RATING REPORT

Almoiz Industries Limited

REPORT DATE:

September 13, 2024

RATING ANALYSTS:

Saeb Muhammad Jafri
saeb.jafri@vis.com.pk
Fatima Asif
fatima.asif@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
Outlook/Rating Watch	Stable		Stable	
Rating Action	Reaffirmed		Reaffirmed	
Rating Date	*September 13, 2024*		*August 02, 2023*	

COMPANY INFORMATION	
Incorporated in 2005	**External auditors:** Rahman Sarfraz Rahim Iqbal Rafiq & Co. Chartered Accountants
Public (Unquoted) Limited Company	**Chief Executive Officer:** Mr. Muhammad Shamim Khan
Key Shareholders (with stake 5% or more):	
Mr. Muhammad Shamim Khan – 40.8%	
Mrs. Qaiser Shamim Khan – 23.4%	
Mr. Nauman Ahmed Khan –32.4%	

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

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

Profile of 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.

RATING RATIONALE

Company Profile.

Almoiz Industries Limited ('AMIL' or 'the Company'), incorporated in Pakistan on May 5, 2005, is an unlisted public company engaged in the seasonal manufacturing of sugar and allied products from sugar beet and sugarcane. The Company also produces dehydrated food items and deform bars, utilizing in-house generated power. Almoiz operates plants in Dera Ismail Khan (Sugar Unit-I, Steel Unit, and dehydration unit) and Mianwali (Sugar Unit-II and Food Unit), with its head office and a branch office in Lahore. AMIL specializes in the manufacturing and sale of sugar and steel deform bars. Its sugar production facility is designed to handle both sugarcane and beetroot. The sugar mills operate from November to April on sugarcane and from April to June on beetroot, compared to conventional mills that use only sugarcane.

Group Profile

Almoiz Industries Limited (AMIL) is a part of the Almoiz Group, which operates in beverages, sugar, steel, power, and textiles. The group's other companies include Naubahar Bottling Company (Pvt.) Limited – the largest franchiser of Pepsico in Pakistan, The Thal Industries Corporation Limited (TICL) – sugar mills and an IPP, Wiztec Food Solutions (Private) Limited and Moiz Textile Mills Limited – a spinning mill. The group is the sole producer of sugar from beetroot in Pakistan.

Operational Performance:

Sugar Division:

Crushing Season	MY22	MY23	1HMY24
Sugarcane			
Installed Crushing Capacity (TPD)	19,000	21,000	22,000
Operating days of crushing	133	104	101
Capacity on the basis of Operating Days	2,607,000	2,285,000	2,224,000
Sugarcane Crushed (tons)	1,989,943	2,017,425	1,995,263
Percentage of Capacity Attained	76%	88%	90%
Sugar Production (tons)	207,292	214,670	199,576
Sucrose Recovery Rate	10.42%	10.64%	10.0%
Molasses Produced	45,641	84,901	84,871
Molasses Recovery	2.3%	4.2%	4.3%
Sugar Beet			
Installed Crushing Capacity (TPD)	8,000	14,000	14,000
Operating days of slicing	78	50	50
Capacity on the basis of Operating Days	840,000	812,000	806,000
Beet sliced (tons)	625,726	695,229	703,208
Percentage of Capacity Attained	74.5%	85.6%	87.2%
Sugar Production (tons)	73,998	83,365	80,591
Sucrose Recovery Rate	11.8%	11.99%	11.5%
Molasses Produced	13,227	22,077	23,146
Molasses Recovery	2.11%	3.18%	3.29%
Total Sugar Produced			
Total Sugar Produced	**281,290**	**298,035**	**280,167**
Total Molasses Produced	58,868	106,978	108,017

The Company manufactures sugar from sugarcane during the crushing season, which runs from November to March, and from sugar beet during the slicing season, which takes place from April to June.

