RATING REPORT

Deharki Sugar Mills (Private) Limited (DSML)

REPORT DATE:
June 10, 2016

RATING ANALYSTS:

Waqas Munir, FRM
waqas.munir@jcrvis.com.pk

Liaqat Hussain
liaqat.hussain@jcrvis.com.pk

RATING DETAILS

	Initial Rating	
Rating Category	**Long-term**	**Short-term**
Entity	A-	A-2
Rating Outlook	Stable	
Rating Date	*June 08, 2016*	

COMPANY INFORMATION

Incorporated in 2010	**External auditors:** M/s Riaz Ahmad, Saqib, Gohar & Co., Chartered Accountants
Private Limited Company	**Chairman of the Board:** Mr. Raheal Masud
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Maqsood Ahmed Malhi
JDW Sugar Mills Limited – 99.98%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria: *Industrial Corporates (October 2003)*
http://www.jcrvis.com.pk/images/IndustrialCorp.pdf

Deharki Sugar Mills (Private) Limited (DSML)

OVERVIEW OF THE INSTITUTION

DSML was incorporated as a private limited company in July, 2010 under the Companies Ordinance 1984. Primary activities of DSML include manufacturing and sale of crystalline sugar. The company has a total staff strength of 798 at end-Sep'15.

RATING RATIONALE

Ratings assigned to Deharki Sugar Mills (Private) Limited (DSML) take into account its association with JDW Sugar Mills Limited (JDWSML), the largest sugar manufacturing company in the country. Being a wholly owned subsidiary of JDWSML, the company draws various benefits from its parent including operational integration while JDWSML has also extended advances to DSML. The ratings also draw comfort from the support from DSML's parent company which may be forthcoming in times of distress.

Production: DSML operates with an installed capacity of 13,000 tons/day at end-FY15 (end-FY14: 12,000 tons/day). Sugarcane crushed during 15-16 crushing season increased by 11.2% and amounted to 1.46m tons as compared to 1.31m tons in the preceding crushing season. With largely sustained sucrose recovery rate of 10.97% (FY15: 10.98%; FY14: 11.04%), sugar production increased to 160,388 tons (FY15: 144,378 tons). Resultantly, capacity utilization also increased to 97% (FY15: 90.3%).

Profitability: During FY15, net sales increased to Rs. 8.8b (FY14: Rs. 7.5b) on account of both volumetric increase in sugar sales and higher average selling price. Gross margins declined marginally to 11.8% during FY15 (FY14: 12.3%), mainly on account of higher average procurement price of sugarcane vis-à-vis FY14. During 1QFY16, margins were reported at 7.7% and in 2QFY16, margins are higher than 1QFY16.With higher revenues offsetting the impact of lower margins along with decline in finance cost, profit after tax improved to Rs. 370.0m during FY15 (FY14: Rs. 204.5m). During 1QFY16, profit after tax amounted to Rs. 45.4m. Profitability of the company is projected to grow at a compounded annual growth rate of around 10% over the next five years.

Cashflows: With improved profitability, Funds from Operations (FFO) stood higher at Rs. 571.1m (FY14: Rs.438.6) during FY15. With higher FFO along with lower debt levels, FFO to total debt increased to 0.19x (FY14: 0.12x). During 1QFY16, FFO stood lower at Rs. 95.7m on account of lower sales while FFO to total debt also decreased to 0.13x. With major repayments due in the coming years, coverages of the company are projected to remain adequate.

Borrowings: Total debt decreased to Rs. 2.9b (FY15: Rs. 3.0b; FY14: Rs. 3.7b) by end-1QFY16 on account of declining long-term borrowings with proportion of same (including current maturity) representing 43% of total borrowings at end-1QFY16 (FY15: 45%; FY14: 47%). Short term financing is arranged to meet working capital requirement pertaining to stock of sugar. These amounted to Rs. 1.7b at end-1QFY16 (FY15: Rs. 1.6b; Rs. 2b) including borrowing from parent company representing 22% (FY15: 53%) of total short term borrowing.

Management: Various functions are shared between JDWSML and DSML including information technology, audit and finance. In addition to this, senior management team of JDWSL is also managing DSML operations.

Deharki Sugar Mills (Private) Limited (DSML) Appendix I

BALANCE SHEET	31-Dec-15	30-Sep-15	30-Sep-14	30-Sep-13
Fixed Assets	3,146.2	3,084.3	3,211.2	3,271.9
Stock-in-Trade	1,119.9	622.0	1,586.5	453.6
Trade Debts	119.2	76.8	8.6	415.7
Cash & Bank Balances	160.1	8.8	22.0	36.4
Total Assets	5,488.0	4,656.4	5,396.6	4,758.9
Trade and Other Payables	1,095.1	217.1	541.5	254.3
Long Term Debt *(*incl. current maturity)*	1,254.9	1,350.6	563.2	0.0
Short Term Debt	1675.1	1,628.4	1,958.2	1,243.1
Total Equity	1,427.0	1,381.5	1,011.6	807.0
INCOME STATEMENT	**31-Dec-15**	**30-Sep-15**	**30-Sep-14**	**30-Sep-13**
Net Sales	1,808.9	8,809.6	7,452.0	7,239.7
Gross Profit	139.0	1,035.6	919.2	631.3
Operating Profit	119.0	961.6	848.8	462.7
Profit(loss) After Tax	45.4	370.0	204.5	(236.1)
RATIO ANALYSIS	**31-Dec-15**	**30-Sep-15**	**30-Sep-14**	**30-Sep-13**
Gross Margin (%)	7.68	11.75	12.34	8.72
Net Working Capital	(1,664.6)	(1,402.9)	(1,243.1)	(935.7)
FFO to Total Debt (x)	0.13	0.19	0.12	(0.03)
FFO to Long Term Debt (x)	0.15	0.73	0.36	(0.06)
Debt Servicing Coverage Ratio (x)	1.03	1.20	0.88	0.57
ROAA (%)	3.58	7.36	4.03	(4.84)
ROAE (%)	12.94	30.92	22.49	(25.52)

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

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: JCR-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.jcrvis.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.jcrvis.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.

'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.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-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						Appendix III
Name of Rated Entity	Deharki Sugar Mills (Private) 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					
	June-08-2016	A-	A-2	Stable	Initial	
Instrument Structure	N/A					
Statement by the Rating Team	JCR-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	JCR-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.					
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, JCR-VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. JCR-VIS is not an NRSRO and its ratings are not NRSRO credit ratings. Copyright 2015 JCR-VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to JCR-VIS.					