# RATING REPORT

# Almoiz Industries Limited (AMIL)

**REPORT DATE:**
February 01, 2021

**RATING ANALYSTS:**
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| RATING DETAILS | | | | |
|---|---|---|---|---|
| | Latest Rating | | Initial Rating | |
| **Rating Category** | **Long-term** | **Short-term** | **Long-term** | **Short-term** |
| **Entity** | A | A-2 | A- | A-2 |
| **Rating Outlook** | *Stable* | | *Rating Watch-Developing* | |
| **Rating Action** | Upgrade | | Maintained | |
| **Rating Date** | *1st Feb 2021* | | *27th Feb 2020* | |

## 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**

# Almoiz Industries Limited

## 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-FY20: Rs. 8.1b; end-FY19: Rs. 6.0b; end-FY18: Rs. 5.6b

**Assets:** end-FY20: Rs. 17.6b; end-FY19: Rs 18.5b; end-FY18: Rs. 23.8b

**Profit/ (Loss) After Tax**: FY20: Rs. 2.2b; FY19: Rs. 311m; FY18: Rs. (639m)

## RATING RATIONALE

Almoiz Industries Limited (AMIL) is part of an industrial conglomerate, 'Almoiz Group' engaged in the businesses of beverages, sugar, steel, power & textile. The group companies include Naubahar Bottling Company (Pvt.) Limited, AMIL, The Thal Industries Corporation Limited (TICL) and 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-feedstock; the plant can use both sugarcane and beetroot as a raw material to produce 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 25,000 tons per day (tpd) that is divided into sugarcane crushing capacity of 19,000 tpd and beetroot crushing capacity of 8,000 tdp. 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 utilized for the production of deform bars of various grades and direct 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 supplied to the 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.

Previously, 'Almoiz Group' was planning to acquire 54% equity stakes in "ISIS Sugar Mills Limited" in Australia with investment of $35 million (Australian dollar). Three group companies of Almoiz Group namely AMIL, TICL and Naubahar Bottling Company (Pvt.) Limited were to invest one-third each of the total investment and the loan was to be raised in Dubai while the three group companies were to provide their SBLC against the loan. However, the project has been abandoned due to delays and challenges in regulatory approval process.

**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.

**Impact of higher selling prices was subsided by reduction in volumetric sales of sugar and molasses due to lower production levels**
Total sugar production decreased to 189,126 tons (FY19: 205,660 tons; FY18: 251,829 tons) during FY20 as the impact of increased production from beetroot unit was more than offset by decline in production from both sugarcane units. Production from sugarcane units decreased to 127,694 tons (FY19: 148,831 tons; FY18: 210,907 tons) due to combined effect of lower quantities of sugarcane crushed amounting 1.25m tons (FY19: 1.42m tons; FY18: 2.13m tons) and lower sucrose recovery rate. Meanwhile, production from beetroot was recorded higher at 61,432 tons (FY19: 56,829 tons; FY18: 40,922 tons) as the company sliced 0.54m tons (FY19: 0.52m tons; FY18: 0.39m tons) of beetroot and attained higher recovery rate of 11.36% (FY19: 10.86%; FY18: 10.60%) during FY20.

Despite temporary disruption caused by the outbreak of COVID-19 and following lockdown situation, increase in production of steel unit was led by higher number of operating days amidst improving outlook of construction sector. The company produced 41,833 MT (FY19: 18,125 MT; FY18: 37,438 MT) of billets at higher capacity utilization rate of 107% (FY19: 86%; FY18: 81%) and also produced 37,279 MT of deformed bars (FY19: 22,817 MT; FY18: 45,889 MT) at capacity utilization of 25.8% (FY19: 26.0%; FY18: 26.7%) during FY20.

Net revenue of the company grew marginally to Rs. 20.7b (FY19: Rs. 20.2b; FY18: Rs. 11.8b) during FY20 as the impact of higher selling prices for the key products was largely offset by lower volumetric sales of sugar and molasses. Sugar remained the leading revenue deriver with 71% (FY19: 79%) contribution in overall mix, followed by steel billets and deformed rebar 20% (FY19: 13%), molasses 7% (FY19: 4%), power 1% (FY19: 3%), beet pulp 1% (FY19: 1%) and bagasse nil (FY19: 1%).

