

FATIMA SUGAR MILLS LIMITED

Analyst:

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RATING DETAILS

RATINGS CATEGORY	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
ENTITY	A-	A2	A-	A2
RATING OUTLOOK/ WATCH	Stable		Stable	
RATING ACTION	Reaffirmed		Reaffirmed	
RATING DATE	May 04, 2026		April 16, 2025	

Shareholding (5% or More)

Fatima Trading Company (Private) Limited - ~33.33%

Fatima Management Company Limited - ~33.33%

Farrukh Trading Company Limited - ~33.33%

Other Information

Incorporated in 1988

Public Unlisted Company

Chief Executive: Mr. Faisal Ahmed Mukhtar

External Auditor: Shinewing Hameed Chauhri & Co.

Applicable Rating Methodology

VIS Entity Rating Criteria Methodology – Corporates Ratings
<https://docs.vis.com.pk/docs/CorporateMethodology.pdf>

Rating Scale

<https://vis.com.pk/docs/VISRatingScales.pdf>

Rating Rationale

The assigned ratings reflect the Company's stable operating profile within the seasonal sugar sector and demonstrated ability to generate resilient earnings across cycles. Revenue growth in MY25 was supported by higher sugar volumes and improved pricing, while profitability remained stable at the net level despite margin compression due to normalization of production costs. In 1HMY26, profitability strengthened due to improved sucrose recovery driven by in-house agronomic initiatives, resulting in higher operating and net margins.

Capital structure indicators improved significantly in MY25 on account of strong internal cash generation and reduced short-term borrowings. However, leverage and gearing increased at end-1HMY26 due to seasonal inventory build-up, consistent with industry working capital cycles. Liquidity and debt servicing capacity remained adequate, supported by improved DSCR and short-term debt coverage in MY25, though FFO-short-term debt temporarily weakened in 1HMY26 due to seasonal borrowings.

Going forward, ratings remain sensitive to sugar price dynamics, export quota and working capital volatility.

Company Profile

Fatima Sugar Mills Limited ('FSML' or 'the Company') is a public unlisted company incorporated in 1988 with commercial operations commencing in 1993. The Company is principally engaged in the manufacturing and sale of white sugar, along with molasses as a by-product. Its production facility, located in Kot Addu, District Muzaffargarh, has a crushing capacity of 20,000 MT per day. The Company's head office is situated in Multan, while its registered office is based in Lahore.

Management and Governance

The Company's management is spearheaded by Mr. Faisal Ahmed Mukhtar, a seasoned professional along with experienced professionals in the management team ensuring operational oversight and strategic execution. FSML operates a fully integrated Oracle-based IT infrastructure, implemented in 2011. The system supports real-time production data and covers key functional areas.

Business Risk

INDUSTRY UPDATE

The business risk profile of Pakistan's sugar industry is characterized by structural seasonality, regulatory sensitivity, and persistent cost pressures, despite signs of production recovery. During the 2024-25 crushing season, national sugar output declined to 5.8 million metric tons (MMT) from 6.8 MMT a year earlier, primarily due to lower sucrose recovery and adverse weather conditions. The sector's challenges were compounded by the government's inconsistent export policy, which allowed substantial sugar exports in 2023 and early 2024 despite forecasts of domestic shortfalls. Exporters benefited from favorable international prices, leaving local markets exposed to supply constraints and price volatility. As a result, retail sugar prices surged to PKR 165-170/kg by mid-2025, peaking near PKR 180/kg amid perceived scarcity. Policy risk remains elevated, as reforms introduced under the IMF program, including the removal of the minimum support price, have heightened market exposure for both growers and mills. Total sugarcane output rose to 85 MMT while sugar production reached 7.6 MMT in MY26, marking a 31% year-on-year increase, primarily driven by improved sugarcane yields and enhanced sucrose recovery rates at mills in Punjab. Domestic sugar consumption is expected at around 6.6 MMT, supported by steady demand from the food and beverage sector alongside ongoing population growth. On the back of higher production and assuming the absence of exports, surplus stocks are estimated at 1.3 MMT for MY26, indicating a comfortable supply position in the domestic market. Therefore, sugar retail prices are expected to remain range bound. Elevated input costs, including energy, fertilizer, and transport, alongside water scarcity and delayed cane payments will continue to constrain industry margins. Overall, the industry remains exposed to moderate but persistent business risk, underpinned by improving output and stable consumption, yet constrained by structural inefficiencies, high working-capital intensity, and policy-driven volatility.

