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APPLICABLE METHODOLOGY(IES):
VIS Entity Rating Criteria Methodology – Corporate Rating
(https://docs.vis.com.pk/docs/CorporateMethodology.pdf)
Rating Scale:
(https://docs.vis.com.pk/docs/VISRatingScales.pdf)

Rs. Million	FY23A	FY24A	6MFY25M
Net Sales	44,706.85	50,194.70	29,248.27
Profit Before Tax	1,994.17	1,435.94	921.52
Profit After Tax	1,143.87	603.89	465.02
Paid up Capital	450.00	450.00	450.00
Equity (excl. Revaluation Surplus)	7,264.16	7,749.03	8,214.48
Total Debt	8,113.71	23,370.97	29,694.33
Leverage (x)	2.87	4.20	4.51
Gearing (x)	1.12	3.02	3.61
Funds From Operations (FFO)	2,159.37	2,270.09	415.63
FFO/Total Debt (x)	0.27	0.10	0.03
Net Margin (%)	3%	1%	2%

**Annualized, if required*
A - Actual Accounts
M - Management Accounts

SHEIKHOO SUGAR MILLS LIMITED

Chief Executive: Mr. Sheikh Aziz Ahmed

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	August 05, 2025		August 05, 2024	

RATING RATIONALE

The reaffirmation of entity ratings at ‘A-/A2’ with a ‘Stable’ outlook reflects the Company’s diversified operational base across two distinct business segments, each operating under differing risk profiles. While the steel segment remains exposed to cyclical demand and cost-side vulnerabilities, the sugar segment is characterized by seasonal volatility and regulatory exposure. Synergy between both operations is derived from internal energy generation, thus resulting in lower input costs. The currently elevated capitalization indicators are noted; however, these are expected to ease as seasonal inventory normalizes by end-MY25. Moreover, the equity injection of PKR 2.0 bln during the year is expected to largely set off the impact of higher debt drawdon due to distillery project. Liquidity and coverage metrics have remained around the minimum threshold levels. The ratings remain sensitive to improvement in covergaes and capitalization profile to be commensurate with the assigned ratings.

CORPORATE PROFILE

Sheikhoo Sugar Mills Limited (SSML or the Company), incorporated in 1990 as an unlisted public limited company, is primarily engaged in the manufacturing and sale of white refined sugar along with its by-products. In addition to its core operations, the Company has diversified into steel manufacturing through the establishment of a steel re-rolling mill, which commenced commercial operations on October 28, 2022. Further diversification is underway through the development of a distillery division intended for the production and sale of ethanol. The Company's head office and registered offices are based in Lahore, while its manufacturing facility is located in District Muzaffargarh, Punjab.

GROUP STRUCTURE

The Baksh Group of Companies ("the Group") was established in 1947 by four brothers: S.M. Maulabaksh, S.M. Iqbal, S.M. Anwar, and S.M. Ahmed. The Group commenced operations with cotton exports through United Cotton and Wool and subsequently expanded into the shipping sector by establishing United Oriental Steamship Co., which operated the largest fleet in Pakistan by 1959. Maritime operations were further extended through shipbuilding and repair capabilities developed in collaboration with Carstairs and Cummings Ltd.

Over time, the Group diversified into other sectors, including jute, textiles, and paints, with the establishment of United Paints (Pak) Ltd. in 1970. The Group later expanded into the sugar industry with the incorporation of Sheikhoo Sugar Mills Ltd., and most recently, entered the steel sector through Sheikhoo Steel, which is engaged in the production of billets and bars. Certain legacy businesses of the Group have since ceased operations.

GOVERNANCE

SSML operates as a public unlisted company. The Company's governance framework is overseen by a seven-member Board of Directors, comprising shareholders. The Company has Board-level committees on audit, risk management, and human resource for internal controls, risk management, and operational oversight.

