Analysts:
Saeb Muhammad Jafri
(saeb.jafri@vis.com.pk)

Subhan Zuberry
(subhan2vis.com.pk)

DEHARKI SUGAR MILLS (PRIVATE) LIMITED

Chief Executive: Mr. Raheal Masud

APPLICABLE METHODOLOGY(IES):
VIS Entity Rating Criteria Methodology – Industrial Corporates

Rating Scale:
(https://docs.vis.com.pk/docs/VISRatingScales.pdf)

Rs. Million	MY23A	MY24A	1QMY25M
Net Sales	21,574.29	20,040.46	9,492.71
PBT	1,782.75	1,088.33	489.69
PAT	1,038.14	882.96	295.62
Paid up Capital	1,050.00	1,050.00	1,050.00
Equity (ex. Reval)	4,143.19	4,763.64	5,059.25
Total Debt	253.28	7,357.20	11,940.43
Leverage (x)	1.18	2.03	3.03
Gearing (x)	0.06	1.54	2.36
FFO	1,348.65	1,560.67	17.33
FFO/TD (x)	5.32	0.21	0.01
Net Margin (%)	5%	4%	3%

**Annualized, if required*
A - Actual Accounts
M - Management Accounts

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 16, 2025		May 13, 2024	

RATING RATIONALE

Ratings of Deharki Sugar Mills (Private) Limited at 'A/A2' with a Stable Outlook have been reaffirmed. The reaffirmation primarily draws support from the strong sponsor profile of JDW Group, which remains a key factor in the ratings. Despite a weakening in key financial indicators during MY24 and 1QMY25, including a rise in leverage and reduced profitability, metrics remain aligned with the assigned ratings. Importantly, debt coverage has stayed at reasonable levels, with the debt service coverage ratio recorded at 1.7x in MY24 and recovering to 2.9x in 1QMY25. Going forward, with easing interest rates and improved market conditions, the Company's financial risk profile is expected to show recovery, supporting continued alignment with the current rating levels. Ratings will remain sensitive to easing of pressure on the capitalization profile as well as recovery of profitability and liquidity to remain commensurate with assigned ratings.

CORPORATE PROFILE

Deharki Sugar Mills (Private) Limited (''DSML'' or "the Company") was incorporated in Pakistan on 15 December 2016 as a private limited company. The principal activities of the Company are production and sale of crystalline sugar including its by-products i.e., molasses, bagasse, and mud. The Company's head office (HO) / registered office is located at Abid Majeed Road, Lahore Cantt with manufacturing facility located in Mirpur Mathelo, Ghotki, Sindh.

GOVERNANCE

DSML is a wholly owned subsidiary of JDW Sugar Mills Limited (JDWSML or the Holding Company) and operates as a private limited company. The Board constitutes of three directors, Mr. Raheal Masud, Mr. Ijaz Ahmed, and Mr. Jahangir Khan Tareen. Governance is supported through Board-level committees on audit, risk management, and human resources, which oversee internal controls, risk mitigation, and operational oversight.

GROUP PROFILE

JDW Group (''the Group'') is a diversified industrial conglomerate primarily engaged in sugar manufacturing. The Group has integrated its operations with upstream and downstream activities, including farming techniques that support its core business. JDWSML serves as the parent entity, with four subsidiaries: Deharki Sugar Mills (Private) Limited (''DSML''), and Sadiqabad Power (Private) Limited (''SPL''), each fully owned by JDWSML, and Faruki Pulp Mills Limited (''FPML''), in which it holds a 57.7% stake.

JDWSML was incorporated in Pakistan on May 31, 1990 as a private limited company and was subsequently converted into a public limited company in August 1991. The shares of the Company are listed on the Pakistan Stock Exchange Limited (''PSX''). The principal activities of the Company are production and sale of crystalline sugar including its by-products i.e., molasses, bagasse and mud, generation and sale of energy and managing corporate farms. SPL, incorporated in December 2016, continues to operate as an energy-producing entity within the Group's co-generation expansion program.

FPML, a public limited company, was established to manufacture paper pulp but remained non-operational due to high capital requirements and accumulated losses. In 2022-23, following member approvals, FPML liquidated all assets except land for PKR 1.6 bln. In 2023-24, shareholders approved and completed a buyback of 75% of issued shares at PKR 4 per share in October 2024.

Additionally, in MY24, JDWSML divested its entire shareholding in Kathai-II Hydro (Private) Limited (KHL) on September 2, 2024, for PKR 2,500. The Group had initially acquired a 20.0% stake in KHL on November 12, 2019. KHL's principal business activity is the generation, distribution, and sale of electricity.

