RATING REPORT

Madina Sugar Mills Limited

REPORT DATE:
February 23, 2022

RATING ANALYSTS:
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RATING DETAILS				
Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A-	A-2	A-	A-2
Rating Action	Reaffirmed		Reaffirmed	
Rating Outlook	Stable		Stable	
Rating Date	*February 23, 2022*		*Oct' 22, 2020*	

COMPANY INFORMATION

Incorporated in 2007	**External auditors:** Kreston Hyder Bhimji & Co. Chartered Accountants
Public Limited Company – Quoted	**Chairman/CEO:** Mian Muhammad Hanif
Key Shareholders (with stake 5% or more):	
Faisalabad Oil Refinery (Pvt.) Limited – 31.05% Mian Muhammad Hassan Rashid – 27.42% Mian Muhammad Rashid – 10.12% Mian Muhammad Hanif – 8.36% Mian Muhammad Haider Amin – 7.20% Mrs. Arooj Fatima – 6.50%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Corporates (August 2021)
https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf

Madina Sugar Mills Limited

OVERVIEW OF THE INSTITUTION

Madina Sugar Mills Limited (MSML) was incorporated in 2007. The principal activity is production and sale of white crystalline sugar and ethanol.

Profile of Chairman/CEO

Mr. Mian Muhammad Hanif has more than 25 years of experience in edible oils, sugar, steel, and education sectors. He is also acting chairman of Pakistan Edible Oils Refiners Association.

Financial Snapshot

Total Equity: end-MY21: Rs. 7.2b; end-MY20: Rs. 6.9b; end-FY19: Rs. 6.7b.

Assets: end-MY21: Rs. 14.0b; end-MY20: Rs. 14.2b; end-MY19: Rs. 14.6b.

Net Profit: MY21: Rs. 348m; Rs. MY20: Rs. 204m; MY19: Rs. 1.1b.

RATING RATIONALE

The ratings assigned to MSML take into account its association with Madinah Group, having business interests in various sectors encompassing edible oils, sugar, ethanol, power generation, mass media and steel. The assigned ratings also factor in diversification by the company into ethanol business to curtail the impact of sugar sector cyclicality. The company has recently embarked on the establishment of steel unit in order to capitalize on in-house bagasse and steam production and further diversify operations. The ratings also factor in notable growth in revenue, driven largely by improved selling prices for the key products and higher ethanol export volumes, partially offset by slight decrease in sugar volumes during MY21. However, VIS has noted weakness in profitability profile over the review period mainly due to higher sugarcane prices and decline in ethanol prices in the internal and local markets, and declining trend in profit margins needs to be arrested.

The ratings further take note of developments with regards to penalties imposed by CCP on certain sugar mills and legal proceedings for interim relief initiated by the subject company. However, in the meanwhile, uncertainty of the outcome would persist on the sector. The material impact of penalty imposed (amounting to Rs. 1.2b) on MSML will be significant, and hence VIS will continue to monitor further development in this matter.

Liquidity profile is supported by higher cash flows generation and satisfactory working capital cycle. The company's capacity to meet its financial obligations is considered adequate, as reflected in improved debt service coverage ratio (DSCR) and FFO-to-total debt ratio during MY21. Given the company mobilized two new long-term facilities in order to re-profile its debt mix during MY21, the increase in scheduled principal repayments may impact the DSCR, going forward. Subsequent to re-profiling, the current ratio of the company has improved on account of reduction in short-term borrowings. The ratings factor in comfortable leverage indicators which improved further during MY21. Going forward, the company has no plan to mobilize new long-term loan as capex related to steel unit will mainly be funded through equity, which may positively impact the capitalization structure of the company.

Rating Drivers:

Business Risk

Risk profile of sugar sector is considered high given inherent cyclicality in the crop levels and raw material prices. Moreover, distortion in pricing mechanism of raw material prices and refined sugar also creates challenge for sugar mills. Typically, sugarcane crop has production cycle of 3-to-5 years, driven largely by government support for farmers and crop yield. During MY21, sugarcane production has increased by 22% to 81m MT on account of increase in area under cultivation and improvement in crop yield. Based on around 78% crushing and an average recovery rate of 10.2%, the sector has produced 5.62m MT of sugar during MY21. Meanwhile, sugar demand is projected at 5.9m MT for the period. While narrow demand and supply dynamics may lead to high sugar prices, government may intervene by importing sugar in order to control prices. Meanwhile, margins may also be curtailed by increasing trend in sugarcane prices.