Sugarcane (Unit 1 and 2 combined)

The installed crushing capacity of the plants increased to 22,000 TPD in the MY24 crushing season (MY23: 21,000 TPD) due to the machinery upgradations. However, the quantity of sugarcane crushed decreased slightly by 1.1% due to sugar cane availability issues arising from competition amongst the sugar mills for cane procurement. Resultantly, crushing season reduced to 101 days (MY23: 104 days, MY22: 133 days) in MY24. Additionally, there was a slight decline in the sucrose recovery rate during the recent crushing season, indicating a reduction in cane quality and drop in production of sugar to 199,576 tons (MY23: 214,670 tons) in MY24. The production of molasses from sugarcane in MY24 decreased slightly by 0.04% to 23,146 tons (MY23: 22,077 tons), though the molasses recovery rate improved to 4.3%.

Sugar Beet (Unit 1 and 2 combined)

The installed slicing capacity remained unchanged at 14,000 TPD during the MY24 slicing season. The quantity of sugar beet sliced increased by 1.15% to 703,208 tons (MY23: 695,229 tons) in MY24, while the slicing days remained unchanged. The sugar production however declined in the MY24 season to 80,591 tons (MY23: 83,365 tons) with decline in sucrose recovery rate to 11.50% (MY23:11.99%) in MY24. The aggregate quantity of sugar produced from both cane and beet in MY24 decreased by 6% to 280,167 tons (MY23: 298,035 tons).

The production of molasses from beet in MY24 improved by 5% to 23,146 tons (MY23: 22,077 tons) given improvement in molasses recovery rate to 3.29%. The total amount of molasses produced from both sugarcane and beetroot increased to 108,017 tons (MY23: 106,978 tons).

Steel Division:

Steel Unit	MY22	MY23	1HMY24
Billets			
Plant Capacity (MT/ Day)	430	430	430
No. of dats Operational	330	269	161
Capacity based on Operating days (MT)	141,900	115,670	69,230
Capacity Utilization (%)	44%	52%	55%
Actual Production	62,363	60,338	38,399
Deformed Bars			
Plant Capacity (MT/ Day)	556	556	556
No. of dats Operational	328	268	161
Capacity based on Operating days (MT)	182,368	149,008	89,516
Actual Production	57,764	55,729	34,976
Capacity Utilization (%)	32%	37%	39%

The installed capacities for billets and deformed bars remained unchanged in MY23 and 1HMY24 at 430 MT/day and 556 MT/day, respectively. The billet requirement for the steel bars plant was fully met through in-house production. Decline in overall production was mainly due to limited scrap availability, further impacted by economic challenges and a slowdown in the construction sector, leading to reduced demand for construction materials and lower steel production.

Key Rating Divers:

The business risk profile of the sugar industry is assessed as moderate. It is characterized by inelastic demand and minimal risk from substitute products, though

it operates within a highly fragmented market. The industry is notably seasonal and highly sensitive to variations in sugarcane production levels and quality.

The business risk profile of the sugar sector in Pakistan is considered as moderate, considering various factors that influence the sector's stability and performance. The sector demonstrates low exposure to economic cyclicality but is significantly affected by seasonal variations and fluctuations in sugarcane production and quality. This sensitivity is compounded by the inherent cyclicality in crop yields and raw material prices, which substantially impacts the sector's risk profile.

The competitive risk within the sugar sector is considered medium to low. The industry is marked by high fragmentation, with approximately 90 sugar mills organized under the Pakistan Sugar Mills Association (PSMA). This fragmentation results in intense rivalry among producers, primarily driven by competition on factors such as quality, availability, and delivery, rather than pricing, since pricing differentiation is minimal.

Despite the high level of competition among sugar mills, the threat from substitute products is minimal. This is due to the essential nature of sugar, which reduces the risk of alternatives displaced in the market.

Demand for sugar remains relatively inelastic, supported by a growing population and favorable government export policies. However, the sector faces several challenges. Economic conditions, including the high discount rate increase finance costs, while rising sugarcane prices, inventory build-ups, and reduced crushing seasons further strain the industry. Additionally, the discrepancy between market-driven granulated sugar prices and government-regulated sugarcane prices adds complexity to the sector's financial dynamics. Recent stagnation in sugar prices underscores the sector's ongoing difficulties and contributes to a challenging outlook. Going forward, the continued increase in sugarcane prices, high policy rate and relatively stable sugar prices is expected to affect the margins.

