

RATING REPORT

Madina Sugar Mills Limited

REPORT DATE

August 13, 2024

RATING ANALYSTS:

Muhammad Subhan

subhan@vis.com.pk**RATING DETAILS**

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A-	A-2	A-	A-2
Rating Date	August 13, 2024		June 16, 2023	
Rating Outlook/Rating Watch	Stable		Stable	
Rating Action	Reaffirmed		Reaffirmed	

COMPANY INFORMATION

Incorporated in 2007

External auditors: Kreston Hyder Bhimji & Co. Chartered Accountants

Public Limited Company

Chief Executive Officer (CEO): Mr. Hassan Ahmad

Key Shareholders (with stake 5% or more):

Faisalabad Oil Refinery (Pvt.) Ltd. ~ 27.1%

Mr. Hassan Ahmad ~ 25.7%

Mr. Mujatab ~ 15.3%

Madinah Oil Refinery Limited ~ 12.6%

Mr. Mian Mohammed Rasheed ~ 9.2%

Ms. Arooj Fatima ~ 7.7%

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>

Madina Sugar Mills Limited

OVERVIEW OF THE INSTITUTION

RATING RATIONALE

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

Company Profile:

Madina Sugar Mills Limited (“MSML” or “the Company”) was incorporated on February 23, 2007 as a private limited company under the Companies Ordinance, 1984. With effect from 26 March 2014, it changed from a private limited to a public unlisted company. The Company has also setup a distillery for the manufacturing / extraction of ethanol. The registered office of the Company is situated at Karsaz, Karachi whereas the mill / distillation plant is situated at Chiniot, Punjab, Pakistan. The principal activity of the Company is production and sale of white crystalline sugar and ethanol.

Group Profile:

Haji Muhammad Amin (Late) founded Madina Group (“The Group”) in 1946. Madina Group has evolved under the stewardship of his three sons; Mian Muhammad Rashed, Mian Muhammad Hanif, and Mian Muhammad Usman. Today, the Group encompasses advanced industrial entities including Madina (Pvt.) Limited (ML) separately owned by elder son Muhammad Hanif Amin and family, MSML and Madina Oil Refinery Limited (MORL) separately owned by Mian Muhammad Rasheed and family and Faisalabad Oil Refinery (Pvt) Ltd and Madina Medical University separately owned by younger son Mian Muhammad Usman. In other group companies, support from sponsors has been witnessed in terms of equity injection/directors’ loan as and when required. The Group has business interest in various sectors including edible oil, sugar, ethanol, detergent, plastics, power generation, steel, and mass media. ML is involved in the manufacturing and sale of banaspati ghee, cooking oil, and allied products and sells its products under the brand name of ‘Rabi’, ‘Rajhee’ while Madina Oil Refinery, and Faisalabad Oil Refinery operates as edible oil companies.

Business Segments:

Sugar: The Company operates a sugar mill with a crushing capacity of 24,000 tons per day (MY22: 20,000 TPD). In 1HMY24, this segment accounted for approximately 45.7% (MY23: 51%, MY22: 55.3%) of total Company sales. MSML serves a diverse clientele, including businesses and individuals, with export destinations such as Afghanistan and Tajikistan for its sugar products.

Ethanol: MSML operates an ethanol distillery plant with a daily capacity of 300 tons. The Company exports approximately 95% of its total ethanol production to countries including Spain, Netherlands, United Arab Emirates (UAE), Philippines, Italy, and France. In 1HMY24, this segment contributed around 48.2% (MY23: 49.2%, MY22: 44.5%) of the total sales of the Company.

Polypropylene: The Company owns a polypropylene plant primarily producing woven bags for packaging, used both for its own sugar sales and for external sales. In 1HMY24, no sales were reported in this segment. In MY23, the segment contributed approximately 0.1% (MY22: 0.2%) to the total sales of the Company.

