RATING REPORT

The Thal Industries Corporation Limited

REPORT DATE:
April 26, 2022

RATING ANALYST:

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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*		*Positive*	
Rating Action	Upgrade		Maintained	
Rating Date	*26th Apr'22*		*1st Feb'21*	

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. Nauman Ahmed Khan - 9.99% Mr. Adnan Ahmed Khan – 8.94%	

APPLICABLE METHODOLOGY

VIS Entity Rating Criteria: Corporates (August 2021)
https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf

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.

Chairperson's Profile: *Mrs. Qaiser Shamim Khan serves as the Chairperson of the board. She is sponsoring director in most of the group companies. She has over four decades of experience with the 'Almoiz Group'.*

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-MY21: Rs. 5.6b; end-MY20: Rs. 4.0b; end-MY19: Rs. 2.8b

Assets: end-MY21: Rs. 8.8b; end-MY20: Rs. 8.6b; end-MY19: Rs. 9.3b

Profit After Tax: MY21: Rs. 1.6b; MY20: Rs. 1.26b; MY19: Rs. 342m

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. TICL has a total power generation capacity of 41 MW. All production units operate on self-generation electricity with surplus generation sold to CPPA. The ratings are constrained by cyclicality & price vulnerability in sugar sector leading to competitive challenges for the company, however, some support is provided by diversification into power segment.

Key Rating Drivers

Higher sugar production in tandem with better crop yield with no further decline in recovery rate expected: Sugarcane crop is a high value cash which is the second largest agro-industry sector after textile. Sugarcane production accounts for 3.4% in agriculture's value addition and 0.7% in the country's GDP. As per Pakistan Bureau of Statistics (PBS), during 2020-21, sugarcane crop was cultivated on 1,165K hectares as compared to preceding year's area of 1,040 hectares. The increase in area under cultivation was mainly on account of favorable weather conditions and higher economic returns. Total sugarcane cultivation area for 2021-22 is 1,271K hectares, ~9.1% higher than the previous year, while sugarcane production for the year is projected at 84,800K tons, ~11% higher than the last year production i.e., 76,360K tons. According to United States Department of Agriculture (USDA) semi-annual report, sugar production in 2021-22 is forecasted at 6.7 million tons, around 11% higher than the current year's estimate of 6.0 million tons while sugar consumption is also expected to increase slightly to 5.9 million tons (MY21: 5.8m MT). The increase in sugar production is expected to drive closing stocks to 2.8 million tons. However, despite sufficient supply, sugar prices witnessed an increasing trend over the last three years with prices in September 2021 were 92% higher than the prevailing prices in October 2018. To control prices, Government of Pakistan (GoP) imported more than 350,000 tons of sugar in 2020-21. The imports were meant to build stocks and not to be sold in the market, however, given current scenario of higher production, the imports may be discontinued. The average sugar prices in MY22 are also expected to remain lower than the previous year.

Risk profile of sugar sector is considered high given inherent cyclicality in the crop levels and raw material prices. Moreover, distortion in pricing mechanism of raw material prices and refined sugar also creates challenge for sugar mills. In efforts to regulate the sector, bring transparency and enhance tax collection, Federal Board of Revenue (FBR) has implemented Track & Trace System during Sep-Nov'21 across the country to ensure electronic monitoring of the production and sale of important sectors, including tobacco, fertilizer, sugar and cement sectors. Under the Track & Trace System, no bag of sugar can be taken out from the factory and manufacturing plant without stamp and individual identity mark. To ensure its implementation, Regional Enforcement hubs across Pakistan were tasked to conduct raids on the unstamped /non-tax paid sugar. These steps have also resulted in higher revenues reported by sugar firms.

Typically, sugarcane production has a 3 to5 year cycle, driven largely by government support for farmers and crop yield. For the ongoing crushing season 2021-22, notified prices of sugarcane were revised to Rs. 225 per 40 Kg from Rs. 200 per 40 Kg in Punjab and Rs. 250 per 40 Kg from Rs. 202 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 supply of cane, the premium paid above support prices is relatively lower in MY22 than the previous season. Sucrose recovery rates are also expected to remain largely intact in the ongoing year with no further decline expected in the medium term.

