

RATING REPORT

Ranipur Sugar Mills (Private) Limited

REPORT DATE:

November 12, 2024

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Initial Rating	
	Long-term	Short-term
Entity	A-	A2
Outlook/Rating Watch	Stable	
Rating Action	Initial	
Rating Date	November 12, 2024	

COMPANY INFORMATION

Incorporated in 1998	External auditors: Reanda Haroon Zakaria & Company Chartered Accountants.
Private Limited Company	Chairman of the Board: Mr. Shunaid Qureshi CEO: Mr. Suleman Satabo Rajar
Key Shareholders (with stake 5% or more):	
Al-Madad Holdings (Pvt.) Ltd. – 99.999%	

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>

Ranipur Sugar Mills (Pvt.) Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE
<p>Ranipur Sugar Mills (Pvt.) Limited was incorporated in 1998 as a part of Popular Group. The Company is primarily engaged in the business of manufacturing and sale of sugar along with generation of electricity through an inhouse power plant. The product portfolio contains sugar, molasses, bagasse, biofuels & renewable energy. The Company has also recently ventured into ferro alloys and produces calcium carbide. The sugar mill is situated at Ranipur, District Khairpur, Sindh. The registered office of the Company is situated in Karachi.</p> <p>Profile of Chairman: Mr. Shunaid Qureshi founded Al-Abbas Sugar Mills Ltd. and Itecknologi (Pvt) Ltd. Currently, he is Chairman for Ranipur Sugar Mills (Pvt) Ltd. He is also on the board of Hum Network Ltd as well as Al-Abbas Power Generation Ltd and Al-Abbas Energy. Being a seasoned entrepreneur, he has</p>	<p>Company Profile: Ranipur Sugar Mills (Pvt.) Limited ('RSML' or 'the Company') was incorporated in Pakistan as a private limited company in 1998. The Company is primarily engaged in the business of manufacturing and sale of sugar along with generation of electricity through a 25.5 MW inhouse power plant. The product portfolio contains sugar, molasses, bagasse, biofuels & renewable energy. The Company has also recently ventured into ferro alloys and produces calcium carbide, which among other applications is used for fruits ripening, in the steel industry & as a source of acetylene. The sugar mill is situated at Ranipur, District Khairpur, Sindh, over an area of 133.33 acres. The registered office of the Company is situated in Karachi.</p> <p>Parent Company Profile: Al-Madad Holdings (Pvt.) Limited was incorporated in 2017, which holds 99.999% of RSML. The principal business of the parent company is to invest in debt and equity instruments. Mr. Shunaid Qureshi, chairman of RSML, owns 49.6% of Al-Madad Holdings while 10.3% is owned by Mr. Shahmir Shunaid, who is also a director of RSML. The registered office is situated in Karachi. Other prominent associated companies under the same directorship includes Hum Network Limited, Ranipur Energy (Pvt.) Ltd. (Dormant), Ranipur Biomass (Pvt.) Ltd., Al-Abbas Power Generation Ltd., Hamara Ghar (Pvt.) Ltd., etc.</p> <p>Key Rating Drivers Business risk profile of the sugar industry is considered moderate, characterized by inelastic demand and low risk of substitute products, albeit in a highly fragmented market. However, industry is highly seasonal and sensitive to sugarcane production levels and quality.</p> <p>The business risk profile of the sugar sector is assessed as medium, with low exposure to economic cyclicality but high seasonality and sensitivity to sugarcane production levels and quality. Competition risk in the industry is considered medium to low, with a low risk of substitute products for sugar. However, the industry is characterized by high fragmentation with elevated competition within the sector.</p> <p>The industry experiences inelastic demand linked to the growing population, and government measures allowing exports support its stable demand.</p> <p>The outlook for the sugar industry remains constrained by lower crushing seasons coupled with sugarcane availability issues as well as stagnated local prices due to inventory pileups. Nevertheless, outlook is supported by improving economic conditions in the country with State Bank of Pakistan reducing the discount rate in recent months with further downward revisions expected, which will relieve some pressure off the financial risk profile of the sugar industry.</p> <p>Topline increased on the back of export sales and surge in local sugar prices</p> <p>RSML's revenue sources are primarily derived from sales of sugar, sugar by-products, and the recently added ferro alloy segment, particularly calcium carbide. Despite lower sugar production in MY23, the Company recorded a 27.4% increase in net sales, spurred by a rise in sugar prices and the introduction of the ferro alloy segment. The sugar segment also benefited from the government's decision to permit limited exports, constituting 7.7% of net sales (MY22: 0%). Sales from ferro alloys accounted for 6.0% (MY22: 0%) by the end of MY23. This upward sales trajectory continued into the first half</p>

been the catalyst in emerging technologies not only in the sugar sector but also in the Ethanol, Cement and Real Estate Sector.

