VIS
Credit Rating Company Limited

RATING REPORT

MADINA SUGAR MILLS PVT LIMITED

Analyst:
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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	October 09, 2025		August 13, 2024	

Shareholding (5% or More)	Other Information
Mian Muhammad Rasheed – 36.37%	Incorporated in 2007
Mian Muhammad Hassan – 25.71%	Public Limited Company
Mian Muhammad Mujtaba – 15.34%	Chief Executive: Mr. Fazal Ahmad Azam
Madina Oil Refinery Ltd – 12.62%	External Auditor: Kreston Hyder Bhimji & Co. Chartered Accountants
Mrs. Arooj Fatima – 7.74%	

Applicable Rating Methodology

VIS Entity Rating Criteria Methodology – Corporates Ratings
https://docs.vis.com.pk/docs/CorporateMethodology.pdf

Rating Scale

https://docs.vis.com.pk/docs/VISRatingScales.pdf

Rating Rationale

Madina Sugar Mills Limited ('MSML' or the 'Company') benefits from its diversified operations across sugar, ethanol, and steel, alongside cost efficiencies from in-house power generation and packaging facilities. The Company's profitability has been supported by higher sugar prices and resilient ethanol margins, though output remains constrained by weaker cane availability, lower recoveries, and underutilization of steel division, which is still in its early ramp-up phase. While gross margins have improved, rising finance costs from working capital borrowings have curtailed bottom-line growth. Recently established steel unit has begun contributing to revenues, but is still in its early ramp-up phase. Debt levels have risen significantly due to inventory build-up, which has weakened capital structure indicators, though these are expected to normalize as stock liquidation proceeds. Liquidity has remained adequate with coverage ratios remaining above minimum comfort levels, but high working capital requirements and reliance on short-term borrowings remain key risks. Overall, the ratings reflect a balance of operational diversification, sponsors support, and stable liquidity against cyclical industry pressures, elevated leverage, and earnings volatility. Going forward, the ratings will remain sensitive to the Company's ability to achieve profitability targets, continued favorable trends in international ethanol demand and pricing, as well as recovery and efficiency improvements in the sugar and steel segments.

Company Profile

Madina Sugar Mills Limited ('MSML' or the 'Company') was incorporated in Pakistan on 05 June 2007 as a public limited company under the Companies Ordinance, 1984. The Company is engaged in the production and sale of sugar and ethanol, along with a recently added steel segment. It is part of the Madina Group of Industries, which has been active in sugar and other businesses since the late 1980s.

MSML's registered head office is located in Faisalabad, Punjab, Pakistan. The Company's sugar mill and ethanol distillery are situated in Chiniot District, Punjab, strategically located near major sugarcane-producing areas. In addition, the newly established steel manufacturing unit is also housed within the sugar mills premises, allowing easy access to industrial hubs and construction markets across the province.

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 Rasheed, Mian Muhammad Hanif, and Mian Muhammad Usman. The Group has business interest in various sectors including edible oil, sugar, ethanol, detergent, plastics, power generation, steel, and mass media. Today, the Group encompasses 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. Within group companies, support from sponsors has been witnessed in terms of equity injection/directors' loan as and when required. 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.

Management and Governance

SPONSOR/ MANAGEMENT

MSML is sponsored by the Madina Group of Industries, with significant shareholding held by Mian Muhammad Rasheed (36.37%) after acquiring 27.13% of Faisalabad Oil Refinery shares, Mian Muhammad Hassan Ahmad (25.71%), Mian Muhammad Mujtaba (15.34%), %) and Madina Oil Refinery Limited (12.62%). Madina Sugar Mills Limited and Madina Oil refinery is owned by Mian Rasheed and his family. Its management is led by the CEO Mr. Fazal Ahmad Azam. Mian Muhammad Rasheed and his son, both are experienced sponsors of the Madina Group and their diversified business exposure add strength to Madina Sugar Mills' management profile.