During MY21, sugarcane procurement prices have been recorded as high as Rs. 350 per mound in Punjab and Rs. 275 per mound in Sindh against the minimum support price of Rs. 200 per mound and Rs. 202 per mound in respective provinces. Punjab sugar mills commenced their crushing season MY22 on November 15, 2021, which is currently underway. While the government has fixed the minimum support price at Rs. 225 per mound, the actual average price is expected to be higher despite uptick in crop produce. Meanwhile, the sector's risk profile draws support from diversification into distillery, power, and steel segments.

Production and capacity utilization

MSML has sugarcane crushing capacity of 16,000MT per day and ethanol capacity of 300MT per day. Crushing for MY21 started on November 15, 2020 and the mill remained operational for 116 days (MY20: 102 days) on account of improved sugarcane supply during the season. The company was able to crush 1.52m tons of sugarcane (MY20: 1.11m tons), which along with the improvement in sucrose recovery rate to 9.56% (MY20: 9.40%) owing to better-quality cane, led to increased sugar production of 145,650MT (MY20: 104,100MT) during MY21.

Distillery operations were recorded higher at 210 days (MY20: 160 days) as only one distillery was operational during the year due to reduced availability of molasses from the open market. In-house molasses production was recorded higher at 77,115 tons (MY20: 55,640 tons) due to increased crushing levels during MY21. However, molasses procurement from the open market declined to 77,206 tons (MY20: 121,122 tons) do reduced availability and higher prices during the year. Resultantly, overall ethanol production declined to 35,104 tons (MY20: 41,777 tons) resulting in reduced capacity utilization of 56% (MY20: 87%) while recovery rate was recorded at 23% (MY20: 24%) during MY21.

	MY19	MY20	MY21
Crushing Capacity (TPD)	16,000	16,000	16,000
Cane Crushed (Tons)	1,184,524	1,106,825	1,523,662
Crushing Days	100	102	116
Capacity Utilization (%)	88.0	95.0	82.1
Sucrose Recovery Rate (%)	9.51	9.40	9.56
Sugar Produced (Tons)	112,610	104,100	145,650
Molasses Recovery Rate (%)	5.15	5.03	5.06
Molasses Produced (Tons)	60,980	55,640	77,115
Molasses Purchased (Tons)	130,206	121,122	77,206
Ethanol Capacity (TPD)	300	300	300
Ethanol Production (Tons)	53,704	41,777	35,104
Ethanol Recovery Rate (%)	28.1	23.6	22.8
Capacity Utilization (%)	83.3	87.0	55.7
Operating Days	215	160	210

Steel unit is being establishment to further diversify operations

In order to capitalize on in-house bagasse and steam production and further diversify operations, the company has embarked on establishment of steel unit comprising two induction furnaces, each having melting capacity of 15 tons per hour, and a rolling mill having capacity of 30 tons per hour. In-house bagasse produced by the company is used to generate steam for water evaporation process; the same steam will generate electricity to run the steel plant. The L/Cs have already been opened to import the machinery from China, and the plant is expected to become operational by end-November'2022. Given the land is already available for the steel unit, total project cost is estimated at Rs. 1.0b, including plant and machinery cost of Rs. 700m and civil work cost of Rs. 300m. The entire project will be funded through sponsor equity including direct cash injection of Rs. 550m to Rs. 600m and subsequent settlement of L/Cs within 6 months from the L/C date.

Property, plant & equipment decreased slightly to Rs. 7.3b (MY20: Rs. 7.6b) by end-MY21, as the depreciation expense exceeded the capex of Rs. 525m (MY20: Rs. 792m) which mainly pertained to polythene bags plant having capacity of 50,000 bags per day for packing of sugar. Previously, the company was procuring packing bags from the third-party suppliers.

