RATING REPORT

Almoiz Industries Limited (AMIL)

REPORT DATE:
March 04, 2020

RATING ANALYSTS:

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RATING DETAILS				
	Latest Rating		Initial Rating	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity	A-	A2	A-	A2
Rating Date	*27th Feb 2020*		*29th Oct 2018*	
Rating Outlook	Rating Watch Developing		Stable	
Outlook Date	*27th Feb 2020*		*29th Oct 2018*	

COMPANY INFORMATION	
Incorporated in 2005	**External auditors:** Rahman Sarfraz Rahim Iqbal Rafiq & Co. Chartered Accountants
Public (Unquoted) Limited Company	**Chairman of the Board/CEO:** Mr. Muhammad Shamim Khan
Key Shareholders (with stake 5% or more):	
Mr. Muhammad Shamim Khan – 39.3%	
Mrs. Qaiser Shamim Khan – 23.4%	
Mr. Nauman Ahmed Khan –18.6%	
Mr. Adnan Ahmed Khan – 14.9%	

APPLICABLE METHODOLOGY
VIS Entity Rating Criteria: Corporates (May 2019)
https://www.vis.com.pk/kc-meth.aspx

OVERVIEW OF THE INSTITUTION

Almoiz Industries Limited was incorporated as a public limited company in 2005 under the Companies Ordinance 1984. The company is primarily engaged in manufacturing & sales of sugar, deform bars & electricity by utilizing self-generated electricity.

Profile of the Chairman/CEO

Mr. Muhammad Shamim Khan serves as the Chairman of the Board and the Chief Executive Officer (CEO) of the company. He has over 45 years of experience in managing large manufacturing concerns. He has served thrice as the President of Multan Chamber of Commerce.

Financial Snapshot

Total Equity: end-FY19:Rs.6.00b; end-FY18:Rs. 5.59b; end-FY17: Rs. 6.17b

Assets: end-FY19: Rs 18.47b; end-FY18: Rs. 23.82b; end-FY17: Rs 16.79b

Profit/ (Loss) After Tax: FY19: Rs. 387m; FY18: Rs. (639m); FY17: Rs. 527m

RATING RATIONALE

Almoiz Industries Limited (AMIL) is part of an industrial conglomerate, 'Almoiz Group' engaged in the businesses of beverages, sugar manufacturing, steel melting, power generation & textile. The group companies include Naubahar Bottling Company (Pvt.) Limited, Almoiz Industries Limited, The Thal Industries Corporation Limited & Moiz Textile Mills Limited. AMIL is primarily engaged in manufacturing & sales of sugar, steel deform bars and electricity. The sugar production facility is based on multi-feed stock; the plant can use both sugarcane and beetroot as a raw material for manufacturing of sugar. The plant therefore remains operational for a relatively longer period from November to April on sugarcane and April to June on beetroot in comparison to conventional sugar mills that utilizes only sugarcane as raw material. AMIL has overall crushing capacity of 26,000 tons per day (tpd) with aggregate 19,000 tpd from sugarcane and 7,000 tdp from beetroot. The main products include refined white sugar, commercial sugar, Pepsi grade sugar and caster sugar. AMIL uses diffuser and falling film evaporator technology to save energy; surplus power generation is being utilized for the production of deform bars of various qualities in steel plant and sale of electricity to CPPA. The company's D.I Khan unit has a total power generation capacity of 43 MW out of which 12 MW is being supplied to steel plant. Moreover, Mianwali unit has a total power generation capacity of 36 MW out of which 15MW is being supplied to CPPA since Oct 2018. The ratings are constrained by cyclicality & price vulnerability in sugar sector & comparatively low debt coverages.

Shareholding mainly vested with sponsoring family with adequate experience in sugar sector

AMIL is a family owned company with majority shareholding vested with the sponsoring family. Mr. Muhammad Shamim Khan serves as the Chairman to the Board and also as the Chief Executive Officer (CEO) of the company. He has over 45 years of experience in managing large manufacturing concerns. He served thrice as the President of Multan Chamber of Commerce. Board of Directors of AMIL comprises 6 members, all being representatives of the sponsoring family. Board meetings are held at least on a quarterly basis.