INDUSTRY PROFILE & BUSINESS RISK

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. 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 FY23), sugar production declined to 6.5 MMT (FY23: 6.8 MMT) as recovery rates held steady at 10.23%. 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 FY24 as provincial governments implemented higher minimum support prices (MSP)—PKR 400 per 40 kg in Punjab and PKR 425 in Sindh. This particularly affected smaller mills with tighter cost margins. However, a significant policy shift is underway, with the discontinuation of MSP from the 2024–25 season in line with IMF conditionalities, signaling a transition to more market-based procurement mechanisms. Domestic sugar consumption remains relatively inelastic, recorded at 6.4 MMT in 2024, supported by steady population growth and demand from the food and beverage sector.

Despite lower production, carryover stocks of 0.766 MMT brought total availability to 6.562 MMT for 2024–25. An initial export quota of 750,000 MT was approved to manage the surplus, though actual shipments were delayed. Meanwhile, rising domestic prices—averaging PKR 143.92/kg in FY24 (FY23: PKR 115.97/kg) and currently ranging between PKR 165–170/kg—prompted the government to permit duty-free imports. After IMF objections, import volumes were scaled back to 50,000 tones. Most recently, a price-setting clause has been agreed which caps ex-mill prices at PKR 165/kg with incremental increases until October 2025. Further, the federal government has committed to allowing sugar exports only for stocks exceeding 7 MMT, comprising carryover and 2025–26 production, and only after 30 days from the close of the next crushing season. 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.

Steel

Ratings also consider the risk profile of the steel industry, with the Company's 40.02% (MY24: 54.16%, MY23: 56.87%) topline now primarily driven by its steel segment in 1HMY24. Pakistan's long steel (rebar) sector carries a Medium to High business risk, marked by cyclicality, cost vulnerabilities, and exchange rate exposure due to imported scrap reliance. The sector also faces intense competition in a fragmented market, limiting pricing power and exposing margins to input cost volatility.

In FY24, these risks intensified due to weak construction activity, rising production costs, and increased import competition. Rebar demand, closely linked to construction and infrastructure cycles, was dampened by sluggish economic growth, high inflation, and interest rates. Domestic steel demand rose marginally by ~1.8% YoY, as private projects slowed. However, signs of recovery emerged in FY25, with a policy rate cut to 11% by May 2025 supporting a 6.61% rise in construction output in 3QFY25, although overall real estate and construction grew only 3.8%

The industry remains fragmented, with hundreds of mills and moderate entry barriers. Oversupply and import liberalization post-FY24 have heightened competition and reduced cost pass-through ability. While substitution risk is low—

rebar is essential in construction—players compete for the same limited demand pool.

Regulatory shifts have been impactful. While import curbs eased in FY24 (improving scrap availability), the FY25 budget introduced tax reforms targeting untaxed regions (e.g., FATA/PATA), aiming for market parity. However, frequent policy changes in taxes, tariffs, and trade rules create business planning uncertainty.

Steel manufacturing is also capital- and energy-intensive, requiring high fixed investment and working capital. Elevated energy tariffs, power disruptions, and earlier record-high interest rates have raised operating costs and pressured cash flows.

Going forward, macroeconomic stabilization, lower finance costs, and government-backed housing/infrastructure initiatives may improve demand. Still, recovery depends on actual development activity and stable policy support. Until then, the sector's business risk remains elevated, given persistent cyclicality, competition, regulatory uncertainty, and cost pressures.

Operational Profile

Sugar Segment	Units	MY23A	MY24A	MY25A
Crushing Capacity	TPD	25,000	25,000	25,000
Crushing Period in days	Numbers	101	103	102
Cane Crushed	Tons	1,939,704	1,986,317	1,591,876
Sugar Production	Tons	210,728	202,676	152,244
Sucrose Recovery (%)	% Age	10.9%	10.2%	9.6%
Molasses Produced	Tons	88,450	88,360	71,105
Molasses Recovery Rate	% Age	4.6%	4.5%	4.5%
Steel Billet Segment	**Units**	**MY23A**	**MY24A**	**1HMY25**
Installed Capacity	Tons	150,000	150,000	75,000
Production	Tons	128,000	136,236	61,204
Capacity Utilization	% Age	85.3%	90.8%	81.6%
Re-Rolling Mill	**Units**	**MY23A**	**MY24A**	**1HMY25**
Installed Capacity	Tons	300,000	300,000	150,000
Production	Tons	102,910	124,733	55,197
Capacity Utilization	%	34.3%	41.6%	36.8%