Revenue from sugar sales decreased to 14.7b (FY19: Rs. 15.9b; FY18: 7.0b) mainly on account of lower volumetric sales of 218,153 tons (FY19: 289,755 tons; FY18: 146,744 tons), though average selling price improved to Rs. 67 per kg (FY19: Rs. 55 per kg; FY18: Rs. 48 per kg) during FY20. However, revenue from molasses sales increased to Rs. 1.4b (FY19: Rs. 843m; FY18: Rs. 705m) due to significantly higher selling price of Rs. 19,463 per ton (FY19: Rs. 9,459 per ton; FY18: Rs. 6,172 per ton) despite lower volumetric sales of 72,575 tons (FY19: 89,144 tons; FY18: 114,302 tons) during FY20. Revenue from sale of billets and deformed rebar increased to Rs. 4.2b (FY19: Rs. 2.5b; FY18: Rs. 3.9b) due to combined effect of increased volumetric sales of 46,732 tons (FY19: 29,307 tons; FY18: 48,921 tons) and higher average selling price of Rs. 89,037 per ton (FY19: Rs. 86,431 per ton; FY18: Rs. 79,312 per ton). Revenue from sale of electricity to the national grid, however, decreased to Rs. 258m (FY19: Rs. 589m; FY18: nil) owing to non-availability of bagasse.

Increase in selling prices of key products positively impacted the bottom-line and resulted in improved gross profit margins. During FY20, the company generated gross profit of Rs. 4.0b (FY19: Rs. 2.4b; FY18: Rs. 569m) as gross margin improved to 19.4% (FY19: 12.0%; FY18: Rs. 4.8%). Operating expense increased to Rs. 843m (FY19: Rs. 729m; FY18: Rs. 449m) as the impact of decline in distribution expenses to Rs. 259m (FY19: Rs. 362m; FY18: Rs. 208m) in the absence of sugar exports was more than offset by higher administrative expenses of Rs. 464m (FY19: Rs. 347m; FY18: Rs. 241m) and other expenses of Rs. 120m (FY19: Rs. 20m; FY18: nil) which mainly pertained to WPPF. Financial charges stood at Rs. 1.3b (FY19: Rs. 1.4b; FY18: Rs. 776m). Accounting for a tax benefit, the company reported significantly higher net profit of Rs. 2.2b (FY19: Rs. 311m; FY18: -639m) during FY20.

**Largely stable asset in the absence of any major capex**

Total assets of the company decreased to Rs. 17.6b (FY19: Rs. 18.5b; FY18: Rs. 23.8b) mainly on account of decrease in stock-in-trade by end-FY20. Non-current assets decreased to Rs. 10.4b (FY19: Rs. 10.9b; FY18: Rs. 10.3b) while maintenance capex amounted to Rs. 244m (FY19: Rs. 1.3b; FY18: Rs. 975m) as no enhancement of production units was carried out during FY20.

Stock-in-trade decreased to Rs. 1.9b (FY19: Rs. 3.3b; FY18: Rs. 8.9b), which mainly pertained to sugar inventory of Rs. 1.4b (FY19: Rs. 2.6b; FY18: Rs. 6.7b) and deformed bars of Rs. 121m (FY19: Rs. 578m; FY18: Rs. 1.0b). In line with the revenue, trade receivables increased slightly to Rs. 1.3b (FY19: Rs. 1.2b; FY18: Rs. 993m), representing 6% (FY19: 6%; FY18: 8%) of net revenue at end-FY20. Loans & advances amounted to Rs. 583m (FY19: Rs. 671m; FY18: Rs. 832m) which mainly consists of advances to farmers, contractors and suppliers. Adjustable tax increased to Rs. 1.5b (FY19: Rs. 1.1b; FY18: Rs. 1.3b) was mainly an outcome of higher tax deducted at source while trade deposits, prepayments & other receivables increased to Rs. 373m (FY19: Rs. 284m; FY18: Rs. 793m). Cash & bank balances amounted to Rs. 628m (FY19: Rs. 296m; FY18: Rs. 58m).

**Notable increase in cash flows generation led to improved coverages**

During FY20, the liquidity profile of the company largely improved in line with profitability. Current ratio was recorded higher at 1.29x (FY19: 0.84x; FY18: 0.99x) mainly on account of reduction in short-term borrowings by end-FY20 while inventory plus receivables to short-term borrowings ratio increased to 1.50x (FY19: 0.95x; FY18: 1.09x). Funds from operations (FFO) increased to Rs. 2.6b (FY19: Rs. 1.2b; FY18: Rs. 78m). Resultantly, FFO to long-term and FFO to total debt ratios improved to 0.59x (FY19: 0.24x; FY18: 0.01x) and 0.40x (FY19: 0.13x; FY18: 0.01x) respectively during FY20. The debt service coverage ratio also stood higher at 1.80x (FY19: 0.90x; FY18: 0.43x).

**Improved leverage indicators with adequate equity base**

Paid up capital remained unchanged at Rs. 3.2b while equity base of the company augmented to Rs.

