RATING REPORT

The Thal Industries Corporation Limited

REPORT DATE:
September 16, 2024

RATING ANALYST:
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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
Outlook/ Rating Watch	*Positive*		*Positive*	
Rating Action	Reaffirmed		Maintained	
Rating Date	*16 Sep, 2024*		*22 Aug, 2023*	

COMPANY INFORMATION	
Incorporated in 1953	External auditors: Rahman Sarfaraz Rahim Iqbal Rafiq Chartered Accountants
Public Listed Company (Unlisted)	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: Industrial Corporates
https://docs.vis.com.pk/docs/CorporateMethodology.pdf
VIS Rating scale
https://docs.vis.com.pk/docs/VISRatingScales.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.

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.

RATING RATIONALE

Company Profile

The Thal Industries Corporation Limited ('TICL' or 'the Company') is part of the industrial conglomerate, 'Almoiz Group' and 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. Both sugar units operate on self-generation of electricity with surplus generation sold to CPPA. TICL has a total power generation capacity of 79 MW.

Group Profile:

TICL is a part of the Almoiz Group, which operates in beverages, sugar, steel, power, and textiles. The group's other companies include Wiztec Food Solutions (Private) Limited, Naubahar Bottling Company (Pvt.) Limited -the largest franchisee of PepsiCo in Pakistan, Al-Moiz Industries Limited (AMIL) – operates a sugar plant, steel mills and dehydration plant and Moiz Textile Mills Limited – a spinning unit.

Industry Overview

Favorable agro-climatic conditions for sugarcane cultivation makes Pakistan the world's fifth largest producer of sugarcane, the sixth largest producer of cane sugar and the eighth largest consumer of sugar. Sugarcane is grown on approximately 1.2 million hectares and provides the raw material for 90 sugar mills. The sugar industry is the country's second largest agriculture-based industry after textiles. The sugar sector is a major part of Pakistan's economy.

Key trends impacting the global and local sugar industry include increasing demand in developing markets driven by population and income growth, stagnating demand in developed countries due to health concerns, and volatility in production and prices. Demand for sugar Pakistan historically has remained inelastic. In the last 5 years as per CPI price of sugar has increased at CAGR of 15% meanwhile the consumption has increased at CAGR of 6% in last 5 years. Total sugarcane production in 2023-24 season was reported lower at 87.6 Mn MT vis-à-vis 88.0 Mn MT in the preceding year on account of lower land under cultivation which dropped by 10.5%. Nevertheless, sugar production depicted a slight improvement ~1.4% as per Large Scale Manufacturing index (LSM), attributed to improved recovery rate, during Jul-May'24.

In MY23, the industry faced a decline in supply due to flooding that adversely affected the availability and quality of sugarcane. In MY24, production indicated a recovery, attributed to improved crop yields. However, sugarcane procurement costs rose by 36.6% to PKR 440.31 per 40 kg (MY23: PKR 322.41 per 40 kg). Concurrently, the average sugar selling price increased by 40% to PKR 134 per kg (MY23: PKR 96 per kg). In anticipation of further price increases and potential export allowances, industry participants chose to retain inventory from the prior year and continued to build sugar reserves during MY24. With the government's expected export allowance not materializing, the industry is currently experiencing a buildup of sugar stock, resulting in stagnated sugar prices in recent months.

Operational Performance:

Total Installed crushing capacity of the Company is 30,000 tpd. The crushing capacity of Layyah and Chiniot (Safina) Unit are 18,000 and 12,000 tpd respectively. The Company started crushing season 2023-24 on Nov 25th, 2023 for both Layyah and Chiniot units and lasted for a total of 108 days (MY23: 108 days) and 103 days (MY23: 107 days) respectively. Quantity of Sugarcane crushed increased slightly with ease in cane availability. However, the decrease in recovery rate reduced sugar production to 260,695 MT (MY23: 277,664 MT; MY22: 305,321 MT). A snapshot of production related information of sugar segment is tabulated below:

	MY21	MY22	MY23	9MMY24 (M)
Crushing Capacity – tpd	23,000	23,000	30,000	30,000
Cane Crushed - Tons	2,374,601	3,059,465	2,575,766	2,701,533
Crushing Days	114	138	108	106
Capacity Utilization	90.56%	96%	80%	84%
Sucrose Recovery – %	9.61%	9.99%	10.78%	9.66%
Sugar Produced – tons	228,107	305,521	277,664	260,696

Both production units of the Company operate on in-house electricity with surplus generation sold to CPPA. Total electricity generated was 124,205 MWh (MY22: 147,207 MWh) in MY23, out of which 61,221 Mwh were sold to CPPA against 73,680 Mwh during same period last year. In 9MMY24 the electricity sold to CPPA was 56,269 Mwh.