Sales growth mainly on the back of both quantity and price increase of refined sugar while deform bar sales stood lower owing to slowdown in economic activity

During FY19, sales & profitability of the company has showcased improvement on the back of increase in revenues from sugar, rationalization of input costs and diversification in revenue stream. The net sales augmented to Rs. 20.1b (FY18: Rs. 11.8b, FY17: 12.7b) during FY19 with revenues from sugar representing 79% of sales followed by deform bars (12.6%), molasses (4%), power (3%), beet pulp (0.7%) and bagasse (0.7%). Revenue from sugar increased to Rs. 15.9b (FY18: Rs. 7.0b) during FY19 due to higher quantity of sugar sold along with better sugar prices. Although, the total sugar produced by the company reduced to 205,660 M.Tons (FY18: 251,829 M.Tons) during FY19, the company was able to sell 289,755 M.Ton of sugar (FY18: 146,744 M.Tons) due to sugar inventory available from last crushing season. The average price of sugar also increased to Rs. 54.5/Kg (FY18: Rs.48/Kg) during FY19 while the average sugarcane procurement price stood at Rs. 183/40Kg (FY18: Rs. 181/40Kg). Find below the details of crushing season of last two years:

Crushing Season	FY17-18	FY18-19
Sugarcane		
Unit I		
Sugarcane Crushed (M.Tons)	1,047,033	806,490
Recovery Rate (%)	9.91	10.76
Sugar Production (M.Tons)	103,801	86,776
Unit II		
Sugarcane Crushed (M.Tons)	1,080,405	611,070
Recovery Rate (%)	9.91	10.15

Sugar Production (M.Tons)	107,106	62,055
Sugar beet		
Sugar beet Crushed (M.Tons)	385,995	523,200
Recovery Rate (%)	10.60	10.86
Sugar Production (M.Tons)	40,922	56,829
Total Sugar		
Total Sugar Produced	**251,829**	**177,660**

The sales of deform bars is second major contributor of revenue during FY19 which decreased to Rs. 2.53b (FY18: Rs. 3.88b) during FY19. The main reason for lower deform bar sales is real estate sector with lower demand during FY19. As a result of that, the company reduced inventory levels of billets & deform bars to Rs. 578m (FY18: Rs. 1.01b) by end-FY19. The production of deform bars declined to 22,817 MT (FY18: 45,889 MT) while the company sold 26,240 MT (FY18: 44,160 MT) during FY19. The average selling price of deform bars increased during FY19 and recorded at Rs. 96,500/MT (FY18: Rs. 88,000/MT).

Steel Unit	FY18	FY19
Billets		
Plant Capacity (MT/Day)	150	150
No. of Days Operational	310	140
Capacity based on Operating Days (MT)	46,500	21,000
Actual Production (MT)	37,438	18,125
Capacity Utilization (%)	80.5	86.3
Deform Bars		
Plant Capacity (MT/Day)	556	556
No. of Days Operational	310	158
Capacity based on Operating Days (MT)	172,222	87,778
Actual Production	45,889	22,817
Capacity Utilization (%)	26.65	25.99

The company was able to produce extra electricity from bagasse of Unit II during FY19 which was sold to CPPA and earned revenue of Rs. 589m (FY18: Nil). Concentration among top 10 customers continues to remain moderate representing 27.1% (FY18: 26.2%) of the overall sales revenue. The concentration slightly increased on a timeline basis mainly on account of higher quantum sales to Coca Cola Beverages Pvt. Limited.