During 2025, Mr. Hassan Ahmed, who was serving as the CEO, was replaced by Mr. Fazal Ahmed Azam. Additionally, Mr. Daud Shah resigned from his position as CFO, and Mr. Muhammad Imran Ashraf was appointed as the new CFO.

Business Risk

INDUSTRY

Sugar

The sugar industry in Pakistan operates under a medium-risk profile influenced by seasonal production cycles, government intervention, and fluctuations in input and output prices based on crop availability as well as demand and supply mechanics for the final product. Sugarcane crushing is concentrated between November and March, requiring mills to maintain year-round inventories that expose them to price and interest rate risks. Despite a slight increase in sugarcane crushed during the 2023–24 season (67.4 MMT vs. 65.1 MMT in MY23), sugar production decreased to 6.5 MMT (MY23: 6.8 MMT). The sector continues to face structural limitations due to low mechanization and underinvestment in research and development, which constrain crop yields and sucrose recovery.

Cost pressures intensified in MY24 as provincial governments implemented higher minimum support prices (MSP)—PKR 400 in Punjab and PKR 425 in Sindh per 40 kg. This particularly affected smaller mills with tighter cost margins. However, there is a significant policy shift with discontinuation of MSP from the 2024–25 season. Domestic sugar consumption remains relatively inelastic, recorded around 6.4 MMT.

In ongoing 2025, total sugarcane production was estimated to have been around 80 MMT, due to a larger cultivation area of ~1,210,000 HA (2024: 1,175,000). However, due to unfavorable climatic conditions, as well as pests related issues, the quality of the crop was significantly impacted. This affected sugar production which fell to ~5.80 MMT, overall availability remained at par with domestic demand supported by carryover stocks of 0.66 MMT. However, due to this lower-than-expected production, domestic sugar prices started rising —averaging PKR 143.92/kg in MY24 (MY23: PKR 115.97/kg) and are currently ranging between PKR 165–175/kg—prompting the government to permit duty-free imports. Most recently, the government has also attempted to cap ex-mill prices at PKR 165/kg with incremental increases until October 2025, reportedly. While the demand outlook remains stable, the industry's future performance will depend on its ability to adapt to evolving policy frameworks, manage cost pressures, and navigate regulatory scrutiny, especially regarding pricing mechanisms and export policy. Moreover, sugar production will continue to remain sensitive to crop yields and quality. In recent years, crop production has been impacted by changing and increasingly volatile weather patterns. Climate change has become an important consideration for the sugar industry in the country.

Ethanol

The business risk profile of Pakistan's ethanol production sector, primarily dependent on sugarcane-derived molasses, is assessed as Medium to High. Feedstock availability remains the most significant risk, given its direct link to sugarcane yields. The 2024–2025 season has seen reduced harvests, constraining molasses supply, increasing procurement costs, and creating production bottlenecks. As molasses is a by-product of sugar production, its pricing and availability are influenced by sugar market dynamics and government export policies. Restrictions on sugar exports or upward revisions in sugarcane prices may incentivize mills to retain molasses, thereby limiting availability for distilleries and putting pressure on margins. These structural constraints heighten the sector's exposure to production volatility.

The sector's dependence on international markets, with exports accounting for around 80% of total output, exposes it to fluctuations in global ethanol demand, which is driven by the use of biofuels and blending mandates in key markets such as the U.S. and EU. Competitive pressures from major producers, including Brazil and the U.S., influence pricing and market share. Furthermore, ethanol prices are inversely linked to global oil prices, with lower oil prices reducing the economic attractiveness of ethanol blending, thereby depressing demand. While domestic demand is currently limited to low-level fuel blends, the government's blending initiatives could gradually create a more stable local market, although near-term benefits remain uncertain.