The Company carries out balancing, modernization and replacement (BMR) and maintenance on a regular basis to improve operational efficiency and to maintain installed capacities. During the 9MMY24 and in MY23, capex amounted to Rs. 494.5 Mn and Rs. 1,425 Mn respectively. These expenditures have been financed mostly through cash flows generated from operations.

Key Rating Drivers

The business risk profile of the sugar industry is assessed as moderate. It is characterized by inelastic demand and minimal risk from substitute products, though it operates within a highly fragmented market. The industry is notably seasonal and highly sensitive to variations in sugarcane production levels and quality.

The business risk profile of the sugar sector in Pakistan is considered as moderate, considering various factors that influence the sector's stability and performance. The sector demonstrates low exposure to economic cyclicality but is significantly affected by seasonal variations and fluctuations in sugarcane production and quality. This sensitivity is compounded by the inherent cyclicality in crop yields and raw material prices, which substantially impacts the sector's risk profile.

The competitive risk within the sugar sector is considered medium to low. The industry is marked by high fragmentation, with approximately 90 sugar mills organized under the Pakistan Sugar Mills Association (PSMA). This fragmentation results in intense rivalry among producers, primarily driven by competition on factors such as quality, availability, and delivery, rather than pricing, since pricing differentiation is minimal.

Despite the high level of competition among sugar mills, the threat of substitute products is minimal. This is due to the essential nature of sugar, which reduces the risk of alternatives being displaced in the market.

Demand for sugar remains relatively inelastic, supported by a growing population and increasing income levels though the government has been cautious in allowing export. However, the sector faces several challenges including high interest rates, rising sugarcane prices amid softening in sugar prices, growing uncertainty in sugarcane availability and restrictions on sugar export. Additionally, the discrepancy between market-driven granulated sugar prices and government-regulated sugarcane prices adds complexity to the sector's financial dynamics. Recent stagnation in sugar prices underscores the sector's ongoing difficulties and contributes to a challenging outlook. Going forward, the continued increase in sugarcane prices, high policy rate and relatively stable sugar prices are expected to affect the margins. Under this scenario sugar mills with low gearing will perform better.

Margins constrained by higher procurement costs, operating expenses and increased financial burden.

During MY23, net revenue increased by 56%, driven by higher volumetric sales and increased sugar prices. The average sale price rose by 16% during the period. Sugar sales contributed 86% (MY22: 81%) of total sales, with molasses and electricity accounting for the remaining 14% (MY22: 19%). The Company sold 308,169 MT of sugar (MY22: 215,245 MT) at an average price of PKR 85,784/MT (MY22: PKR 73,980 / MT). Molasses sales increased by 2% due to higher prices, while electricity sales declined by 17% mainly due to lower energy dispatches. Despite higher revenues, the gross margin narrowed to 19.9% in MY23 (MY22: 20.4%) due to increased sugarcane procurement cost. The Company procured sugarcane at an average rate of Rs. 7,786/MT in MY23 compared to Rs. 5,967/MT in MY22, reflecting a 23% rise in the sugar support price. Operating expenses increased by 122% year-on-year, largely due to inflation and a one-time expense related to the reversal of tax recovery from FBR, recorded in previous years. Higher markup rates also subdued the bottom line of the Company translating into increased finance cost. Resultantly the net margin dropped to 6.38% (MY22: 9.00%).

During 9MMY24, net sales declined by 2.8%, primarily due to reduced sugar offtake during the same period last year. Despite increase in sales price, the gross margin fell to 18.4% (9MY22: 20.9%), due to the rise in sugarcane costs, which increased by 42% YoY. Finance cost continued to rise, attributed to higher seasonal borrowing amid an elevated interest rate environment, which dragged the net margin down to 3.04% during 9MMY24 (MY23: 6.38%).

Capitalization profile remains manageable, despite a significant surge in short-term debt.

The Company has historically maintained a conservative capitalization profile. However, due to significant inventory buildup in 9MMY24, TICL had to draw more short-term debt, resulting in higher gearing and leverage ratios, albeit still manageable. The Company reported gearing and leverage of 1.72x (MY23: 0.22x, MY22: 0.47x) and 2.75x (MY23: 0.74x, MY22: 1.15x), respectively. As much of this buildup is seasonal, the capitalization metrics are expected to normalize by year end MY24.

Increased financial burden with higher debt drawdown weakening coverages, albeit remain at adequate levels.

