Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

RATING REPORT

Deharki Sugar Mills (Private) Limited (DSML)

REPORT DATE:

19/May/2017

RATING ANALYSTS:

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RATING DETAILS

	Latest Rating		Previous Rating	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity	A	A-2	A-	A-2
Rating Date	*April 13, 2017*		*June 08,2016*	
Rating Outlook	Stable		Stable	
Outlook Date	*April 13, 2017*		*June 08,2016*	

COMPANY INFORMATION

Incorporated in 2010	**External auditors:** M/s Riaz Ahmad, Saqib, Gohar & Co., Chartered Accountants
Private Limited Company	**Chief Executive Officer:** Mr. Maqsood Ahmed Malhi
Key Shareholders (with stake 5% or more):	**Chairman:** Mr. Raheal Masud
JDW Sugar Mills Limited – 100%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria *Industrial Corporate (May, 2016)*
http://www.jcrvis.com.pk/kc-meth.aspx

Dharki Sugar Mills (Private) Limited (DSML)

OVERVIEW OF THE INSTITUTION

DSML was incorporated on 14 July 2010 as a private limited company under the Companies Ordinance 1984. Principal activity of DSML includes manufacturing and sale of crystalline sugar.

Profile of the CEO

Mr. Maqsood Ahmed Malhi. is law graduate and also holds an MBA degree from Pakistan Finance College, Lahore.

Profile of the Director

Mr. Raheal Masud brings with himself vast experience of the manufacturing sector. He joined JDW Sugar Mills as General Manager in 1991.

Financial Snapshot: Net equity: 1QFY17 – Rs.2.2b; FY16 – Rs. 2.2b

Net profit /(loss): 1QFY17 (Rs.19.5m); FY16: Rs.860.7m

RATING RATIONALE

The 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. Sustained sucrose recovery rates and improved sugar prices have benefited the company in terms of higher sales and improved gross margins providing impetus to the profitability and cash flows.

Production: During FY16-17 crushing season, 1,559,603 MT of sugarcane has been crushed by end-Feb 2017. Sugar production amounted to 158,705 MT by end-Feb, 2017 as compared to 160,388 MT reported in the previous crushing season with a lower recovery rate of 10.26% as compared to 10.97% in the preceding crushing season. The impact of lower sucrose recovery rates during the outgoing crushing season is expected to be mitigated by increased production leading to sustain level of sugar production.

Profitability: During FY16, revenue from sugar sales increased to Rs. 9.4b (FY15: Rs. 8.8b) on account of improved selling price while sales volume largely remained unchanged. Accordingly, gross margins improved to 18.0% during FY16 (FY15: 11.8%). With Improved margins and decline in finance cost, profit after tax improved to Rs. 861 m during FY16 (FY15: Rs. 370m). Gross revenues of the company are projected to grow at a Compounded Annual Growth Rate (CAGR) of 3% over the next five years with net profit projected to grow at a CAGR of 8% on account of improved selling price of sugar, better recovery rates and largely sustained margins.

Cashflows: With improved profitability and lower financial charges, Funds from Operations (FFO) improved to Rs. 1.4b (FY15: 571.1m) during FY16.FFO amounted to Rs. 114.33m during 1QFY17. FFO to total debt increased to 0.92x at end-FY16 (FY15: 0.19x). Going forward, cash flows are expected to get impetus from higher revenues and sustained margins with projected cashflows expected to remain adequate to timely service debt.

Borrowings: Total debt increased to Rs. 2.6b (FY16:Rs. 1.5b; FY15: Rs. 3.0b) on account of higher cyclical short term borrowing availed during the crushing season to meet working capital requirements with proportion of same representing 57% of total borrowing (FY16: 12%). Gearing increased to 1.17x at end-1QFY17 (FY16: 0.65x; FY15: 2.19x). With gradual repayment of debt and strong momentum in internal capital generation, gearing indicators are projected to decline.

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's operations.

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

BALANCE SHEET	31-Dec-16	30-Sep-16	30-Sep-15
Fixed Assets	3,489.8	3,506.2	3,084.3
Stock-in-Trade	2,053.3	251.8	622
Trade Debts	89.5	20.4	76.8
Cash & Bank Balances	225.1	22.9	8.8
Total Assets	6,287.4	4,429.1	4,656.4
Trade and Other Payables	1,245.1	595.3	217.1
Long Term Debt *(*incl. current maturity)*	1,119.7	1,284.8	1,397.4
Short Term Debt	1,489.9	178.7	1,628.4
Total Equity	2,222.7	2,242.2	1,381.5
INCOME STATEMENT	**31-Dec-16**	**30-Sep-16**	**30-Sep-15**
Net Sales	1,514.0	9,398.2	8,809.6
Gross Profit	158.8	1,690	1,035.6
Operating Profit	140.4	1,460.6	935.4
Profit (loss) After Tax	(19.49)	860.7	370
RATIO ANALYSIS	**31-Dec-16**	**30-Sep-16**	**30-Sep-15**
Gross Margin (%)	10.5	18.0	11.8
Net Working Capital	(661.4)	(652.5)	(1,402.9)
FFO to Total Debt (x)	0.04	0.92	0.19
FFO to Long Term Debt (x)	0.10	1.05	0.41
Debt Servicing Coverage Ratio (x)	0.73	3.79	1.19
ROAA (%)	n.m	18.9	7.4
ROAE (%)	n.m	47.5	30.9

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				
	April -13-2017	A	A-2	Stable	Upgrade
	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.				
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