The company generated gross profit of Rs. 2,412m (FY18: Rs. 569m) during FY19 while gross profit margin improved to 12.0% (FY18: 4.8%) on the back of higher product prices. The operating expenses increased in line with growth in operations and stood at Rs. 704m (FY18: Rs. 449m). The major increase in operating expenses was witnessed in salaries, commission, freight and advertisement expenses. Income from other sources increased to Rs. 33.4m (FY18: 17.4m) mainly on account of gain on disposal of fixed assets. Financial expenses increased to Rs. 1.38b (FY18: Rs. 776m) on account of increase in average benchmark rates. The average interest rate for long term facility increased to 10.1% (FY18: 5.6%) while average rate for short term facility increased to 14.8% (FY18: 8.8%). The company posted net profit of Rs. 387m (FY18: Rs. 639m loss).

Total asset base stood lower owing to reduction in sugar & deform bars inventory while receivable days decreased despite increase in trade debts

Total asset base of the company declined to Rs. 18.5b (FY18: Rs. 23.8b; FY17: Rs. 16.8b) by end-FY19. The major decline was witnessed in stock in trade. The net fixed assets of the company increased to Rs. 10.9b (FY18: Rs. 10.3b). The company carried out CAPEX of Rs. 1.29b (FY18: Rs.

900m) during FY19 as new 132 kv Grid Station (Rs. 621m) was set up to sell 15 MW power to CPPA. In addition, the company installed new 26 MW Turbine (Rs. 467m) to increase power generation at DI Khan unit for sugarcane crushing and also made CAPEX of Rs. 239m at DI Khan unit for process efficiency. The stock in trade decreased to Rs. 3.31b (FY18: Rs. 8.87b) during FY19 which consists mainly of sugar & deform bars. Major reduction was observed in sugar inventory which decreased to Rs. 2.63b (FY18: Rs. 6.74b) while inventory of deform bars decreased to Rs. 578m (FY18: Rs. 1.01b). In addition, the inventory of molasses stood at Rs. 22m (FY18: Rs. 52m), inventory of bagasse stood lower at Rs. 20m (FY18: Rs. 367m) and inventory of steel billets stood lower at Rs. 42m (FY18: Rs. 303m). The trade debts of the company increased to Rs. 1.22b (FY18: Rs. 993m) though receivables days decreased to 22 days (FY18: 31 days) due to increase in sales. Loans & advances stood lower Rs. 614m (FY18: Rs. 832m) which consists of advances to farmers, contractors and suppliers. Trade deposits, prepayments & other receivables decreased to Rs. 284m (FY18: Rs. 793m) on account of lower amount related to Letter of credit, which stood at Rs. 138m (Rs. 456m). Cash & bank balances increased to Rs. 296m (FY18: Rs. 58m) by end-FY19.

Higher funds flows from operations had a positive impact on coverages while liquidity ratios, though improved, remained low

Funds from Operations (FFO) increased to Rs. 1.23b (FY18: Rs. 78m). Working capital requirements of the company decreased owing to lower inventory levels. FFO to long-term debt improved to 23.5% (FY18: 1.33%) during FY19 while FFO to total debt improved to 12.4% (FY18: 0.53%). The debt service coverage ratio also stood higher at 0.89x (FY18: 0.43x), though still considered low. The current ratio decreased to 0.84x (FY18: 0.99x) on account of considerable decrease in inventory. Inventory plus receivables to short term borrowing ratio also stood lower at 0.96x (FY18: 1.09x).

Improved leverage indicators with adequate equity base

Paid-up capital remained unchanged at Rs. 3.2b. Accounting for accumulated profits of Rs. 562m (FY18: Rs. 176m) and unsecured, interest free loan from Directors amounting Rs. 2.23b, total equity stood higher at 6.0b (FY18: Rs. 5.59b). The loan from associates under current liabilities amounting to Rs. 115m was repaid during FY19 and carried mark-up at the rate of 3MK+1%. Long term finance facilities reduced to Rs. 5.23b (FY18: Rs. 5.85b) on account of repayment of principal amounting to Rs. 1.53b (FY18: Rs. 1.12b) at end-FY19. Short term loan declined to Rs. 4.72b (FY18: Rs. 9.0b) by end-FY19 on account of reduction in sugar inventory. Given lower borrowings at end-FY19 in comparison to last year, debt leverage decreased to 2.1x (FY18: 3.3x) while gearing stood lower at 1.7x (FY18: 2.7x).