Sugar Segment:

SSML operates with an installed crushing capacity of 25,000 tons of cane per day ('TCD'). During the MY24 crushing season, the Company's operational performance showed a minor increase in both crushing days, and the quantity of cane processed. This was driven by a bumper sugarcane crop during this season, leading to higher availability.

In the MY25 season, the Company's cane crushing declined by 19.9%, primarily due to a reduction in average sugarcane yield per acre in the region. The decline in yield was mainly due to environmental factors, including extended periods of high temperatures and reduced rainfall. These conditions also affected the quality of sugarcane, resulting in a lower sucrose recovery rate. Consequently, sugar production decreased by 24.9% in MY25.

Steel Segment:

In MY24, the Company's rolling operations were operational for the full year, following the commencement of commercial activity in mid part of MY23. During the period, capacity utilization reached levels comparable to established peers in the segment. This was partially supported by reduced operational activity at two of the larger steel manufacturers in the country, which allowed the Company to capture some market share.

FINANCIAL RISK

Profitability Profile

In MY24, SSML's net sales increased by 12.3% on a year-on-year (YoY) basis, supported by revenue growth in both the steel and sugar segments, with sugar alone contributing approximately 45.84% to net sales (MY23: 43.13%). The sugar segment recorded an increase in revenue primarily due to a rise in average selling prices, which offset the decline in sales volume. In the steel segment, higher sales volumes and improved pricing of steel bars in last quarter of MY24, contributed to the overall topline growth. Sugar prices increased to PKR 111.73 /kg (MY23: PKR 106.10/kg) and steel bar prices rose to PKR 251,760/MT (MY23: PKR 205,583/MT) in MY24.

Margin improvement in MY24 was primarily supported by better margins in steel segment due to higher margins in re-rolling coupled with lower energy cost. Operating cost efficiency was aided by the in-house bagasse-based power generation facility, which reduced reliance on external energy sources. However, an increase in finance costs—driven by elevated interest rates during the period—constrained overall profitability. Consequently, net margin declined to 1.2% in MY24 (MY23: 2.6%).

In 1HMY25, gross margin declined to 11.2% (13.4% in 1HMY24), primarily due to elevated inventory levels in the sugar industry during the early part of the year, which exerted downward pressure on sugar prices and constrained margins across the sector. Additionally, the steel segment's gross margins were adversely impacted by moderation in steel prices during the same period. Despite the decline in gross profitability, net margin remained stable at 1.6% (1.4% in 1HMY24), supported by a reduction in finance costs following a downward adjustment in policy rates.

Going forward, due to higher prices, margins are expected to remain strong further supported by reduction in interest rates. Improvement in profitability profile will remain important for ratings.

Capital Structure

At end-MY24, SSML's inventory levels remained elevated—mirroring broader industry behavior—as the Company stockpiled sugar in anticipation of price hikes. This strategic build-up kept short-term borrowing levels high at year-end. In the post-year-end period, while older inventory was gradually liquidated, short-term debt levels remained elevated through 1HMY25, reflecting fresh working capital requirements to procure sugar stock for the new crushing season.

In parallel, gearing metrics also reflect the additional drawdown of long-term debt to finance the Company's ongoing distillery project. The total project cost amounts to PKR 7.5 bln, of which PKR 5.5 bln is being financed through debt, with the remainder through equity contribution. Given this backdrop, capitalization indicators are expected to remain somewhat elevated in the medium term, until the distillery project reaches completion and begins contributing to earnings and cash flows.