Steel: With a view to use excess power produced during the crushing season, the Company has set up two induction furnaces, with a capacity of 25 metric tons each to produce billets. The also has plans to add a re-rolling mills in future. This segment contributed approximately 6.2% to its total sales during 1HMY24.

Operational Performance:

Crushing Season	MY21	MY22	MY23	MY24
Crushing Capacity (In TPD)	16,000	20,000	20,000	24,000
Crushing Period in days	103	114	87	96
Cane Crushed (MT)	1,523,662	2,092,350	1,560,944	1,751,434
Sugar Production (MT)	145,650	200,044	143,391	149,601
Sucrose Recovery	9.56%	9.56%	9.19%	8.54%
Molasses Produced	77,115	108,425	112,610	89,500
Molasses Recovery	5.06%	5.18%	7.21%	5.11%
Ethanol Plant	MY21	MY22	MY23	1HMY24
Ethanol Capacity per day (Tons)	300	300	300	300
Actual Number of days Operated	208	273	199	121
Ethanol Production Capacity (Tons)	108,000	108,000	108,000	36,300
Ethanol Actual Production (Tons)	35,187	74,759	49,734	33,717
Capacity Utilization (%)	33%	69%	46%	92.88%
Steel Billets Plant	1HMY24			
Capacity per day (Tons)	500			
Actual Number of days Operated	45			
Production Capacity (Tons)	22,500			
Actual Production (Tons)	8,617.2			
Capacity Utilization (%)	38.3%			

Sugar Segment:

The Company grappled with production challenges attributed to the constrained availability of sugarcane, precipitated by floods during MY23. Concurrently, a shortened crushing period of 87 days (MY22: 114 days) was documented. The shortfall in actual crushing per day when compared with the installed capacity as well as the actual crushing capacity per day of the comparable period is mainly on account of lesser availability of sugar cane during the period and also the competitive pressures / rivalries among the competitors in the industry being faced by the Company. The recorded cane crushed figure stood notably lower at 1,560,944 metric tons (MT) (MY22: 2,092,350 MT), thereby inducing a decline in the production output of sugar, molasses, and bagasse.

During the MY24 crushing season, the Company's crushing capacity increased with the recent rationalization of capacities in Punjab province. Moreover, with the revival in sugarcane production and increased availability of sugarcane, the Company's actual crushing period was extended to 97 days in MY24, during which 1,751,434 MT of cane was processed, resulting in an improved sugar production of 149,602 MT. However, a drop in the sucrose recovery rate to 8.5% (MY23: 9.2% in MY23, MY22: 9.6%) was observed during MY24, a result of challenges faced due to the cane quality.

Ethanol Segment:

During 121 days (MY23: 199 days, MY22: 273 days) of operations in the half year of MY24, ethanol production amounted to 36,300 MT (MY23: 108,000 MT, MY22: 33,717). The reason for shortfall in production in MY23 when compared with installed capacity as well as production of the corresponding period is due to demand and supply conditions in the market. However, capacity utilization went up to a staggering 93% (MY23: 46%, MY22: 69%) during 1HMY24, hence full potential of ethanol is being tapped into.

Steel Segment:

The Company commenced production of steel billets on December 28, 2023. During the reporting period, only one furnace was primarily utilized.

Key Rating Drivers:**Steel as a new segment introduced by MSML**

The installation of a billet-casting mill diversifies the Company's revenue sources beyond its existing operations in sugar, ethanol, and polypropylene. The new facilities enable the Company to extend its market presence in steel production and billet manufacturing sectors. Additionally, the new segment holds potential to significantly enhance the Company's revenue growth, subject to market demand, operational efficiency, and capacity utilization of the new facilities.

Medium business risk profile

The business risk profile of MSML is considered medium given the moderate level of barriers to entry in the industry, a medium level of technology risk, and sector's modest capital-intensive nature. However, industry's high sensitivity with the production of sugarcane possess a raw material availability risk.