OPERATIONAL PERFORMANCE

Production Data	Crushing Seasons		
	MY24	MY25	MY26
Crushing Days	104	102	125
Installed Capacity (000 MT)	2,080	2,040	2,500
Sugarcane Crushed (000 MT)	1,612	1,408	1,907
Capacity Utilization	77.49%	69.01%	76.29%
Sugar Produced (000 MT)	162	136	207
Sugar Recovery (%)	10.08%	9.63%	10.86%
Molasses Production (000 MT)	69	60	81
Molasses Recovery (%)	4.25%	4.23%	4.23%
Bagasse Production (000 MT)	466	399	553
Bagasse Recovery (%)	28.92%	28.35%	28.97%

During MY26, FSML's crushing season extended by 23 days compared to MY25, leading to higher capacity utilization. Improved cane availability led to higher sugarcane crushed, resulting in increased sugar output. Sucrose recovery registered a significant improvement,

reflecting operational efficiency gains, supported by in-house research and development initiatives and a targeted farmer engagement to enhance cane quality. Molasses recovery remained stable, while bagasse recovery exhibited marginal improvement.

PROFITABILITY

In MY25, revenue increased to PKR 29.2 billion (MY24: PKR 24.2 billion), driven by higher volumetric sugar sales and improved average selling prices (ASP). The sales mix shifted towards sugar at 84% (FY24: 72%), while molasses declined to 10% (FY24: 23%) and bagasse remained stable at 5%.

Despite topline growth, gross margins declined to 13.9% (MY24: 22.5%), as cost of goods manufactured normalized from a low base in the preceding year, which had benefited from significant inventory release. In MY25, higher production levels led to a return to positive production costs, resulting in margin compression. Margins were further impacted by higher average sugarcane procurement price and a decline in sucrose recovery, reflecting marginally lower extraction efficiency and cane quality, which reduced sugar output per unit of cane crushed.

At the operating level, profitability was further constrained by lower other income and higher other expenses, primarily due to the waiver of interest income of PKR 463 million, which led to its reclassification. Consequently, operating margin declined to 7.9% (FY24: 15.1%). Finance costs declined on account of lower short-term borrowings. Accordingly, net profit increased to PKR 695 million (MY24: PKR 562 million), while net margin remained broadly stable at 2.4% (MY24: 2.3%).

During 1HMY26, revenue declined to PKR 11.6 billion (1HMY25: PKR 14.5 billion), primarily due to lower sugar offtake. However, the decline was partially offset by higher contribution from bagasse, in line with increased crushing and improved production levels compared to same period last year (SPLY). The sales mix shifted to sugar 66%, molasses 11% and bagasse 23% (1HMY25: 72%, 17% and 11%).

Gross margins improved despite the decline in topline, supported by enhanced sucrose recovery rates. The improvement is attributable to in-house research and development initiatives undertaken by the Company, alongside targeted advances to farmers, which facilitated adoption of improved agronomic practices and higher-quality seed varieties, thereby enhancing cane quality and recovery.

Distribution expenses declined by PKR 344 million, primarily due to the absence of export development surcharge, as no export quota was announced during the period, consequently, no sugar exports were undertaken. Lower distribution costs, coupled with marginal increase in other income, translated into an increase in operating margin to 13.2 (1HMY25: 8.0%). Additionally, finance costs decreased marginally during the period mainly due to lower average interest rates relative to SPLY despite higher borrowings further supporting profitability. Consequently, net margin strengthened to 8.4% (1HMY25: 2.9%).

Going forward, profitability is expected to remain contingent on volumetric offtake and domestic price dynamics, while maintenance of improved sucrose recovery levels will remain important in supporting margins. However, the absence or timing of export quotas, along with volatility in international sugar prices, may influence inventory levels, pricing flexibility and overall earnings trajectory.