Going forward, sector performance is expected to be shaped by lower international ethanol prices and tighter feedstock availability. Molasses supply is expected to constrain operations as additional domestic distillation capacity is commissioned, independent of annual crop outcomes, increasing feedstock costs and potentially limiting utilization. Distillery margins are likely to narrow, with cash generation and returns on new projects under pressure; continued debt-funded expansion could raise leverage without commensurate cash flow. Regulatory changes—including adjustments to EU tariffs and local ethanol-blending policy—may alter export realizations, domestic demand, and product mix. The sector risk profile will continue to reflect agricultural yield variability, input-cost volatility, exposure to global markets, and policy settings, with credit outcomes driven by feedstock procurement, pricing pass-through, working-capital discipline, and the development of domestic consumption channels. Installed ethanol capacity in Pakistan is estimated at about 4.13 million litres per day; further additions would intensify raw-material constraints unless supported by higher cane throughput or improved molasses yields.

A further challenge is the industry's working capital intensity. Mills carry large sugar inventories for months to benefit from seasonal price increases. This practice extends cash conversion cycles to 150–180 days and leads to heavy reliance on short-term bank borrowings, which become particularly burdensome in high-interest rate environments.

Lastly, the industry faces exposure to global market dynamics. International sugar prices are volatile, shaped by major producers like Brazil, India, and Thailand. While ethanol exports provide diversification and earn foreign exchange (Pakistan exports over 600,000 tons annually), their scale is limited by molasses supply, which depends on sugar output.

The industry's risks are rooted in climatic variability, regulatory pricing, high working capital needs, and global market dependence. Ethanol exports and diversification into allied segments provide partial stability, but overall, business risk remains on the higher side compared to most other local manufacturing sectors.

OPERATIONAL UPDATE:

Production Capacity and Utilization	MY23A	MY24A	MY25A
Sugar			
Installed Capacity	2,372,000	3,072,000	2,408,000
Actual Production	1,560,944	1,751,434	1,237,813
Utilization (%)	**65.81%**	**57.01%**	**51.4%**

Total Days Actual Crushing	87	68	86
Total Sugar Made (M tons)	143,392	149,601	99,077
Recovery Sugar %	**9.2**	**8.6**	**8.0**
Recovery Molasses %	**7.2**	**5.1**	**4.9**
Ethanol			
Installed Capacity	108,000.00	108,000.00	108,000
Actual Production	49,734.00	33,717.00	46,917
Utilization (%)	**46.05%**	**31.22%**	**43.4%%**
Steel Billet			
Installed Capacity	-	108,000.00	108,000
Actual Production	-	10,879.00	3,481
Utilization (%)	-	**10.07%**	**3.2%**

MSML has installed capacities across sugar, ethanol, and steel. However, actual output continues to lag behind potential due to supply-side constraints and the early stages of new projects. The Company's installed cane-crushing capacity is 33,000 tons per day, though equipment bottlenecks limit its effective capacity to about 28,000 tons per day (up from 26,000 previously).

In MY24, MSML crushed 1.75 million tons of sugarcane, compared with 1.56 million tons in MY23. Despite the higher volume, capacity utilization declined to 57% of effective capacity from 66% in MY23, reflecting the increase in installed capacity during MY24. Sucrose recovery, which had remained steady at 9.2–9.3% between FY21 and FY23, fell sharply to 8.54% in MY24 due to sugarcane quality issues following flood damage resulting in weaker sucrose content, and unfavorable weather conditions in Punjab. The MY25 suggest no meaningful improvement, keeping sugar output and profitability under pressure. Nonetheless, higher average sugar prices in FY25 have partly offset the impact of lower sucrose recoveries and decline in cane crushing volumes due to reduced rainfall and high temperatures during key growth stages.

Ethanol production peaked in FY22 at 74,759 tons (69% utilization), supported by strong molasses availability. Since then, output has dropped significantly, reaching 33,717 tons in FY24 (~31% utilization), largely due to lower molasses recovery. While ethanol remains a high-margin product (gross margins above 40% in 6MFY25), growth is constrained by molasses availability. Management had previously considered pivoting more heavily toward ethanol, but recent weakness in global markets—particularly following GSP-related issues—has reduced the near-term viability of this strategy.