8.1b (FY19: Rs. 5.9b; FY18: Rs. 5.6b) on the back of profit retention. Sponsor loan amounting Rs. 2.2b (FY19: Rs. 2.2b; FY18: Rs. 2.2b) stayed intact. Total liabilities decreased to Rs. 9.6b (FY19: Rs. 12.6b; FY18: Rs. 18.2b) with the reduction in debt levels. Debt profile of the company has tilted towards long-term debt which accounted for 68% of overall debt mix at end-FY20. Long-term borrowings stood lower at Rs. 4.5b (FY19: Rs. 5.2b; FY18: Rs. 5.9b) with the scheduled repayments while short-term borrowings decreased to Rs. 2.1b (FY19: Rs. 4.7b; FY18: Rs. 9.0b) as a result of reduced inventory levels.

During FY20, the company availed principal deferment of Rs. 1.3b under the SBP's COVID-19 relief program, and mobilized subsidized long-term of Rs. 297m for the payment of staff salaries; the loan is repayable in 10 quarterly installments and carries markup rate 3% per annum. With the reduction in debt levels and growth in equity base, gearing and debt leverage improved to 0.82x (FY19: 1.68x; FY18: 2.66x) and 1.19x (FY19: 2.12x; FY18: 3.26x), respectively, by end-FY20. Given no major capex plan and mobilization of long-term borrowings, the leverage indicator are expected to improve steadily on account of debt repayment and internal capital generation.

Almoiz Industries Limited Annexure I

| FINANCIAL SUMMARY *(amounts in PKR millions)* | | | |
|---|---|---|---|
| **BALANCE SHEET** | **FY18** | **FY19** | **FY20** |
| Non-Current Assets | 10,302 | 10,872 | 10,391 |
| Stock-in-Trade | 8,872 | 3,321 | 1,890 |
| Trade Debts | 993 | 1,185 | 1,288 |
| Loans and advances | 832 | 671 | 583 |
| Trade deposits, prepayments & other receivables | 793 | 284 | 373 |
| Taxes recoverable/adjustable | 1,293 | 1,062 | 1,523 |
| Other Assets | 679 | 789 | 971 |
| Cash & Bank Balances | 58 | 300 | 628 |
| Total Assets | **23,822** | **18,484** | **17,647** |
| Trade and Other Payables | 2,916 | 2,099 | 2,582 |
| Short Term Borrowings | 9,009 | 4,725 | 2,116 |
| Long-Term Borrowings *(Inc. current maturity)* | 5,858 | 5,236 | 4,498 |
| Total Bank Borrowing | 14,867 | 9,961 | 6,614 |
| Other Liabilities | 441 | 505 | 385 |
| Total Liabilities | 18,224 | 12,565 | 9,581 |
| Total Equity *(Inc. sponsor loan)* | 5,598 | 5,920 | 8,066 |
| Paid Up Capital | 3,200 | 3,200 | 3,200 |
| | | | |
| **INCOME STATEMENT** | **FY18** | **FY19** | **FY20** |
| Net Sales | 11,799 | 20,151 | 20,713 |
| Gross Profit | 569 | 2,427 | 4,018 |
| Operating Profit | 137 | 1,763 | 3,218 |
| Profit Before Tax | (639) | 382 | 1,952 |
| Net Profit | (639) | 311 | 2,170 |
| FFO | 78 | 1,231 | 2,644 |
| | | | |
| **RATIO ANALYSIS** | **FY18** | **FY19** | **FY20** |
| Gross Margin (%) | 4.8 | 12.0 | 19.4 |
| Net Profit Margin (%) | (5.4) | 1.9 | 10.5 |
| Current Ratio | 0.99 | 0.84 | 1.29 |
| Net Working Capital | (180) | (1,447) | 1,614 |
| FFO to Long-Term Debt (%) | 0.01 | 0.24 | 0.59 |
| FFO to Total Debt (%) | 0.01 | 0.13 | 0.40 |
| Debt Servicing Coverage Ratio (x) | 0.43 | 0.90 | 1.21 |
| (Inventory + Receivables) / Short-Term Debt | 1.09 | 0.95 | 1.50 |
| ROAA (%) | n.m | 1.5 | 12.0 |
| ROAE (%) | n.m | 5.4 | 31.0 |
| Debt Leverage (x) | 3.3 | 2.1 | 1.8 |
| Gearing (x) | 2.7 | 1.7 | 0.82 |

**FY20 based on Management Accounts*

## 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** | Almoiz Industries 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** | | | | |
| | 2/01/2021 | A | A-2 | Stable | Upgrade |
| | 2/27/2020 | A- | A-2 | Rating Watch-Developing | Maintained |
| | 10/29/2018 | 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. Wasif Mahmood | CFO | December 11, 2020 | | |
| | Mr. Farhan Ahmed | Manager Accounts | December 11, 2020 | | |