The industry faces an inelastic demand linked with the growing population in the country coupled with government's measure to allow exports further supporting its stable demand. However, unfavorable sugar prices expose the industry to lower revenue and inventory gains.

The Company benefits from substantial export proceeds generated by ethanol sales, which contribute positively to its topline. Furthermore, the installation and operation of a steel plant enhance the company's future revenue profile, aligning with the assigned ratings

The future outlook of the sugar industry appears challenging due to prevailing economic conditions of the country, SBP discount rate remaining elevated despite expectation of rate cut maintaining pressure on finance cost, increase in sugarcane price in the provinces, inventory pileups, and lower crushing season coupled with sugarcane unavailability.

Profitability improved in MY23, however, declined in 1HMY24

In MY23, MSML's revenue declined by approximately 14% as a result of reduced sales across all segments: sugar sales dropped by 20.7% due to 26.1% lower volumetric sales, ethanol by 4.4%, and no revenue was generated from steel billets due to ongoing mill implementation. Revenue from packing material also saw a significant decline of approximately 78.8%. Despite these challenges, the gross margin improved to 17.1% (MY22: 10.6%) in MY23, attributed to

effective cost management. The net margin slightly increased to 3.6% (MY22: 3.2%) on account of disciplined operational expense management during the period.

In 1HMY24, the Company sustained a decline in volumetric sales, despite a notable 30.3% increase in the average selling price of sugar, which bolstered revenue growth. However, this was offset by a reduction in gross margin to 12.3%, primarily due to a significant 23.8% rise in average sugarcane procurement costs during the period. Consequently, lower gross profit in 1HMY24 led to a decrease in net profit, resulting in a net margin of 2.6%.

Declining coverage profile

The Company's coverage profile showed signs of weakening in MY23 despite a 17% increase in funds flow from operations (FFO), with its debt service coverage ratio (DSCR) declining to 1.2x (MY22: 1.5x). This deterioration was primarily driven by a substantial 62.7% rise in finance costs incurred. In 1HMY24, the Company's debt servicing capability further weakened as the DSCR deteriorated significantly to 0.1x, largely due to a sharp 72.1% decrease in FFO. This decline in FFO was predominantly caused by a 29% increase in finance costs, stemming from a roughly 24% rise in the interest rate paid following an 825 basis points increase in the policy rate since FY21.

Weakening in the capitalization structure in 1HMY24, conservation capitalization profile expected in MY24

In MY23, the Company's leverage ratio remained stable at 1.1x, while gearing slightly improved to 0.9x (MY22:1.0). This modest improvement in gearing was driven by an increased proportion of equity, largely due to higher unappropriated profit. However, in 1HMY24, both gearing and leverage ratio weakened to 1.4x and 1.5x, respectively. This weakening in capitalization metrics during 1HMY24 was primarily influenced by a significant 99.2% increase in the Company's short-term debt to meet its working capital needs.

Furthermore, management has communicated that by MY24, the Company aims to reduce its reliance on short-term debt by 62.1%, however, and drawdown of long-term loan of around PKR 1 bln for the CAPEX of re-rolling is in process. This will lead to a conservative capital structure in the near future.

Liquidity position continuously affected by higher drawdown of STD, higher inventory level also poses a risk

MSML experienced a weakening in its liquidity profile during MY23, evident by a decline in both its current ratio and short-term debt (STD) coverage ratio to 1.2x (MY22: 1.6x) and (MY22: 1.5x), respectively. This decline in the liquidity position was primarily driven by a 49% increase in the Company's current liabilities, which resulted from a 44.5% rise in short-term debt used to fulfill working capital needs.

In 1HMY24, the current ratio remained unchanged, indicating stability in the Company's ability to meet its short-term obligations. However, the short-term debt (STD) coverage ratio further weakened to 1.1x. This deterioration was primarily attributed to the ongoing drawdown of short-term debt, partially offset by higher inventory levels, which provided a buffer.