PENDING LITIGATION

The developments in relation to penalties imposed by Competition Commission of Pakistan (CCP) on selected sugar mills and the subsequent legal proceedings initiated by the subject company is still pending. The impact of the imposed penalty amounting PKR 747.4 mln on DSML would be significant. However, the Company has filed an appeal before the Competition Appellate Tribunal against the order of CCP. The Appellate Tribunal has restrained the CCP from adopting any coercive measures against the Company for recovery of the fine. The Company also challenged the same order of CCP before the Lahore High Court (LHC) in a writ petition. The operation of the said order has been suspended and CCP has been restrained from recovering penalty imposed in terms of the order of the LHC dated Oct 18, 2021. The matter is pending adjudication before the LHC. Given uncertainty and materiality of the outcome, VIS will continue to monitor further developments in this matter.

INDUSTRY PROFILE & BUSINESS RISK

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 lower sucrose recovery and adverse weather conditions.

Strong Sponsor Profile

The Company is a wholly owned subsidiary of JDWSML, the flagship entity of the JDW Group in the sugar sector. The Company's ownership structure provides implicit operational and financial support, which is a key factor in the assigned ratings.

Product Profile & Capacity

	Units	MY23A	MY24A	1QMY25
Crushing Period in days	Numbers	106	112	41
Cane Crushed	Tons	1,585,515	1,694,259	537,964
Sugar Production	Tons	165,410	177,720	50,495
Sucrose Recovery (%)	% Age	10.4%	10.5%	9.4%
Molasses Produced	Tons	72,025	74,605	22,952
Molasses Recovery (%)	% Age	4.5%	4.4%	4.3%

The Company operates a sugar manufacturing facility with a crushing capacity of 13,000 tons of cane per day (TCD). In Marketing Year 2024 (MY24), the mill operated for 112 days (MY23: 106 days). The average daily crushing throughput increased slightly to 15,127 tons per day (TPD) (MY23: 14,958 TPD), resulting in a total crushing volume of 1,694,259 tons (MY23: 1,585,548 tons) in MY24. The increase in both the number of operational days and the volume of sugarcane crushed was attributed to the resumption of agricultural activity following the disruption caused by severe flooding just before MY23. Improved cane availability contributed to higher mill utilization levels during the crushing season. As a result of increased operational throughput, sugar production increased to 177,720 tons (MY23: 165,410 tons) in MY24. However, despite the higher volume of sugarcane processed, the sucrose recovery rate marginally increased at 10.5% due to no material improvement in cane quality with reduced juice content and a higher fiber concentration compared to the cane procured in the 2023 season.

During the 1QMY25, the mill was in operation for 41 days, processing an average of 13,121 tons of sugarcane per day (TPD). This resulted in a total crushed volume of 537,964 tons during the quarter. As a result, sugar production for 1QMY25 was reported at 50,495 tons. The sucrose recovery rate decreased to 9.4% which was due to the lower sugar content of the sugarcane processed in the 1QFY25 as the cane matures with time.

FINANCIAL RISK

Assigned ratings also consider the financial risk profile of the Company. Profitability remained relatively stable during the review period due to inventory gains, though margin compression was observed in the subsequent quarter due to pricing and cost-side pressures. Capital structure indicators deteriorated during the period under review, with increased reliance on short-term borrowings for working capital needs, particularly for unsold inventory. However, subsequent repayments of these obligations are expected to ease pressure on gearing and leverage indicators. Liquidity levels remain adequate, and coverage indicators also continue to be satisfactory, supported by easing finance costs, with refinancing risk mitigated by the absence of long-term debt on the balance sheet.

Profitability Profile

In MY24, the average selling prices of sugar and bagasse increased to PKR 106.2/kg (MY23: PKR 77.1/kg) and PKR 5,928/ton (MY23: PKR 4,459/ton), respectively. However, gross sales declined by 7.1% due to management's strategy to limit sales volume in anticipation of favorable price movements and potential export opportunities. However, gross margin remained stable at 15.9% (MY23: 15.6%), aided by inventory gains realized on carryover sugar stock from MY23 sold during MY24. In 1QMY25, the gross margin declined to 9.3%, primarily due to subdued sugar prices early in the period, lower sucrose recovery and higher sugarcane procurement price.

Finance costs increased by 64.3% in MY24, driven by higher short-term borrowings to support working capital needs tied to unsold sugar inventory. As a result, net margin decreased to 4.4% (MY23: 4.8%). In 1QMY25, pressure on net margin persisted, falling to 3.1% mainly due to the adverse impact of gross profitability.

The Company derives the majority of its gross revenue from sugar sales, which accounted for approximately 92.4% (3 years annual average contribution of 79.8%) of total gross revenue in 1QFY25. Revenue from by-products—molasses (4.1%), bagasse (2.9%), and mud (0.5%)—comprised the remaining share. In addition, the Company is also engaged in the sale of agricultural inputs, including seeds, fertilizers, and pesticides, being sold to their regional farmers for the cultivation of the Group's cane at subsidized rates. Although this revenue stream is not reported on a quarterly basis, it contributes an estimated 4.5% to full-year gross sales.

Capital Structure

The Company's capitalization profile weakened during MY24. Although the equity base expanded by 15.0%, increased reliance on short-term financing led to a rise in gearing and leverage ratios to 1.5x (MY23: 0.1x) and 2.0x (MY23: 1.2x), respectively.