Coverage & Liquidity:

In MY24, SSML's coverage profile weakened, reflected in the debt service coverage ratio (DSCR) declining to 1.0x (MY23: 1.3x) primarily due to increased financial burden emanating from higher debt utilization amid an elevated interest rate environment. In 1HMY25, despite lower operational margins and cashflows, the DSCR improved slightly to 1.2x, supported by a notable reduction in interest rates compared to the prior year, easing the financial burden.

Over the past several years, SSML's current ratio has averaged around 1.1x. The ratio has remained stable at 1.0x in MY23, MY24, and 1HMY25 at a minimum threshold level.

Financial Summary

Balance Sheet (PKR Millions)	MY23A	MY24A	1HMY25M
Property, plant and equipment	10,332.3	11,075.9	14,034.7
Stock-in-trade	8,247.0	17,159.7	19,348.2
Trade debts	5,835.4	6,580.5	4,747.8
Cash & Bank Balances	453.1	682.9	1,556.9
Other Assets	3,209.2	4,818.5	5,589.8
Total Assets	28,077.1	40,317.5	45,277.3
Creditors	4,099.5	930.3	2,140.2
Long-term Debt (incl. current portion)	3,398.5	2,699.6	5,117.7
Short-Term Borrowings	4,715.2	20,671.4	24,576.7
Total Debt	8,113.7	23,371.0	29,694.3
Other Liabilities	8,599.7	8,267.2	5,228.3
Total Liabilities	20,812.9	32,568.4	37,062.8
Paid up Capital	450.0	450.0	450.0
Revenue Reserve	5,904.2	6,389.0	6,854.5
Other Equity (excl. Revaluation Surplus)	910.0	910.0	910.0
Equity (excl. Revaluation Surplus)	7,264.2	7,749.0	8,214.5

Income Statement (PKR Millions)	MY23A	MY24A	1HMY25M
Net Sales	44,706.9	50,194.7	29,248.3
Gross Profit	6,650.5	7,979.8	3,285.2
Operating Profit	4,843.0	6,417.7	2,566.2
Finance Costs	2,848.8	4,981.8	1,644.6
Profit Before Tax	1,994.2	1,435.9	921.5
Profit After Tax	1,143.9	603.9	465.0

Ratio Analysis	MY23A	MY24A	1HMY25M
Gross Margin (%)	14.9%	15.9%	11.2%
Operating Margin (%)	10.8%	12.8%	8.8%
Net Margin (%)	2.6%	1.2%	1.6%
Funds from Operation (FFO) (PKR Millions)	2,159.4	2,270.1	415.6
FFO to Total Debt* (%)	26.6%	9.7%	2.8%
FFO to Long Term Debt* (%)	63.5%	84.1%	16.2%
Gearing (x)	1.1	3.0	3.6
Leverage (x)	2.9	4.2	4.5
Debt Servicing Coverage Ratio* (x)	1.3	1.0	1.2
Current Ratio (x)	1.0	1.0	1.0
(Stock in trade + trade debts) / STD (x)	3.3	1.2	1.1
Return on Average Assets* (%)	4.4%	1.8%	2.2%
Return on Average Equity* (%)	17.1%	8.0%	11.7%
Cash Conversion Cycle (days)	91.7	133.2	152.9

**Annualized, if required*

A - Actual Accounts

P - Projected Accounts

M - Management Accounts

REGULATORY DISCLOSURES	Annexure II
Name of Rated Entity	Sheikhoo Sugar Mills 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 Watch	Rating Action
RATING TYPE: ENTITY				
08/05/2025	**A-**	**A2**	**Stable**	**Reaffirmed**
08/05/2024	A-	A2	Stable	Reaffirmed
06/20/2023	A-	A2	Stable	Reaffirmed
02/03/2022	A-	A2	Stable	Reaffirmed
12/29/2020	A-	A2	Stable	Reaffirmed
11/11/2019	A-	A2	Stable	Reaffirmed
10/16/2018	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. Saqib Hameed	Group Chief Financial Officer	July 08, 2025
Mr. Ghulam Hussain	Group Manager Treasury	