RATING REPORT

Fatima Sugar Mills Limited

REPORT DATE:
April 16, 2025

RATING ANALYSTS:
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RATING DETAILS				
Rating Category	**Latest Rating**		**Previous Rating**	
	Long-term	**Short-term**	**Long-term**	**Short-term**
Entity	A-	A2	A-	A2
Outlook/Rating Watch	Stable		Stable	
Rating Action	Reaffirmed		Reaffirmed	
Rating Date	*May 05, 2025*		*December 22, 2023*	

COMPANY INFORMATION	
Incorporated in 1988	**External auditors:** Shinewing Hameed Choudhry & Co. Chartered Accountants
Public Limited Company	**Chairman of the Board:** Mr. Fawad Ahmed Mukhtar
Key Shareholding	**CEO:** Mr. Faisal Ahmed Mukhtar
Fatima Trading Company (Pvt.) Limited – 33%	
Fatima Management Company Limited – 33%	
Farrukh Trading Company Limited – 33%	

APPLICABLE METHODOLOGY(IES)

Applicable Rating Criteria: Corporates:
https://docs.vis.com.pk/docs/CorporateMethodology.pdf

APPLICABLE RATING SCALE(S)

VIS Issue/Issuer Rating Scale:
https://docs.vis.com.pk/docs/VISRatingScales.pdf

OVERVIEW OF THE INSTITUTION

Fatima Sugar Mills Limited (FSML) was incorporated in 2006 as an unquoted public limited under the Companies Ordinance, 1984. The principal business activity of the company is manufacturing and sale sugar and its byproducts.

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Company Profile.

Fatima Sugar Mills Limited ("FSML") is a public limited unlisted company. It was established on September 20, 1988, and began commercial operations on December 1, 1993. The company manufactures white refined sugar and operates a sugar production facility in Kot Addu, Muzaffargarh, Pakistan with a crushing capacity of 20,000 metric tons per day. The company's registered office is in Lahore, while its head office is located in Multan.

Group Profile

Fatima Sugar Mills Limited 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 Fertilizers Limited, Fatima Fertilizer Company Limited, Reliance Weaving Mills Limited, Reliance Commodities (Pvt.) Limited, Fatima Energy Limited (FEL), Fatima Packaging Limited, and Fatima Holding Limited.

Shareholding structure is equally split between three group-companies i.e., Fatima Trading Company (Pvt.) Limited (33%), Fatima Management Company Limited (33%), and Farrukh Trading Company Limited (formerly Fatima Trade Company Limited) (33%). Board of Directors of FSML comprises seven members, including six non-executive directors, all being representatives of the sponsoring family.

Business Risk and Industry Update:

The business risk profile of the sugar sector in Pakistan is assessed as medium, shaped by seasonal and cyclical production patterns, competitive procurement pressures, government intervention, and exposure to price and interest rate risks. Sugarcane production is concentrated within a 3–4-month window (Nov – Mar), while sugar stocks must be carried throughout the year, exposing mills to price and interest rate risks. Low crop yields and variations in sucrose recovery rates persist due to the absence of R&D and mechanized farming. Despite these inefficiencies, sugar demand remains inelastic, driven by population growth and demand from ancillary industries.

The perishable nature of sugarcane necessitates proximity between farms and sugar mills, resulting in high competition for procurement and exerting pressure on raw material costs. This is further compounded by the minimum procurement price set by the government, which particularly affected smaller players. However, in line with IMF conditionalities, this policy has been discontinued from the 2024-25 season onward.

Sugar demand is primarily driven by population growth and increasing demand from the food processing and beverage industries, which account for approximately 7% of total production. Sugar, being a commodity, competition risk on the demand side is medium to low though the demand vs supply situation affects all players. However, it remains high on the supply side due to the clustering of mills near sugarcane-growing areas.

During the crushing season 2023-24, total sugarcane crushed was 67,380,000 MT compared to 65,135,310 MT in the previous year. The government increased the minimum support price (MSP) for sugarcane to Rs. 400 per 40 kg in Punjab (from Rs. 300) and Rs. 425 per 40 kg in Sindh (from Rs. 302). It should be noted that the actual procurement price for sugar mills is usually higher depending upon proximity of other sugar mills. Sugar production was 6.5 million tons as per the US Department of Agriculture (USDA) report (2022-23: 6.8 million tons). Sucrose recovery remained largely consistent with the previous season, recorded at 10.23%.

With a carryover stock of 1.129 million tons at the start of the crushing season on November 1, 2023, total available sugar supply for the year was about 7.9 million tons. Domestic sugar consumption is estimated at 6.4 MMT in 2024 which resulted in excess carryover stocks in the market. As a result of pressure from sugar mills, government allowed exports of up to 750,000 MT between Jun-Dec 2024 according to industry sources, the major chunk of which went to Afghanistan with actual exports happening late in the year.

As of the end of November 2024, sugar stocks were estimated at approximately 1.08 million tons, including unutilized export quotas of 604,000 tons. By early December, industry estimates suggested that leftover stocks—excluding exportable quantities—stood at around 554,959 tons, incorporating fresh stocks entering the market.

Sugar prices in FY24 averaged PKR 143.92/kg, reflecting a 24% increase from PKR 115.97/kg in FY23. Prices peaked at PKR 157/kg before stabilizing at PKR 134/kg. Currently, retail prices range between PKR 165/kg and PKR 170/kg due to a reported supply shortfall of nearly one million metric tons.