Profile of CEO:

Mr. Suleman Satabo Rajar is the CEO of Ranipur Sugar Mills (Pvt.) Ltd. He has a bachelor's in electrical engineering and has been linked with several power projects including a few in the gulf region. Mr. Suleman has been associated with RSML since 2018 and has recently been appointed CEO after the resignation of former CEO Mr. Muhammad Niaz.

of MY24. As a result, the gross margin increased to 13.1% (MY23: 9.5%; MY22: 11.2%) in 1HMY24, bolstered by export revenue, inventory gains, and diversification of operations. For MY24, RSML has been allocated a quota for sugar exports, which is anticipated to positively impact both revenues and margins.

Net profitability faced challenges in MY23 due to rising finance costs; however, one-time other income from liabilities written back helped offset this pressure. In 1HMY24, net profit recovered, with the net margin expanding to 3.5% (MY23: 0.1%; MY22: 1.0%). This improvement underscores the positive impact of introducing a high-margin product, i.e. ferro alloy.

Improvement in inventory turnover results in shorter Cash Conversion Cycle. Liquidity metrics remain in line with the sugar industry.

RSML's current ratio, which has historically stayed below the 1.0x benchmark, saw an increase in 1HMY24, reaching 0.99x (MY23: 0.64x; MY22: 0.71x), close to a minimum adequate level. This was supported by improved internal cash flow generation, driven by higher sales and enhanced inventory turnover. Consequently, the cash conversion cycle (CCC) also shortened to 102 days (MY23: 131 days; MY22: 135 days). Liquidity metrics remain aligned with the assigned ratings.

Capitalization profile characterized by short-term borrowing, with a large contribution from sponsor.

Capitalization metrics have remained relatively elevated with 5-year average gearing and leverage ratio of 1.47x and 2.46x, respectively. In 1HMY24, the gearing and leverage ratios increased to 2.88x (MY23: 1.86x, MY22: 2.00x) and 4.16x (MY23: 2.92x, MY22: 3.15x), respectively, primarily due to seasonal borrowings. The debt structure remains predominantly short-term, accounting for 87.42% of total debt in 1HMY24 (MY23: 76.18%, MY22: 82.28%), of which 23.54% (MY23: 42.03%, MY22: 13.16%) comprises loan from sponsor. If we adjust the capitalization profile for these loans then the adjusted gearing and leverage ratios fall to 1.43x (MY23: 0.79x, MY22: 1.47x) and 2.24x (MY23: 1.45x, MY23: 2.41x), respectively in 1HMY24. Management has informed that the sponsor intends to maintain this loan in the Company and thus they will classify it as long-term loan going forward.

Improvement in the coverage profile

In 1HMY24, the Company experienced an enhancement in its coverage profile, with the debt service coverage ratio (DSCR) improving to 1.37x (MY23: 0.87x; MY22: 0.97x). This uptick in the DSCR is credited to increased FFO, driven by higher operational profitability during the period, despite the rise in debt. Going forward, the coverage profile is expected to be supported by an improvement in reduced finance costs as policy rates gradually decline as well as enhanced cashflows from diversified operations.

Room for improvement in the corporate governance and external reporting frameworks.

The Company operates as a family-run business, with two members on the board of directors, which fulfils the requirement of directors of a private limited company. However, the board lacks independent representation. The Company has a management committee and an HR committee, lacking an internal audit function. The external auditor 'Reanda Haroon Zakaria & Co' appears both on SBP's list of 'B-rated' approved auditors and the QCR list. Ratings will remain sensitive to improvement in governance and external reporting going forward.

REGULATORY DISCLOSURES					Annexure I
Name of Rated Entity	Ranipur Sugar Mills (Pvt.) 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				
	12-Nov-24	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 Meeting Conducted	Name	Designation		Date	
	Mr. Shayan Saleem	CFO		6 th September, 2024	