Non-current assets stood at Rs. 5.1b (FY19: Rs. 4.9b; FY18: Rs. 4.5b) with capex amounting to Rs. 446m (FY19: Rs. 829m; FY18: Rs. 943m) which mainly pertained to installation of new high-pressure boiler for production and energy efficiencies. Stores, spare and loose tools stood to Rs. 637m (FY19: Rs. 641m; FY18: Rs. 532m); the increase in FY19 was owing to overhaul of both crushing units.

By end-9MFY20, stock-in-trade was recorded higher at Rs. 5.6b (FY19: Rs. 1.5b; FY18: Rs. 2.9b). Subsequently, majority of stock has been sold with stock-in-trade amounting Rs. 1b at end-FY20. Increase in trade receivables to Rs. 1.8b (FY19: Rs. 904m; FY18: Rs. 1.3b) by end-9MFY20; trade receivables have declined to Rs. 921m by end-FY20. Loans and advances decreased to Rs. 376m (FY19: Rs. 523m; FY18: Rs. 320m) on account of lower advances to suppliers and farmers. Tax receivable remained at Rs. 460m (FY19: Rs. 470m; FY18: Rs. 375m) while cash & bank balance increased to Rs. 213m (FY19: Rs. 166m; FY18: Rs. 173m) by end-9MFY20.

Liquidity and coverages supported by healthy generation of funds from operations
During 9MFY20, the company generated Rs. 1.2b (FY19: Rs. 1b; FY18: Rs. -50m) in funds from operations (FFO) on account of notable growth in profits. FFO to long-term debt improved to 1.13x (FY19: 0.57x; FY18: n.m) due to higher cash flows and scheduled repayments of long-term borrowings while FFO to total-debt ratio decreased marginally to 0.24x (FY19: 0.27x; FY18: n.m) owing to higher short-term borrowings at end-9MFY20. With higher FFO, the debt service coverage ratio also improved to 1.75x (FY19: 1.56x; FY18: 0.44x) during 9MFY20. Inventory plus receivable to short-term borrowing ratio was recorded at 1.38x (FY19: 1.24x; FY18: 1.41x) while current ratio improved to 0.96x (FY19: 0.88x; FY18: 0.93x).

Growing equity base with manageable leverage indicators
Paid-up capital remained unchanged at Rs. 150m. Equity augmented to Rs. 3.5b (FY19: Rs. 2.8b; FY18: Rs. 2.5b) on account of retention of profits during 9MFY20. Equity base also includes loan from director amounting to Rs. 575m which has remained unchanged during the last four years. Total liabilities were recorded higher at Rs. 10.7b (FY19: Rs. 6.5b; FY18: Rs. 7.8b) owing to increased utilization of short-term borrowings and higher trade & other payables. Increase in trade & other payables to Rs. 3b (FY19: Rs. 1.7b; FY18: Rs. 1.8b) mainly on account of higher advances from corporate customers for sugar off-take.

Total debt increased to Rs. 6.7b (FY19: Rs. 3.7b; FY18: Rs. 4.9b) as the impact of decrease in long-term debt to Rs. 1.4b (FY19: Rs. 1.8b; FY18: Rs. 2b) was more than offset by the increase in short-term borrowings to Rs. 5.3b (FY19: Rs. 2b; FY18: Rs. 3b) by end-9MFY20. However, outstanding balance of short-term borrowings was recorded lower at Rs. 1.2b at end-FY20 owing to sale of sugar inventory and reduction in trade receivables. Despite equity augmentation, gearing and debt leverage ratios were recorded higher at 1.90x (FY19: 1.33x; FY18: 2.0x) and 3.0x (FY19: 2.31x; FY18: 3.15x) on account of higher short-term borrowings at end-9MFY20. However, gearing and debt leverage ratios have improved considerably to 0.6x and 1.1x, respectively, by end-FY20.

The Thal Industries Corporation Limited — Annexure I

FINANCIAL SUMMARY *(amounts in PKR millions)*			
BALANCE SHEET	**FY18**	**FY19**	**9MFY20**
Non-Current Assets	4,512	4,919	5,072
Stock-in-Trade	2,938	1,542	5,595
Stores & Spares	531	641	637
Trade Debts	1,271	904	1,752
Loans and advances	320	523	376
Trade deposits, prepayments & other receivables	95	97	96
Taxes recoverable/adjustable	375	470	460
Cash & Bank Balances	173	166	213
Total Assets	**10,215**	**9,262**	**14,202**
Trade and Other Payables	1,825	1,740	3,004
Short Term Borrowings	2,977	1,968	5,339
Long-Term Borrowings *(Inc. current maturity)*	1,853	1,711	1,384
Total Bank Borrowing	4,830	3,679	6,723
Other Liabilities	1,099	1,044	926
Total Liabilities	7,754	6,463	10,653
Paid up Capital	150	150	150
Tier-1 & Total Equity *(Inc. sponsor loan)*	**2,460**	**2,799**	**3,549**
INCOME STATEMENT	**FY18**	**FY19**	**9MFY20**
Net Sales	14,104	14,360	10,526
Gross Profit	369	1,738	2,129
Profit/(Loss) Before Tax	(153)	543	906
Profit/(Loss) After Tax	(160)	343	773
FFO	(49)	1,015	1,190
RATIO ANALYSIS	**FY18**	**FY19**	**9MFY20**
Gross Margin (%)	2.6	12.1	20.2
Net Profit Margin (%)	(1.1)	2.4	7.3
Current Ratio	0.93	0.87	0.96
Net Working Capital	(404)	(627)	(361)
FFO to Long-Term Debt (x)	n.m	0.59	1.15*
FFO to Total Debt (x)	n.m	0.28	0.24*
Debt Servicing Coverage Ratio (x)	0.58	1.50	1.89
(Inventory + Receivables) / Short Term Debt	1.41	1.24	1.38
Debt Leverage (x)	3.1	2.3	3.0
Gearing (x)	2.0	1.3	1.9

**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	The Thal Industries Corporation Limited
Sector	Sugar
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
02/01/2021	A-	A-2	Positive	Maintained
02/27/2020	A-	A-2	Rating Watch-Developing	Maintained
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
Mr. Wasif Mahmood	CFO	December 11, 2020
Mr. Farhan Ahmed	Manager Accounts	December 11, 2020