As of April 2025, total sugar production in Pakistan for the 2024–25 crushing season is estimated at approximately 5.7 million metric tons, representing a notable decline from the previous year's output of 6.84 million metric tons. This has resulted in a supply-demand gap, with domestic consumption projected at 6.6 million metric tons according to USDA estimates. Earlier forecasts had anticipated production to reach 6.8 million metric tons; however, actual output remained lower due to factors including reduced sucrose recovery and adverse weather conditions.

Operational Performance:

Crushing Season	21-22	22-23	23-24
Capacity per day	11,500	20,000*	20,000
Crushing Days	136	105	104
Total Cane Crushed	1,769,587	1,499,571	1,611,807
Cane Crushed tpd	13,012	14,282	15,498
Sugar Production	178,115	162,326	162,449
Recovery Ratio	10.07%	10.82%	10.08%
Molasses Produced	76,181	65,349	68,537
Molasses Recovery	4.31%	4.36%	4.25%

* *The Company's crushing capacity was officially regularized to 20,000 TCD under the Punjab Industries (Control on Establishment & Enlargement) (Amendment) Act, 2022.*

In 2024, cane crushing increased by 7.48% to 1,611,807 metric tons, supported by improved cane availability following post-flood enhancements in yield. In the prior year, a delay in crushing activities due to the floods contributed to a higher sucrose recovery rate of 10.82%, which has dropped to 10.08% in 2024. Molasses recovery declined by a lesser extent to 4.25%, however, molasses production increased by 4.88% to 68,537 metric tons due to higher quantity of cane crushed.

Financial Risk Profile

The Company's revenues increased by 35% during FY24 to PKR 24,176 mln, supported by a 3% growth in local volumetric sales and a 27% increase in average sugar prices. Overall, sugar comprised 75% of total sales of the company in FY2024 (FY2024: 75%) with molasses being the bulk of the remainder along with a small proportion of bagasse sales. Export sales comprised 22% of total sales (FY2024: 20%) at PKR 6,001 mln with approx. 90% arising due to export of molasses. In contrast to the previous year, purchase of molasses for trading purposes increased to PKR 2,399 mln compared to PKR 787 mln in the previous year due to market opportunity.

The company has been able to maintain strong gross margins in the last three years. Cost of Sales increased by 42% during FY2024 due to higher competition in the area resulting in a decline in gross margins to 22.51% (FY23: 26.59%). However, gross margins remained healthier relative to industry dynamics, supported by inventory gains as carryover stock from FY23 was sold at prices exceeding its recorded cost.

FSML was largely able to control its administrative costs. However, distribution costs nearly doubled to PKR 1,464 mln due to increase in exports. Other operating expenses largely comprise donations to group operated charities (PKR 90.3 mln in FY2024) while a capacity regularization fee of PKR 180 mln was paid in FY2023. FSML was able to maintain operating profit at PKR 3,288 mln in FY2024.

Sugar industry has to carry sugar inventory for sales during the year while production is limited to Nov-Mar. This results in significant financial costs which amounted to PKR 2,611 mln (FY2023: PKR 1,783 mln). Despite lower impact of taxation, net profits declined to PKR 561 mln compared to PKR 713 mln in previous year.

As of September 2024, the company held a moderate level of carryover stock, the majority of which had been sold by end-December, including a portion exported to international markets. In addition to domestic sugar sales, the company, being one of the leading exporters of molasses in the country, generated PKR 5 billion in export revenue from molasses.

The Company's total assets amounted to PKR 19,863 million at end-FY24 mainly comprising plant and machinery at PKR 6,436 million and stock in trade of PKR 7,847 mln. Total debt increased to PKR 9,060 mln at end of FY2024 from PKR 6,247 mln in the previous year of which PKR 1,128 mln comprised loans from related parties. Short term borrowing increased to PKR 7,855 mln from PKR 4,634 mln in the previous year-end to support the nearly equivalent increase in stock in trade outstanding at the year-end. Gearing and debt leverage stood at 1.27x and 1.79x respectively at the end of FY2024. Additional loan from sponsors supported reduced funds flow from operations.

The DSCR declined to 1.08x in FY2024 (MY23: 1.26x). FFO coverage to long term debt is high, however, does not account for repayment of financial charges which remains a significant amount despite the decreasing interest rate scenario. Current ratio remains marginal due to the non-earning long term investments in group concerns, though slightly improved from the previous year to 1.04x (FY23: 0.98x).

Key considerations for credit ratings are the Company's ability to raise long term debt to substitute maturing obligations and offload its inventory in a timely manner to manage the considerably high burden of financial costs.

REGULATORY DISCLOSURES	Appendix I
Name of Rated Entity	Fatima Sugar Mills 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				
16-04-2025	A-	A2	Stable	Reaffirmed
22-12-2023	A-	A2	Stable	Reaffirmed
25-10-2022	A-	A2	Stable	Reaffirmed
05-11-2021	A-	A2	Stable	Reaffirmed
17-11-2020	A-	A2	Stable	Reaffirmed
12-02-2020	A-	A2	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

Name	Designation	Date
Mr. Hamza Rizwan	DGM Finance	6th Feb 2025