Regulatory matter update related to imposed penalty: The ratings have incorporated the developments in relation to penalties imposed by Competition Commission of Pakistan (CCP) on selected sugar mills and the subsequent legal proceedings initiated by the subject company. The impact of the imposed penalty amounting Rs. 1.77b on TICL would be significant. However, according to the management, the case is weak and any final decision by the court of law in this regard may take several years. Given uncertainty and material effect of the outcome, VIS will continue to monitor further developments in this matter.

Operations supported by higher sugarcane availability in MY21 and the ongoing year: Installed crushing capacity of the company remained intact at 23,000 tpd. During MY21, in line with higher sugarcane availability, the units operated for 114 days on average (MY20: 110 days) and the company crushed 2.37m MT of sugarcane (MY20: 1.97m MT). Sucrose recovery rate remained largely intact at 9.61% (MY20: 9.63%) leading to sugar production of 228.1K MT (MY20: 189.8K MT) in the outgoing year. Molasses production was also recorded higher at 104,397 MT (MY20: 88,307 MT). Crushing season 2021-22 started on November 15, 2022 in both units and is expected to end on April xx, 2022 due to higher availability of sugarcane. Both units recorded a notable increase in crushing to 3.05m MT by the end-March, 2022. The sugar production increased to 302,965 MT yielding a recovery rate of 9.85%.

	MY20	MY21	March 31, 2022
Crushing Capacity – tpd	23,000	23,000	23,000
Sugar Crushing Capacity based on Operating days (MT)	2,518,500	2,610,500	3,151,000
Cane Crushed – tons	1,973,755	2,374,601	3,047,552
Sucrose Recovery Rate-%	9.63	9.61	9.85
Capacity Utilization – %	78.37	90.96	96.72
Sugar Produced – tons	189,843	228,107	302,965
Molasses Produced-Tons	88,307	104,397	N/A

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 generated 103.4m KWh (MY20: 85.3m KWh) energy out of which 45% (MY20: 43%) was dispatched to CPPA.

Property, plant and equipment (PP&E) stood at Rs. 4.8b (MY20: Rs. 4.9b) at end-MY21. There were some additions in plant and machinery of Rs. 78.0m related to regular balancing, modernization, and replacement (BMR). The company does not intend to conduct any major capital expenditure, going forward. Meanwhile, during the ongoing year, BMR of around Rs. 300m, largely related to boilers, general maintenance and improvement, is planned to be executed at Layyah unit.

Growth in topline largely driven by higher volumetric sugar sales and favorable prices: During MY21, net sales were recorded higher at Rs. 21.4b (MY20: Rs. 16.2b) with a YoY growth of 32%. Contribution of sugar in the revenue mix increased to 87% (MY20: 85%), followed by molasses (MY21: 9%; MY20: 10%) and electricity (MY21: 3%; MY20: 4%). Sugar sales were reported higher at Rs. 18.6b (MY20: Rs. 13.8b) in MY21. The company sold 4.8m bags of sugar (MY20: 4.1m bags) at a higher average rate of Rs. 77.3 per Kg (MY20: Rs. 67.3 per Kg). Institutional clients accounted for nearly two-third of the total sugar sales while remaining sales were made to wholesalers and traders. Major clients included Naubahar Bottling Co. (Pvt.) Ltd., CocaCola Beverages Pakistan Ltd., Mondeleze Pakistan Ltd., National Foods Ltd., Continental Biscuits Ltd., and Unilever Pakistan Ltd. Revenue from molasses increased to Rs. 2.0b (MY20: Rs. 1.6b) in line with higher quantity sold and average selling price. The company dispatched 46.4m units (MY20: 38.8m units) of electricity to the national grid while generating revenue of Rs. 588.2m (MY20: Rs. 495.8m), where average selling price per unit remained at Rs. 13 (MY20: Rs. 13).