Financial Risk

CAPITAL STRUCTURE

The Company's equity base increased modestly to PKR 7.3 billion at end-MY25 (MY24: PKR 7.1 billion), and further to PKR 8.2 billion at end-1HMY26. Total debt declined significantly to PKR 1.8 billion at end-MY25 (MY24: PKR 9.1 billion), supported by strong internal cash generation, which enabled substantial repayment of short-term borrowings.

Subsequently, total debt increased to PKR 18.0 billion at end-1HMY26, primarily due to seasonal build-up in short-term borrowings to finance inventory during the crushing period. This reflects the inherent working capital cycle of the sugar industry, where production is concentrated between November and March, while sales are realized over the year. Meanwhile, long-term debt increased to PKR 2.1 billion at end-1HMY26 (MY25: PKR 1.6 billion) to support BMR activities.

Accordingly, gearing improved to 0.25x at end-MY25 (MY24: 1.27x) before rising to 2.19x at end-1HMY26. A similar trend was witnessed in leverage, which declined to 0.72x (MY24: 1.79x) and subsequently increased to 2.62x, reflecting the inventory trend, which stood at PKR 811 million at end-MY25 (MY24: PKR 7.8 billion) and increased to PKR 16.5 billion at end-1HMY26.

Overall, the observed increase at 1HMY26 is cyclical in nature and reflects inventory financing requirements, with borrowings expected to decline in line with inventory drawdown and sales realization.

DEBT COVERAGE & LIQUIDITY

The Company's liquidity profile improved in MY25, with the current ratio increasing to 1.31x (MY24: 1.04x) and short-term debt coverage strengthened to 3.15x (MY24: 1.03x), supported by lower short-term borrowings driven by inventory drawdown. Consequently, the net operating cycle improved significantly to (6) days (MY24: 129 days), reflecting stronger inventory turnover and working capital position.

At end-1HMY26, liquidity indicators moderated but remained adequate, with the current ratio and short-term debt coverage both at 1.11x. The increase in net operating cycle to 301 days reflects seasonal inventory accumulation during the crushing period, which temporarily compressed liquidity metrics due to higher working capital requirements.

Debt servicing capacity strengthened during MY25, with Debt Service Coverage Ratio (DSCR) improving to 2.01x (MY 24: 1.11x), supported by higher Funds from Operations (FFO) and lower finance costs, while FFO to short-term debt improved significantly to 4.44x (MY24: 0.14x) due to reduced borrowings. In 1HMY26, DSCR further improved to 2.48x, reflecting sustaining cashflow generation. However, FFO to short-term debt declined to 0.16x amid elevated seasonal working capital requirements during the inventory build-up phase, indicating temporary pressure on near-term liquidity coverage.

Going forward, liquidity and debt coverage indicators are expected to remain adequate, albeit subject to seasonal pressure from working capital build-up, with sustained cashflow generation remaining key to maintaining debt servicing capacity.

REGULATORY DISCLOSURES					Appendix I								
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												
	05/04/2026	A-	A2	Stable	Reaffirmed								
	04/16/2025	A-	A2	Stable	Reaffirmed								
	12/22/2023	A-	A2	Stable	Reaffirmed								
	10/25/2022	A-	A2	Stable	Reaffirmed								
	11/05/2021	A-	A2	Stable	Reaffirmed								
11/17/2020	A-	A2	Stable	Reaffirmed									
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	<table border="1"> <thead> <tr> <th>Name</th> <th>Designation</th> <th>Date</th> </tr> </thead> <tbody> <tr> <td>Mr. Majid Rehman</td> <td>DGM Finance</td> <td rowspan="2">April 21, 2026</td> </tr> <tr> <td>Mr. Amir Hussain</td> <td>Accounts Manager</td> </tr> </tbody> </table>		Name	Designation	Date	Mr. Majid Rehman	DGM Finance	April 21, 2026	Mr. Amir Hussain	Accounts Manager			
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