The steel division marks MSML's diversification into year-round operations, mitigating dependence on the seasonal sugar production. The billets plant, commissioned in MY24 with a capacity of 108,000 tons per annum, produced 10,879 tons in its first year (~10% utilization). Low initial output is typical of start-up phases, reflecting commissioning delays, ramp-up challenges, and the time required to build a customer base. The unit reported losses in FY24 due to low volumes and overhead absorption, but billet sales now provide an additional revenue stream.

A key operational strength lies in MSML's 70-megawatt in-house power generation. Of this, around 20 megawatts are consumed by the sugar unit, 7–8 megawatts by the steel mill, and 2–3 megawatts by the oil refinery, leaving roughly 30 megawatts surplus. Although regulatory restrictions prevent selling excess power to external buyers, captive generation substantially reduces energy costs and ensures operational independence compared to industry peers reliant on external supply.

The Company also operates a polypropylene (PP) bag plant with a daily capacity of 45,000 bags, which is consumed entirely internally.

Overall, MSML's operational profile reflects both challenges and strengths. While cane availability, weaker recoveries, and underutilization in sugar and ethanol constrain volumes, the Company benefits from stronger sugar pricing, high ethanol margins, increasing billet production, cost efficiencies from in-house power generation, and packaging self-sufficiency. These synergies enhance MSML's resilience in a volatile and highly regulated industry environment.

PROFITABILITY:

MSML's revenue and gross profit have grown in MY24; however, the Company's bottom line remained constraint due to rising borrowing costs for working capital needs. In MY24, net sales increased by 10.8% compared to MY23, driven primarily by higher average sugar prices and additional sales from steel segment. Gross margin was also recorded higher at 17.9% (MY23: 17.1%).

Despite stronger gross margins and lower operating expenses, net profit declined sharply to PKR 222 million in MY24 (MY23: PKR 817 million); primarily attributable to a surge in finance costs, which rose to PKR 2.5 billion in MY24 (MY23: PKR 1.7 billion). This increase was driven by higher short-term borrowings to finance inventory, coupled with elevated market interest rates.

In 1HMY25, the Company's net sales declined by 21.8% compared to the same period last year, primarily due to a significant reduction in ethanol sales to PKR 5.1 billion (1HMY24: PKR 8.7 billion) and in steel sales to PKR 529.2 million (1HMY24: PKR 1.1 billion). Gross margin, however, improved to 17.5% (1HMY24: 12.2%), supported by better average selling prices of sugar and ethanol. Despite higher finance costs of PKR 1.0 billion (1HMY24: PKR 975.1 million), profit after tax rose to PKR 762.6 million (1HMY24: PKR 522.4 million), benefiting from the trickle-down effect of stronger margins.

Financial Risk

CAPITAL STRUCTURE

MSML's capital structure was under stress as of Mar'25 due to higher working capital requirements. Total debt rose to PKR 16.3 billion, with short-term borrowings making up the majority at PKR 14.0 billion, while long-term debt stood at PKR 2.3 billion. Equity improved slightly to PKR 11.0 billion on account of profit retention. Consequently, the Company's gearing and leverage ratios deteriorated to 1.48x (Sept'24: 1.03x) and 1.67x (Sept'24: 1.26x), respectively. These are expected to normalize by end of MY25 with the liquidation of sugar inventories.

DEBT COVERAGE & LIQUIDITY:

Debt coverage improved in MY24 though remains modest given the higher debt burden. FFO rose to PKR 2.5 billion (MY23: PKR 1.2 billion), with the FFO-to-total debt ratio strengthening to 24.1% (MY23: 12.9%). The sharp rise in short-term debt in 1HMY25 has, however, strained the coverages. Debt Servicing Coverage Ratios (DSCR) stood at 1.38x in MY24 and is expected to remain above 1x in MY25.