Key Ratings Considerations:

Going forward, the ratings will remain sensitive to the efficient management of MSML’s profitability, coverage, capitalization, and liquidity profile.

Madina Sugar Mills Limited
Appendix I

FINANCIAL SUMMARY (amounts in PKR millions)						
BALANCE SHEET	MY21	MY22	MY23	1HMY24	PMY24	PMY25
Property, Plant and Equipment	7,392	7,776	10,225	10,452	8,844	10,107
Investment Property	28	20	11	11	2	-
LT Investments	-	-	-	-	-	-
Stock-in Trade	1,543	1,668	2,099	9,713	3,318	2,732
Trade Debts	2,840	4,546	4,968	3,577	3,760	2,816
Cash & Bank Balances	72	62	254	125	244	238
Total Assets	14,345	16,965	20,625	26,635	19,108	18,155
Trade and Other Payables	561	443	348	349	296	295
ST Borrowings	3,030	4,227	6,106	12,165	4,611	4,126
LT Borrowings (incl. current maturity)	2,954	3,568	3,241	2,666	2,670	1,167
Total Debt	5,983	7,794	9,347	14,831	7,280	5,292
Deferred Liabilities	54	50	102	102	106	111
Other Liabilities	135	197	467	259	211	24
Total Liabilities	7,142	8,902	10,627	16,115	8,255	6,110
Paid Up Capital	4,360	4,360	4,990	4,990	4,990	4,990
Tier-1 Equity	7,202	8,063	9,998	10,520	10,852	12,044
Total Equity	7,202	8,063	9,998	10,520	10,852	12,044
INCOME STATEMENT	MY21	MY22	MY23	1HMY24	PMY24	PMY25
Net Sales	16,330	26,562	22,950	18,124	28,849	31,012
Gross Profit	1,815	2,820	3,919	2,220	4,203	4,395
Profit Before Tax	684	1,176	1,060	734	1,215	1,579
Profit After Tax	305	860	817	522	855	1,192
RATIO ANALYSIS	MY21	MY22	MY23	1HMY24	PMY24	PMY25
Gross Margin (%)	11.1%	10.6%	17.1%	12.3%	14.6%	14.2%
Net Margin (%)	1.9%	3.2%	3.6%	2.9%	3.0%	3.8%
Current Ratio	1.6	1.6	1.2	1.2	1.7	1.6
Funds from Operations (FFO)	1,501	1,636	1,914	(534)	1,756	2,227
FFO to Total Debt (x)	0.25	0.21	0.20	(0.03)	0.18	0.32
FFO to Long Term Debt (x)	0.51	0.46	0.59	(0.15)	0.49	1.43
Debt Leverage	1.0	1.1	1.1	1.5	0.76	0.51
Gearing	0.8	1.0	0.9	1.4	0.67	0.44
Debt Servicing Coverage Ratio (x)*	1.84	1.50	1.21	0.1	2.40	5.26
ROAA (%)*	2.8%	6.7%	5.8%	1.8%	2.9%	4.2%
ROAE (%)*	5.6%	14.2%	12.0%	4.1%	6.1%	8.0%
(SIT+TD)/ST Borrowing (x)	1.4	1.5	1.2	1.1	1.5	1.3

Madina Sugar Mills Limited

Appendix II

REGULATORY DISCLOSURES					
Name of Rated Entity	Madina Sugar Mills 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 Watch	Rating Action
	<u>RATING TYPE: ENTITY</u>				
	13-Aug-24	A-	A-2	Stable	Reaffirmed
	16-Jun-23	A-	A-2	Stable	Reaffirmed
	24-Feb-22	A-	A-2	Stable	Reaffirmed
	22-Oct-20	A-	A-2	Stable	Reaffirmed
	31-Jul-19	A-	A-2	Stable	Reaffirmed
29-Jun-18	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	S.No.	Name	Designation	Date	
	1.	Mr. Malik Naeem	CFO	July 12, 2024	
	2.	Mr. Sayam Khan	Accountant		