Cost of sales was recorded higher at Rs. 18.1b (MY20: Rs. 13.5b) largely in line with increase in operations and higher cost of raw material consumed during MY21. Despite higher average selling prices of sugar and molasses, gross margins of the company decreased slightly to 15.6% (MY20: Rs. 17.0%) mainly due to the impact of higher raw material cost. Average cane procurement cost increased to Rs. 261.95 per 40 Kg vis-à-vis Rs. 223.3 per 40 Kg in the preceding year. Distribution and administrative expenses remained largely rationalized with operations. Other expenses pertaining to employee related funds, remained at Rs. 134.1m (MY20: Rs. 136.3m) while other income decreased notably to Rs. 88.4m (MY20: Rs. 516.1m) mainly owing to no refunds/adjustments from FBR related to excise duty (MY20: Rs. 432.8m) in MY21. The company incurred lower financial charges of Rs. 471.2m (MY20: Rs. 775.9m) in line with decrease in average markup rates and borrowings. Accounting for taxation, bottom line was recorded higher at Rs. 1.6b (MY20: Rs. 1.3b) with net margins of 7.6% (MY20: 7.8%).

Liquidity underpinned by healthy cash flows in relation to outstanding obligations: During MY21, the company generated Rs. 2.2b (MY21: Rs. 1.8b) in funds from operations (FFO) mainly on account of higher profitability. Resultantly, FFO to total debt and FFO to long-term debt has improved notably to 1.94x (MY20: 1.04x) and 2.17x (MY20: 1.40x), respectively. Debt service coverage also remained adequate at 2.90x (MY20: 1.94x).

Stock in trade has decreased notably to Rs. 613.5m (MY20: Rs. 983.9m) owing to lower sugar inventory at end-MY21. Trade receivables amounted to Rs. 759.6m (FY20: Rs. 679.7m) and as percentage of net sales remained at 4% (MY20: 4%) by end-MY21. Trade debts stood at Rs. 838.4m as of Dec 31, 2021. Out of these total outstanding receivables, 36% pertained to power sale, all of which fall due in 6-9 months credit bracket. Aging profile reflects that 48% of the receivables were outstanding for less than three months while 14% of the trade debts were due for more than 1 year at end-Dec 31, 2021. The company has booked impairment allowance of Rs. 56.1m (MY20: Rs. 17.3m) against the overdue receivables in accordance with reporting standards. In the outgoing year, around two-third of the sugar sales (MY20: 35%) were made on cash basis, owing to higher demand and limited stocks available in the market. In general, around half of the institutional clients make advance payments for sugar sales while 15-30 days credit period is provided to the remaining clients. Meanwhile, unregistered sales are entirely made on advance basis.

During MY21, the loans and advances amounted to Rs. 491.4m (MY20: Rs. 370.6m) which largely includes interest free and unsecured advances to growers and suppliers. Trade deposits and prepayments of Rs. 81.4m (MY20: Rs. 70.7m) were largely related to letter of credits. The company parked funds worth Rs. 679.7m (MY20: Nil) in term deposits amounting Rs. 500m of one month maturity, cash fund amounting Rs. 150.1m and Rs. 29.7m in government debt securities. The management intends to liquidate these investments to fund its working capital requirements, when needed. Recoverable taxes stood at Rs. 249.4m (MY20: Rs. 358.3m). Cash and bank balances amounted to Rs. 400.2m (MY20: Rs. 468.7m). Current ratio increased to 1.80x (MY20: 1.08x) by end-MY21. Coverage of short-term borrowings via stock in trade and trade debts have also remained sizeable at 11.2x (MY20: 3.6x) at end-MY21.

Capitalization supported by profit retention and lower debt levels: Core equity augmented to Rs. 5.6b (MY20: Rs. 4.0b) on account of profit retention. The company paid cash dividend of Rs. 45.1m (MY20: Rs. 22.5m) in MY21. The sponsors have committed funds amounting Rs. 575m, to support equity in the form of unsecured and interest free loan which is payable at the discretion of the company; the loan amount has remained unchanged on a timeline basis.

