RATING REPORT

Fatima Sugar Mills Limited

REPORT DATE:
November 17, 2020

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	*Stable*		*Stable*	
Rating Action	Reaffirmed		Initial	
Rating Date	*17th Nov'20*		*12th Feb'20*	

COMPANY INFORMATION	
Incorporated in 1988	External auditors: EY Ford Rhodes. Chartered Accountants
Public Listed Company (Unquoted)	Chairman: Mr. Fawad Ahmed Mukhtar CEO: Mr. Faisal Ahmed Mukhtar
Key Shareholders (with stake 5% or more):	
Fatima Holding Limited – 33% Fatima Management Company Limited – 33% Fatima Trade Company Limited – 33%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria: Corporates (May 2019) *https://www.vis.com.pk/kc-meth.aspx*

Fatima Sugar Mills Limited

OVERVIEW OF THE INSTITUTION

Fatima Sugar Mills Limited was incorporated as a public limited company in 1988 under the Companies Ordinance 1984 (now Companies Act, 2017). The company is primarily engaged in the manufacturing & sales of refined sugar.

Chairman Profile:
Mr. Fawad Ahmed Mukhtar is the chairman of the company. He has extensive experience in manufacturing & industrial management. He is also the chairman of five other group companies & CEO of four group companies.

CEO Profile:
Mr. Faisal Ahmed Mukhtar is the CEO of the company. He is also CEO of Fatima Holding Limited and director at eleven other group companies. He has also served as Mayor and District Nazim of Multan.

RATING RATIONALE

Fatima Sugar Mills Limited (FSML) is a part of 'Fatima Group' which has business interests in fertilizer, textile, energy, sugar and commodities trading sectors. Apart from FSML, the group companies include Pakarab Fertilizer Limited, Fatima Fertilizer Company Limited, Reliance Weaving Mills Limited, Reliance Commodities (Pvt.) Limited, Fatima Energy Limited, Fatima Packaging Limited, and Fatima Holding Limited. FSML utilizes sugarcane as a raw material for the production of refined sugar and allied products. FSML currently has sugarcane crushing capacity of 11,500 tons per day. Crushing activity normally takes place between November and April to produce sugar, molasses and bagasse. The company has total electricity requirement of 14.5 MW which is produced in-house through bagasse-based power unit. While short-term outlook of sugar sector looks favorable, the ratings are constrained by inherent cyclicality & price vulnerability in sector dynamics.

Rating Drivers

Shareholding mainly vested with sponsoring family with adequate experience in sugar & other manufacturing sectors

Previously, FSML was a wholly owned subsidiary of Fatima Holding Limited (FHL), which acts as the holding company of the group. The shareholding of FHL is owned by sponsoring family with three brothers and their families each having one third shareholding in the company. During 9MFY20, the sponsoring family decided the change the shareholding structure after seeking the regulatory approval. Now shareholding of the company is equally split between group companies i.e. FHL (33%), Fatima Management Company Limited (33%), and Fatima Trade Company Limited (33%). Board of Directors of FSML comprises seven members, with four executive directors, all being representatives of the sponsoring family.

Sales decline on account of lower sugar production while profit improved on account of better margins

The plant was operational for 115 days (2018-19: 98 days) due to improved sugarcane supply during crushing season 2019-20. Despite slightly higher sugarcane crushed of 1.05m MT (2018-19: 1.0m MT; 2017-18: 1.46m MT), sugar produced decreased slightly to 106,408 MT (2018-19: 107,116 MT; 2017-18: 146,798 MT) owing to lower sucrose recovery rate of 10.1% (2018-19: 10.74%; 2017-18: 10.05%). Decrease in sucrose recovery rate was mainly due to procurement of some relatively low quality sugarcane amidst price war between the sugar mills for a couple of weeks during the season. Meanwhile, molasses production was recorded higher at 46,186 MT (2018-19: 42,180 MT) with improved recovery rate of 4.38% (2018-19: 4.23%). The company also produced 305,369 MT (2018-19: 299,187 MT) of bagasse and 31,602 MT (2018-19: 29,912MT) of filter cake during crushing season 2019-20.

During 9MFY20, net sales grew by 18% over corresponding period last year to Rs. 5.8b (FY19: Rs. 6.8b; FY18: Rs. 8.6b), driven mainly by increase in prices of sugar and molasses in the local market. The company sells its refined sugar both in the local and international markets, though contribution of exports has declined over the review period.

Revenue from local sugar sales amounted to 4.7b (FY19: Rs. 3b; FY18: Rs. 2.5b) on account of higher volumetric sales and higher (ex-factory) average selling price. Revenue from export sales, however, declined as a result of lower export volumes during 9MFY20. The average export price was marginally higher during the period.

Revenue from molasses sale increased to Rs. 888m (FY19: Rs. 617m; FY18: Rs. 308m) as the impact of lower volumetric sales was more than offset by higher selling price during 9MFY20. The company also generated higher revenue from bagasse during the period. The average selling price of bagasse increased to Rs. 3,305 per MT (FY19: Rs. 2,593 per MT; FY18: Rs. 1,109 per MT).

During 9MFY20, Cost of sales increased by 13% over the corresponding period last year to Rs. 4.6b (FY19: Rs. 5.5b; FY18: Rs. 7.8b) mainly due to increase in sugarcane procurement price, 15% increase in salaries & wages over corresponding period amounting to Rs. 235m (FY19: Rs. 265m; FY18: Rs. 297m) and higher depreciation charge of Rs. 114m (FY19: Rs. 88m; FY18: Rs. 85m). Gross profit increased by 39% over corresponding period to Rs. 1.2b (FY19: Rs. 1.3b; FY18: Rs. 745m) with improved gross margin of 20.5% (FY19: 18.7%; FY18: 8.7%) as higher selling prices for all the products more than offset the impact of slight increase in sugarcane support price and lower sucrose recovery rate.