This trend continued into 1QMY25, with gearing and leverage increasing further to 2.4x and 3.0x, respectively. The seasonal nature of operations and the need for liquidity during the crushing season led to additional short-term borrowing. As per management, a significant portion of short-term obligations, particularly borrowings linked to unsold inventory from the previous year, were settled during 2QMY25. This development is expected to alleviate pressure on capital structure indicators in the upcoming periods.

Liquidity and Coverage

The Company's coverage profile in MY24 was impacted by higher financial costs due to higher debt utilization amid an elevated average interest rate environment during the year. Nevertheless, coverage remained healthy as reflected in a debt service coverage ratio of 1.7x (MY23: 2.7x) in MY24.

In 1QMY25, the DSCR recovered to 2.9x, supported by easing interest rates during the period. The virtual absence of long-term debt continues to mitigate refinancing risk and supports the Company's coverage position. The Company maintains an adequate liquidity profile reflected in a four-year average current ratio of 1.3x. In recent periods the current ratio has depicted contraction to 1.2x in MY24 and then further to 1.1x in 1QMY25, though still considered adequate with the assigned ratings.

Financial Summary		Annexure I	
Balance Sheet (PKR Millions)	MY23A	MY24A	1QMY25M
Property, plant and equipment	3,120.76	3,246.26	3,243.41
Right-of-use Assets	2.68	0.79	0.32
Stock-in-trade	2,503.08	6,510.86	3,802.50
Trade debts	667.35	2,262.63	488.22
Short-term Investments	22.89	26.47	6.47
Cash & Bank Balances	24.38	213.38	10,822.05
Other Assets	2,689.78	2,161.29	2,033.94
Total Assets	9,030.93	14,421.69	20,396.91
Creditors	301.62	101.37	291.70
Long-term Debt (incl. current portion)	3.28	199.34	192.15
Short-Term Borrowings	250.00	7,157.86	11,748.28
Total Debt	253.28	7,357.20	11,940.43
Other Liabilities	4,332.86	2,199.48	3,105.55
Total Liabilities	4,887.76	9,658.05	15,337.68
Paid up Capital	1,050.00	1,050.00	1,050.00
Revenue Reserve	3,093.19	3,713.64	4,009.25
Equity (excl. Revaluation Surplus)	4,143.19	4,763.64	5,059.25
Income Statement (PKR Millions)	MY23A	MY24A	1QMY25M
Net Sales	21,574.29	20,040.46	9,492.71
Gross Profit	3,356.01	3,184.06	881.60
Operating Profit	2,698.39	2,592.52	674.22
Finance Costs	915.64	1,504.19	184.53
Profit Before Tax	1,782.75	1,088.33	489.69
Profit After Tax	1,038.14	882.96	295.62
Ratio Analysis	MY23A	MY24A	1QMY25M
Gross Margin (%)	15.56%	15.89%	9.29%
Operating Margin (%)	12.51%	12.94%	7.10%
Net Margin (%)	4.81%	4.41%	3.11%
Funds from Operation (FFO) (PKR Millions)	1,348.65	1,560.67	17.33
FFO to Total Debt* (%)	532.47%	21.21%	0.58%
FFO to Long Term Debt* (%)	41117.38%	782.92%	36.08%
Gearing (x)	0.06	1.54	2.36
Leverage (x)	1.18	2.03	3.03
Debt Servicing Coverage Ratio* (x)	2.70	1.71	2.86
Current Ratio (x)	1.20	1.17	1.12
(Stock in trade + trade debts) / STD (x)	14.55	1.29	0.42
Return on Average Assets* (%)	10.46%	7.53%	6.79%
Return on Average Equity* (%)	28.65%	19.83%	24.08%
Cash Conversion Cycle (days)	82.86	119.91	65.78
Annualized, if required			
A - Actual Accounts			
P - Projected Accounts			
M - Management Accounts			

REGULATORY DISCLOSURES Annexure II

Name of Rated Entity	Deharki Sugar Mills (Private) Limited (DSML)
Sector	Sugar
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings
Rating History	see table below
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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Rating History:

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
05/16/2025	**A**	**A2**	**Stable**	**Reaffirmed**
05/13/2024	A	A2	Stable	Reaffirmed
05/17/2023	A	A2	Stable	Reaffirmed
04/15/2022	A	A2	Stable	Upgrade
07/27/2021	A-	A2	Stable	Reaffirmed
04/27/2020	A-	A2	Stable	Reaffirmed
03/13/2019	A-	A2	Stable	Downgrade
04/13/2017	A	A2	Stable	Upgrade
06/08/2016	A-	A2	Stable	Initial

Due Diligence Meetings Conducted:

Name	Designation	Date
Mr. Ali Saeed	Senior General Manager (GM) – Accounts	27th March, 2025
Mr. Muhammad Jaffar	Deputy General Manager (DGM) - Accounts	