Sales and Profitability

Net sales of the company increased to Rs. 16.3b (MY20: Rs. 12.7b) during MY21, with sugar being the largest contributor at 63% (MY20: 72%), followed by ethanol 36% (MY20: 28%). Gross revenue from sugar segment amounted to Rs. 11.4b (MY20: Rs. 10.1b) as the impact of lower volumetric sales of 133,321 tons (MY20: 141,577 tons) due to minimal carryover inventory vis-à-vis the corresponding period was more than offset by higher average selling price of Rs. 85,514/ton (MY20: Rs. 71,384/ton) during MY21. Meanwhile, gross revenue from ethanol increased at a higher pace and amounted to Rs. 6.5b (MY20: Rs. 3.9b) on account of a combination of increased volumetric sales of 45,993 tons (MY20: 31,327 tons) at an average selling price of Rs. 141,250/ton (MY20: Rs. 125,485/ton) during the year. Increase in ethanol volumes despite lower production during the year was mainly due to carryover stock from the previous year. Bagasse sales remained minimal at Rs. 84m (MY20: Rs. 13m) during MY21, driven by volumetric sales of 26,368 tons (MY20: 6,748 tons) and average selling price of Rs. 3,192/ton (MY20: Rs. 1,993/ton).

	MY20		MY21	
	QTY (MT)	**Price/Ton**	**QTY (MT)**	**Price/Ton**
Sugar	141,577	71,384	133,321	85,514
Ethanol	31,327	125,485	45,993	141,250
Bagasse	6,748	1,993	26,368	3,192

Cost of sales increased at a marginally higher pace to Rs. 14.7b (MY20: Rs. 11.3b) during MY21, with sugarcane and molasses from third-parties being the largest cost components which accounted for 81% (MY20: 74%) of overall cost mix during the year. The increase in average sugarcane procurement price to Rs. 272/mound (MY20: Rs. 224/mound) was mainly due to increased competition of secure the raw material supply as the company was targeting to maximize ethanol production. The company reported higher gross profit of Rs. 1.6b (MY20: Rs. 1.4b) due to increased sales; however, gross margin decreased slightly to 10.0% (MY20: 10.9%) during MY21 as the impact of largely sustained sugar segment margins was more than offset by weakness in ethanol margins during the year.

Increase in selling expenses to Rs. 230m (MY20: Rs. 108m) was mainly led by higher handling and carriage outward expense due to higher ethanol exports during MY21. Administrative expenses amounted to Rs. 210m (MY20: Rs. 186m) mainly due to increase in staff salaries & benefits during MY21. The company incurred slightly lower financial charges of Rs. 642m (MY20: Rs. 714m) mainly due to decrease in interest rates and lower outstanding balance of debt financing at end-MY21. Resultantly, the company reported higher net profit of Rs. 348m (MY20: Rs. 204m) as the net margin improved slightly to 2.1% (MY20: 1.6%) during MY21. The increase in interest rates during the ongoing year may impact the margins, going forward.

Liquidity

Liquidity of the company is supported by internal cash flows generation. In line with the profits, the company generated higher funds from operations (FFO) amounting to Rs. 1.2b (MY20: Rs. 861m) during MY21. The company's capacity to meet its financial obligations is considered adequate, as reflected in debt service coverage ratio (DSCR) of 2.36x (MY20: 1.74x) and FFO-to-total debt ratio of 0.21x (MY20: 0.13x) during MY21. FFO-to-long-term debt ratio, however, declined to 0.42x (MY20: 1.66x) on account of mobilize of new long-term loans during the year, which may impact the DSCR going forward. Improvement in current ratio to 1.74x (MY20: 0.97x) was mainly led by reduction in short-term borrowings by end-MY21. Working capital cycle of the company is considered satisfactory, amounting to 82 days (MY20: 116 days) mainly due to reduction in inventory days 46 days (MY20: 106 days), partially offset by increase in receivables days to 50 days (MY20: 16 days) while payable days remained on the lower side at 14 days (MY20: 6 days) during the year.

In the absolute terms, stock-in-trade, which mainly represented finished inventory, declined to Rs. 1.8b (MY20: Rs. 3.3b) on account of reduction in overall carryover inventory by end-MY21. Increase in trade receivables to Rs. 2.2b (MY20: Rs. 545m) was led by extended period allowed to sugar customers; ethanol is exported on LC at slight payment terms. The aging profile shows that 88% of receivables were outstanding for less than three months while remaining 12% were outstanding for less than 6 months. Majority of receivables have been recovered subsequently. Advances given to growers to secure sugarcane supplies amounted to Rs. 1.5b (MY20: Rs. 1.6b) at end-MY21. Coverage of short-term borrowings via stock-in-trade and receivables improved to 1.35x (MY20: 0.61x) by end-MY21.