Future plans includes acquisition of ICSM Sugar Mills Limited in Australia by Almoiz Group

For FY20, there is no major CAPEX projected. Any increase in working capital requirements of AMIL are projected to be financed through mix of internal cash flows, short-term borrowings & payables while long-term debt is projected to decrease in FY20 owing to repayment of existing long-term facilities.

The 'Almoiz Group' has shown intentions to acquire 54% equity stake in "ISIS Sugar Mills Limited" in Australia with investment of $35 million (Australian dollar). The crushing capacity of the company is 10,000 tons per day. Three group companies of Almoiz Group namely 'Almoiz Industries Limited', 'The Thal Industries Corporation Limited' & 'Naubahar Bottling Company (Pvt.) Limited' will invest one third each of the total investment. However, the loan is planned to raise by a foreign company while the three group companies will provide their SBLC's against the loan. Hence, there will be no loan on the balance sheet of these group companies though it will appear as a contingent liability.

Room for improvement in the corporate governance:

Senior management team of the company comprises experienced resources having relevant experience in the industry. The positions of Chairman and CEO may be segregated as per corporate governance best practices.

Almoiz Industries Limited - Financials

Appendix I

BALANCE SHEET *(amounts in PKR millions)*	Sep 30, 2017	Sep 30, 2018	Sep 30, 2019
Non-Current Assets	9,952	10,302	10,920
Stock-in-Trade	3,005	8,872	3,315
Trade Debts	479	993	1,221
Loans and advances	1,055	832	614
Trade deposits, prepayments & other receivables	244	793	284
Taxes recoverable/adjustable	1,144	1,293	1,036
Other Assets	785	679	789
Cash & Bank Balances	132	58	296
Total Assets	16,796	23,822	18,475
Trade and Other Payables	1,575	2,916	2,030
Short Term Borrowings	3,149	9,009	4,728
Long-Term Borrowings *(Inc. current maturity)*	5,682	5,858	5,236
Total Bank Borrowing	8,831	14,867	9,964
Other Liabilities	218	441	481
Total Liabilities	10,624	18,224	12,475
Paid Up Capital	3,200	3,200	3,200
Total Equity including sponsors loan	6,172	5,598	6,000

INCOME STATEMENT	Sep 30, 2017	Sep 30, 2018	Sep 30, 2019
Net Sales	12,782	11,799	20,150
Gross Profit	1,180	569	2,412
Operating Profit	878	137	1,767
Profit Before Tax	527	(639)	387
Net Profit	513	(639)	387
FFO	1,077	78	1,231

RATIO ANALYSIS	Sep 30, 2017	Sep 30, 2018	Sep 30, 2019
Gross Margin (%)	9.2	4.8	12.0
Net Profit Margin (%)	4.0	(5.4)	1.9
Current Ratio	1.1	0.99	0.84
Net Working Capital	1,047	(180)	(1,447)
FFO to Long-Term Debt (x)	0.20	0.01	0.23
FFO to Total Debt (x)	0.12	0.005	0.12
Debt Servicing Coverage Ratio (x)	1.20	0.43	0.89
(Inventory + Receivables) / Short Term Debt	1.10	1.09	0.96
ROAA (%)	3.6	Negative	2.1
ROAE (%)	8.7	Negative	6.5
Debt Leverage (x)	2.1	3.3	2.1
Gearing (x)	1.5	2.7	1.7

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	Almoiz Industries Limited
Sector	Sugar
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	(see 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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Due Diligence Meetings Conducted	(see below)

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
10/29/2018	A-	A-2	Stable	Initial

Due Diligence Meetings Conducted

	Name	Designation	Date
1	Mr. Wasif Mehmood	CFO	18-Jan-2020
2	Mr. Anees Hassan	Manager Finance	18-Jan-2020