The debt profile is largely tilted towards long-term borrowings which have decreased to Rs. 1.0b (MY20: Rs. 1.3b) owing to principal repayments during MY21. Short-term borrowing decreased notably to Rs. 122.8m (MY20: Rs. 465.5m) in line with working capital requirements. Trade and other payables decreased to Rs. 1.2b (MY20: Rs. 1.8b) primarily due to lower contract liabilities amounting Rs. 434.9m (MY20: Rs. 1.2b) by end-MY21. The company obtains interest free and unsecured advances from directors to meet working capital requirements in normal course of business, which amounted to Rs. 95.3m (MY20: Rs. 265.3m) by end-MY21. With augmentation in equity base and lower borrowings, debt leverage and gearing have improved notably to 0.57x (MY20: 1.13x) and 0.20x (MY20: 0.45x), respectively, by end-MY21. Going forward, the management expects further lower reliance on short-term borrowings on the back of sufficient availability of cash flows. Additionally, the company does not plan to mobilize any additional long-term loan as no major capex is intended in foreseeable future. Leverage indicators are projected to decrease further, going forward.

The Thal Industries Corporation Limited Annexure I

FINANCIAL SUMMARY *(amounts in PKR millions)*				
BALANCE SHEET	**MY19**	**MY20**	**MY21**	**1QMY22**
Non-Current Assets	4,919	4,958	4,769	4,910
Stock-in-Trade	1,542	984	613	4,976
Stores & Spares	641	684	752	728
Trade Debts	904	680	760	838
Short-Term Investments	-	-	680	125
Loans and advances	523	409	526	392
Trade deposits, prepayments & other receivables	97	71	81	170
Taxes recoverable/adjustable	470	358	249	81
Cash & Bank Balances	166	469	400	1,284
Total Assets	**9,262**	**8,612**	**8,831**	**13,505**
Trade and Other Payables	1,740	1,844	1,247	2,539
Short Term Borrowings	1,968	466	123	3,621
Long-Term Borrowings *(Inc. current maturity)*	1,710	1,338	1,020	908
Total Bank Borrowing	3,678	1,804	1,143	4,529
Other Liabilities	1,046	917	814	668
Total Liabilities	6,463	4,564	3,203	7,736
Paid up Capital	150	150	150	150
Tier-1 & Total Equity	**2,799**	**4,047**	**5,629**	**5,769**
INCOME STATEMENT	**MY19**	**MY20**	**MY21**	**1QMY22**
Net Sales	14,360	16,220	21,424	2,360
Gross Profit	1,738	2,760	3,337	471
Profit/(Loss) Before Tax	543	1,597	2,027	254
Profit/(Loss) After Tax	342	1,264	1,630	180
FFO	1,015	1,870	2,212	164
RATIO ANALYSIS	**MY19**	**MY20**	**MY21**	**1QMY22**
Gross Margin (%)	12.1	17.0	15.6	20.0
Net Profit Margin (%)	2.4	7.8	7.6	7.6
Current Ratio	0.88	1.08	1.80	1.25
Net Working Capital	(627)	256	1,804	1,720
Cash Conversion Cycle	41	3	(3)	74
FFO to Long-Term Debt (x)	0.59	1.40	2.17	0.15*
FFO to Total Debt (x)	0.28	1.04	1.94	0.72*
Debt Servicing Coverage Ratio (x)	1.56	1.94	2.90	N/A
(Inventory + Receivables) /Short Term Debt	1.24	3.57	11.18	1.61
Debt Leverage (x)	2.31	1.13	0.57	1.34
Gearing (x)	1.31	0.45	0.20	0.79
Adjusted Debt Leverage (x)**	2.25	1.01	0.38	1.10
Adjusted Gearing (x)**	1.26	0.33	0.01	0.54

**Annualized*

*** Adjusted for cash and short-term investments*

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	
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.
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. For conducting this assignment, analyst did not deem necessary to contact external auditors or creditors given the unqualified nature of audited accounts and diversified creditor profile. Contents may be used by news media with credit to VIS.

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
04/26/2022	A	A-2	Stable	Upgrade
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

Due Diligence Meetings Conducted

Name	Designation	Date
Mr. Wasif Mahmood	CFO	March 17, 2022
Mr. Farhan Ahmed	Manager Accounts	March 17, 2022