Distribution expenses decreased to Rs. 91m (FY19: Rs. 124m; FY18: Rs. 158m) mainly due to decrease in loading, handling & freight charges, an outcome of lower export volumes. Administrative expenses, however, stood higher at Rs. 164m over the corresponding period (FY19: Rs. 194m; FY18: Rs. 182m) largely on account of higher staff salaries and wages during 9MFY20. Other expenses amounted to Rs. 39m (FY19: Rs. 75m; FY18: Rs. 49m) which mainly represented workers' profit participation fund and donations. Other income was recorded at Rs. 59m (FY19: Rs. 184m; FY18: Rs. 55m) which mainly represented markup on loan from associates and foreign exchange gain. Financial charges increased by 30% over corresponding period to Rs. 540m (FY19: Rs. 649m; FY18: Rs. 317m) due to higher quantum of short-term borrowings. Accounting for taxation, the company reported net profit of Rs. 334m (FY19: Rs. 370m; FY18: Rs. 54m) and a net margin of 5.7% (FY19: 5.5%; FY18: 0.6%) during 9MFY20.

Cash flows improved on the back of higher profitability and non-cash adjustments – coverage ratios also showcased improvement

The company generated funds from operations (FFO) of Rs. 493m (FY19: Rs. 374m; FY18: Rs. 80m) during 9MFY20, which resulted in slightly improved debt service coverage ratio of 1.69x (FY19: 1.53x; FY18: 0.92x) and FFO-to-long-term debt ratio of 0.65x (FY19: 0.39x; FY18: 0.23x). FFO-to-total debt ratio, however, remained largely unchanged at 0.11x (FY19: 0.10x; FY18: 0.02x) due to higher outstanding balance of short-term borrowings at end-9MFY20. The current ratio stood at 1.12x (FY19: 1.18x; FY18: 1.06x) and inventory plus inventory to short-term borrowing ratio at 0.82x (FY19: 0.84x; FY18: 0.63x).

Higher leverage indicators due to seasonality effect

Paid up capital remained unchanged at Rs. 2.1b. Total equity increased to Rs. 3.9b (FY19: Rs. 3.6b; FY18: Rs. 3.2b) on the back of profit retention. The debt matrix of the company is comprised short-term and long-term debt. Long term borrowings increased to Rs. 1b (FY19: Rs. 968m; FY18: Rs. 344m) by end-9MFY20 on account of new long term loan of Rs. 147m (FY19: Rs. 670m) mobilized for BMR. Short term borrowings stood higher at 5b (FY19: Rs. 2.9b; FY18: Rs. 4.53b) in line with higher working capital requirement at end-9MFY20. Resultantly, gearing and debt leverage ratios were recorded higher at 1.53x (FY19: 1.07x; FY18: 1.51x) and 1.81x (FY19: 1.31x; FY18: 1.71x) respectively at end-9MFY20. By September 30, 2020, leverage indicators have improved considerably on account of decline in short-term borrowings to Rs. 650m and equity expansion.

Fatima Sugar Mills Limited — Annexure I

FINANCIAL SUMMARY *(amounts in PKR millions)*			
BALANCE SHEET	**FY18**	**FY19**	**9MFY20**
Property, Plant & Equipment	3,341	3,824	4,110
Investment Property	99	99	99
Long-term Investment	-	-	88
Stock-in-Trade	2,140	2,045	3,747
Stores, spares & loose tools	242	264	242
Trade Debts	724	367	343
Loans & Advances	1,350	1,189	1,914
Other receivables	570	150	150
Tax Receivables from Government	242	260	270
Other Assets	17	16	18
Cash & Bank Balances	8	77	59
Total Assets	**8,733**	**8,291**	**11,040**
Trade and Other Payables	284	443	640
Accrued Mark Up	49	135	175
Short Term Borrowings	4,531	2,876	5,003
Long-Term Borrowings *(Inc. current maturity)*	344	968	1,015
Total Bank Borrowing	4,875	3,844	6,018
Other Liabilities	300	275	278
Total Liabilities	**5,508**	**4,697**	**7,111**
Total Equity	**3,225**	**3,594**	**3,928**
Paid up Capital	2,102	2,102	2,102
INCOME STATEMENT	**FY18**	**FY19**	**9MFY20**
Net Sales	8,551	6,767	5,815
Gross Profit	745	1,266	1,192
Profit Before Tax	94	408	417
Profit After Tax	54	370	334
FFO	80	374	493
RATIO ANALYSIS	**FY18**	**FY19**	**9MFY20**
Gross Margin (%)	8.7	18.7	20.5
Net Profit Margin (%)	0.6	5.5	5.7
Current Ratio	1.06	1.18	1.12
Net Working Capital	287	652	716
FFO to Total Debt (x)	0.02	0.10	0.11*
FFO to Long Term Debt (x)	0.23	0.39	0.65*
Debt Servicing Coverage Ratio (x)	0.92	1.53	1.69
(Inventory + Receivables)/Short Term Debt	0.63	0.84	0.82
Debt Leverage (x)	1.71	1.31	1.81
Gearing (x)	1.51	1.07	1.53

**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	Fatima Sugar Mills 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				
17/11/2020	A-	A-2	Stable	Reaffirmed
12/02/2020	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. Jawad Ahmad	Deputy GM Finance	October 1, 2020