Capitalization

Paid up capital of the company remained unchanged at Rs. 4.4b (MY20: Rs. 4.4b) at end-MY21. Equity base accumulated to Rs. 7.2b (MY20: Rs. 6.9b) with the retention of profits. Total liabilities decreased slightly to Rs. 6.8b (MY20: Rs. 7.3b) mainly comprising debt financing and trade & other payables of Rs. 558m (MY20: Rs. 181m). As per the management, given the bank charge is inferior to grower payables, banks show reluctance to pledge stock; thereby, the company re-profiled its debt mix by mobilizing two new long-term facilities of Rs. 2.5b and reduced the short-term borrowings to Rs. 3.0b (MY20: Rs. 6.3b). Tenor of both facilities is 5 years with a grace period of 6 months which expired on 30th December'2021, with first payment falling due in March'2022. With the decline in total debt to Rs. 6.0b (MY20: Rs. 6.8b) and higher equity base, gearing and debt leverage ratios of the company improved steadily to 0.82x (MY20: 0.99x) and 0.93x (MY20: 1.06x) by end-MY21. Going forward, the company has no plan to mobilize new long-term loan as capex related to steel unit will mainly be funded through equity, which may positively impact the capitalization structure of the company.

Madina Sugar Mills Limited Annexure I

FINANCIAL SUMMARY *(amounts in PKR millions)*			
BALANCE SHEET	**MY19**	**MY20**	**MY21**
Non-Current Assets	7,605	7,619	7,511
Stores, Spares, and Loose Tools	117	171	223
Stock in Trade	4,865	3,287	5,747
Trade Debts	135	545	2,409
Advances, Deposits & Prepayments	1,417	2,031	2,613
Due from Govt.	446	521	360
Cash & Bank Balance	61	40	134
Total Assets	**14,646**	**14,214**	**18,998**
Trade & Other Payables	162	181	635
Short-Term Borrowings	7,246	6,315	7,825
Long-Term Borrowings *(Inc. current maturity)*	271	518	2,989
Directors Loan	22	93	-
Other Liabilities	252	211	346
Total Liabilities	7,953	7,317	11,794
Tier-1/Total Equity	**6,692**	**6,897**	**7,204**
Paid-up Capital	4,360	4,360	4,360
INCOME STATEMENT	**MY19**	**MY20**	**MY21**
Net Revenue	10,269	12,686	16,329
Gross Profit	2,020	1,382	1,639
Finance Cost	809	714	589
Profit Before Tax	1,209	353	486
Profit After Tax	1,109	204	307
FFO	2,123	861	1,234
RATIO ANALYSIS	**MY19**	**MY20**	**MY21**
Gross Margin (%)	19.7	10.9	10.0
Net Margin (%)	10.8	1.6	2.1
Net Working Capital	(744)	(211)	2,815
Current Ratio (x)	0.90	0.97	1.74
FFO to Long-Term Debt (x)	7.84	1.66	0.42
FFO to Total Debt (x)	0.28	0.13	0.21
Debt Servicing Coverage Ratio (x)	2.95	1.74	2.36
Gearing (x)	1.13	0.99	0.82
Debt Leverage (x)	1.19	1.06	0.93
Receivables & Inventory/Short-term borrowings	0.69	0.61	1.35

ISSUE/ISSUER RATING SCALE & DEFINITIONS — Annexure II

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

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: 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.vis.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.vis.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.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

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

'SD' Rating: An 'SD' rating is assigned when 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 — Annexure III

Name of Rated Entity	Madina Sugar Mills Limited
Sector	Consumer Goods
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				
Feb 23, 2022	A-	A-2	Stable	Reaffirmed
Oct 22, 2020	A-	A-2	Stable	Reaffirmed
July 31, 2019	A-	A-2	Stable	Reaffirmed
June 29, 2018	A-	A-2	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.
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	

Name	Designation	Date
Mr. Malik Naeem	CFO	January 18, 2022