Ratings also account for the high business risk profile inherent to the steel sector, which is marked by significant exposure to supply chain disruptions, intense competition, and rupee depreciation. This risk profile is particularly relevant given that the Company's steel segment contributes 34% to its topline.

Ratings also consider the risk profile of the steel industry, particularly given that a significant portion of the Company's revenue now stems from its steel segment. VIS assesses the business risk profile of the long steel industry as high. The sector faced considerable challenges in FY23, including escalating inflation, depreciation of the local currency, lower demand and dwindling foreign exchange reserves. Furthermore, the long steel industry in Pakistan is both highly fragmented and fiercely competitive, with over 300 melting and re-rolling mills, most of which operate in the unorganized sector. Only a select few companies are recognized as leading players in the market. The sector is also notably cyclical, with demand closely tied to the level of construction activity in the country and government spending on public sector development programs. Steel demand is driven by various industries, including construction and automotive. The economic slowdown in these sectors, influenced by factors such as poor economic conditions, currency depreciation, and rising inflation, has significantly reduced steel demand.

While there are indications of slight stabilization in the macroeconomic environment in FY24, ongoing challenges such as high energy costs, inflation, and elevated interest rates are expected to remain substantial issues to the industry's growth prospects in the near future.

The profitability profile shows improvement, however, margins expected to experience contraction with substantial inventory build-up and stagnated sugar prices in the country.

The topline grew by 26% in MY23, primarily due to increased prices of the Company's key products, sugar and steel. Steel's contribution to the overall revenue mix increased to 34% (MY22: 32%), with a 33% rise in price, while sugar sales grew by 11%. As the increase in sales revenue outpaced the manufacturing costs the gross margin increased to 16.40% (MY22: 13.40%) in MY23. Gross margins further increased to 28.20% in 1HMY24. However, margins are expected to normalize due to the pressure on costs arising from the holding costs of inventory, given the stagnant sugar prices and buildup of stock in trade.

Higher working capital requirement with inventory buildup, straining the capitalization profile with increased short-term debt drawdowns.

The Company's capitalization profile weakened further in MY23, with higher gearing and leverage ratios of 1.72x (MY22: 1.53x) and 2.66x (MY22: 2.28x), respectively, driven by increased short-term debt drawdown to finance inventory buildup. This trend persisted in 1HMY24, with gearing and leverage rising to 2.95x and 4.35x, respectively. However, leverage and gearing ratios are typically elevated at the half-year point in the sugar industry due to the seasonal accumulation of inventory following the cane crushing period, primarily funded through short-term debt, which temporarily increases these metrics.

Increased financial burden with higher debt drawdown also straining the coverage profile.

During MY23, the Company's financial burden exacerbated with increased debt utilization amid a high-interest rate environment. Consequently, Company's coverage metrics contracted. The debt service coverage ratio (DSCR) reduced to 1.03x (MY22: 1.24x) during the period; recovering slightly to 1.14x in 1HMY24, supported by higher gross margins during the period. The short-term debt coverage however reported adequate cushion of 1.28x (MY23: 1.31x) in 1HMY24, recovering from a low of 0.92x in MY22.

Adequate liquidity profile.

The Company's liquidity profile remained adequate with current ratio standing at 1.08x (MY22: 1.15x) in MY23. However, much of this liquidity is comprised of stock in trade with the cash conversion cycle inflating to 130 days (MY22: 54 days) in MY23. The current ratio remained adequate at 1.10x in 1HMY24.

REGULATORY DISCLOSURES — Appendix II

Name of Rated Entity	Almoiz Industries Limited (AMIL)
Sector	Sugar
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				
13-Sep-24	**A**	**A-2**	**Stable**	**Reaffirmed**
02-Aug-23	A	A-2	Stable	Reaffirmed
26-April-22	A	A-2	Stable	Reaffirmed
01-Feb-21	A	A-2	Stable	Upgrade
27-Feb-20	A-	A-2	Rating Watch-Developing	Maintained
29-Nov-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.
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Due Diligence Meetings

Name	Designation	Date
Mr. Wasif Mahmood	Group Chief Financial Officer	29/08/2024
Mr. Anees Hassan	Financial Controller	