Liquidity indicators remain stable. The current ratio was 1.20x (Mar'24: 1.22x) as of Mar'25. The Company's cash conversion cycle increased to 244 days, mainly because of sugar stockpiling, which will normalize by the end of MY25.

Financial Summary *Appendix I*

Balance Sheet (PKR Millions)	FY23A	FY24A	1HFY25M
Property, plant and equipment	10,225.26	11,094.18	10,683.06
Biological Asset	-	19.63	12.88
Stock-in-trade	2,099.06	2,532.27	12,803.23
Trade debts	4,967.59	5,218.08	4,005.42
Advances, deposits, prepayments and other receivables	2,371.50	3,821.25	988.82
Cash & Bank Balances	254.05	87.43	266.60
Other Assets	707.15	288.69	664.84
Total Assets	**20,624.61**	**23,061.53**	**29,424.85**
Creditors	348.38	518.91	489.01
Long-term Debt (incl. current portion)	3,241.13	2,770.80	2,333.71
Short-Term Borrowings	6,105.60	7,779.24	13,950.69
Total Debt	9,346.73	10,550.04	16,284.40
Other Liabilities	931.93	1,789.09	1,685.29
Total Liabilities	**10,627.04**	**12,858.04**	**18,458.70**
Paid up Capital	4,990.40	4,990.40	4,990.40
Revenue Reserve	4,503.17	4,709.11	5,471.75
Share Premium	504.00	504.00	504.00
Equity (excl. Revaluation Surplus)	9,997.57	10,203.51	10,966.15

Income Statement (PKR Millions)	FY23A	FY24A	1HFY25 M
Net Sales	22,950.35	25,437.01	14,170.02
Gross Profit	3,919.14	4,549.70	2,482.87
Operating Profit	2,747.44	3,758.04	1,941.47
Finance Costs	1,687.50	2,462.52	1,014.43
Profit Before Tax	767.57	996.69	927.05
Profit After Tax	817.13	221.88	762.64

Ratio Analysis	FY23A	FY24A	1HFY25M
Gross Margin (%)	17.08%	17.89%	17.52%
Operating Margin (%)	11.97%	14.77%	13.70%
Net Margin (%)	3.56%	0.87%	5.38%
Funds from Operation (FFO) (PKR Millions)	1,202.54	2,542.01	798.61
FFO to Total Debt* (%)	12.87%	24.09%	9.81%
FFO to Long Term Debt* (%)	37.10%	91.74%	68.44%
Gearing (x)	0.93	1.03	1.48
Leverage (x)	1.06	1.26	1.68
Debt Servicing Coverage Ratio* (x)	0.80	1.38	1.40
Current Ratio (x)	1.22	1.20	1.22
(Stock in trade + trade debts) / STD (x)	1.16	1.00	1.20
Return on Average Assets* (%)	4.35%	1.02%	5.81%
Return on Average Equity* (%)	9.05%	2.20%	14.41%
Cash Conversion Cycle (days)	113	110	244

Annualized, if required
A - Actual Accounts
P - Projected Accounts
M - Management Accounts

REGULATORY DISCLOSURES	**Appendix II**
Name of Rated Entity	Madina Sugar Mills Pvt Limited
Sector	Sugar
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
10/09/2025	A-	A2	Stable	Reaffirmed
08/13/2024	A-	A2	Stable	Reaffirmed
06/16/2023	A-	A2	Stable	Reaffirmed
02/24/2022	A-	A2	Stable	Reaffirmed
10/22/2020	A-	A2	Stable	Reaffirmed
07/24/2019	A-	A2	Stable	Reaffirmed
06/29/2018	A-	A2	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.
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Due Diligence Meetings Conducted

Name	Designation	Date
Mr. Muhammad Naeem	Group Chief Financial Officer (CFO)	10th Sept 2025