During MY23, the Company generated lower funds from operations (FFO) amounting to Rs. 2.8 bn (MY22: Rs. 3.1 bn) as a result of higher income tax and finance cost. Reduction in the FFO weakened the debt service coverage ratio to 2.79x (MY22: 2.95x) in MY23. In 9MFY24, increased financial burden with higher short-term debt drawdown continued to strain the coverage profile with the DSCR reducing to 1.59x, albeit remaining at adequate level.

Adequate liquidity profile

The Company has historically maintained an adequate liquidity profile with a 5-year average current ratio of 1.38x. The Company's liquidity profile remained adequate with the current ratio standing at 1.17x (MY23: 1.73x, MY22: 1.43x) in 9MMY24, despite significant weakening vis-à-vis MY23. However, much of this liquidity is comprised of stock in trade with the cash conversion cycle inflating to approximately 195 days (MY23: ~80 days, MY22: ~80 days) in MY23.

Financial Summary

Balance Sheet (PKR Millions)	MY21A	MY22A	MY23A	9MMY24
Property, plant and equipment	4,768.67	5,077.54	6,061.48	6,119.00
Stock-in-trade	613.48	5,877.78	4,749.13	20,527.26
Trade debts	759.58	762.65	1,336.97	2,877.41
Cash & Bank Balances	400.17	1,103.97	744.08	533.94
Other Assets	2,289.51	2,887.08	3,129.71	6,363.39
Total Assets	8,831.41	15,709.02	16,021.37	36,421.00
Creditors	318.99	453.66	442.50	512.68
Long-term Debt (incl. current portion)	1,019.51	685.54	296.08	91.60
Short-Term Borrowings	122.78	2,782.16	1,788.30	16,660.83
Total Debt	1,142.29	3,467.70	2,084.38	16,752.43
Other Liabilities	1,741.35	4,469.02	4,778.10	9,949.57
Total Liabilities	3,202.63	8,390.38	6,862.41	26,701.11
Paid up Capital	150.23	150.23	150.23	150.23
Equity (excl. Revaluation Surplus)	5,628.75	7,318.64	9,158.94	9,719.89

Income Statement (PKR Millions)	MY21A	MY22A	MY23A	9MMY24M
Net Sales	21,424.38	19,800.47	30,807.77	20,901.47
Gross Profit	3,336.81	4,035.50	6,118.94	3,855.53
Operating Profit	2,498.24	3,282.31	4,313.97	3,133.40
Finance Costs	471.23	874.26	1,362.18	2,118.43
Profit Before Tax	2,027.01	2,408.05	2,951.79	1,014.97
Profit After Tax	1,630.30	1,781.87	1,966.08	636.08

Ratio Analysis	MY21A	MY22A	MY23A	9MMY24M
Gross Margin (%)	15.57%	20.38%	19.86%	18.45%
Operating Margin (%)	11.66%	16.58%	14.00%	14.99%
Net Margin (%)	7.61%	9.00%	6.38%	3.04%
Funds from Operation (FFO) (PKR Millions)	2,212.03	3,090.48	2,768.20	2,457.27
FFO to Total Debt* (%)	193.65%	89.12%	132.81%	19.56%
FFO to Long Term Debt* (%)	216.97%	450.81%	934.95%	3576.81%
Gearing (x)	0.20	0.47	0.23	1.72
Leverage (x)	0.57	1.15	0.76	2.75
Debt Servicing Coverage Ratio* (x)	2.81	2.95	2.79	1.59
Current Ratio (x)	1.80	1.43	1.67	1.17
(Stock in trade + trade debts) / STD (x)	3.54	2.37	3.75	1.46
Return on Average Assets* (%)	18.69%	14.52%	12.39%	3.23%
Return on Average Equity* (%)	35.83%	27.52%	23.86%	8.98%
Cash Conversion Cycle (days)	32.16	80.34	80.39	194.99

**Annualized, if required*

A - Actual Accounts

P - Projected Accounts

M - Management Accounts

REGULATORY DISCLOSURES					Annexure II
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**	**Outlook/ Rating Watch**	**Rating Action**
	RATING TYPE: ENTITY				
	09/16/2024	A	A-2	Positive	Reaffirmed
	08/22/2023	A	A-2	Positive	Maintained
	04/22/2022	A	A-2	Stable	Upgrade
	02/01/2021	A-	A-2	Positive	Maintained
	02/27/2020	A-	A-2	RatingWatch-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.				
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Due Diligence Meetings Conducted	**Name**	**Designation**			**Date**
	Mr. Wasif Mehmood	Group Chief Financial Officer.			29/8/2024
	Mr. Anees Hassan	Financial Controller			