SHEIKHOO SUGAR MILLS 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	November 20, 2026		August 05, 2025	

Shareholding (5% or More)	Other Information
Idrees Ahmed – 29.33%	Incorporated in 1990
Osman Aziz Anwar – 16.66%	Public Unlimited Company
Abdullah Aziz Anwar – 16.66%	Chief Executive Officer: Mr. Aziz A Anwar
Yousuf Anis Ahmed– 16.66%	External auditors: Kreston Hyder Bhimji & Co Chartered Accountants
Omer Anis– 16.66%	

Applicable Rating Methodology

VIS Entity Rating Criteria Methodology – Corporates Ratings
https://docs.vis.com.pk/Methodologies-2026/Corporate-Rating-2026.pdf

Rating Scale

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

Rating Rationale

The assigned ratings reflect Sheikhoo Sugar Mills Limited's ('SSML' or the 'Company') current standing in the sugar industry, supported by diversified operations across sugar and steel segments. However, the impact of the diversification is yet to be seen in the form of enhancement of margins. The Company's business profile benefits from its established presence in the sugar segment, while steel operations provide additional revenue diversification. However, operating performance remains exposed to variability in sugar recovery, input costs and steel pricing, although improved sugar pricing and recovery during 9MMY26 provided some support to overall performance.

The ratings also incorporate the Company's constrained financial risk profile, characterized by elevated leverage, significant reliance on short-term borrowings and substantial working capital requirements, particularly during the seasonal inventory buildup. While capitalization improved during MY25 following a reduction in borrowings, leverage increased materially during 9MMY26 due to a significant rise in short-term borrowings to meet higher working capital requirements, , exerting pressure on liquidity and debt-servicing capacity. Furthermore, ongoing investments in the extraction steam turbine generator set and ethanol distillery project entail additional funding and execution requirements with PKR 2.12bn in remaining distillery commitments to be funded through short-term borrowings, further pressuring leverage and liquidity.

Going forward, sustained profitability and cash flow generation, improvement in leverage, effective working capital management and successful execution of the ethanol distillery project will remain important from a ratings perspective.

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Company Profile

Sheikhoo Sugar Mills Limited incorporated in Pakistan 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. The Company operates a sugarcane crushing capacity of 25,000 TPD. In addition to its core sugar operations, SSML has diversified into steel manufacturing through its steel billet and re-rolling operations, with installed capacities of 150,000 tons and 300,000 tons, respectively. The Company also operates a distillery division engaged in the production and sale of ethanol. The Company's head office and registered offices are located in Lahore, while its manufacturing facility is situated in District Muzaffargarh, Punjab.

Sponsor Profile

The Baksh Group of Companies was established in 1947 by four brothers: S.M. Maulabaksh, S.M. Iqbal, S.M. Anwar, and S. Maqbool Ahmed. The Group has a diversified business history spanning sugar, steel, textiles, paints, and maritime activities.

Management and Governance

SSML is led by Mr. Aziz A. Anwar, Chief Executive, supported by an experienced management team responsible for day-to-day operations and execution of the Company's strategic objectives. Governance oversight is provided by a seven-member Board of Directors, including three female directors. The Board has constituted an Audit Committee and a Human Resources & Remuneration Committee to support oversight of financial reporting, internal controls, audit matters, and human resource and remuneration policies. The Company also maintains a formal remuneration policy for Directors and senior management, approved by the Board.

Industry Profile & Business Risk

Sugar

The business risk profile of Pakistan's sugar industry remains medium, reflecting structural seasonality, high regulatory sensitivity, and persistent cost pressures, despite signs of production recovery. During the 2024–25 crushing season, national sugar output declined to 5.77 million metric tons (MMT) from 6.8 MMT a year earlier, primarily due to lower sucrose recovery caused by adverse weather conditions. The government's decision to permit exports in 2023 and early 2024 allowed exporters to benefit from favorable international prices; however, this resulted in low carryover stocks entering the 2024–25 crushing season. Combined with below-expected production, this contributed to a sharp increase in retail sugar prices, which reached PKR 165–170/kg by mid-2025 and peaked near PKR 180/kg. Policy risk remains elevated, as reforms introduced under the IMF program, including the removal of the minimum support price, have heightened market exposure for both growers and mills.

Sugar production for the 2025–26 crushing season is reported at around 7.5 MMT, while domestic consumption is around 6.5 MMT, indicating an excess stock of approximately 1.0 MMT. Improved sucrose recovery has also supported lower production costs. However, the higher production outlook and resulting surplus stocks have exerted downward pressure on sugar prices, constraining mills' realizations and profitability. In September 2026, the ECC approved the export of 200,000 MT of surplus sugar, following an assessment of domestic stocks and requirements; however, the approval was subsequently put on hold by the Public Accounts Committee pending its recommendations, highlighting the continued regulatory uncertainty surrounding sugar exports. Elevated input costs, including energy, fertilizer and transport, along with water scarcity and its potential impact on cane yields and sucrose recovery, will continue to weigh on industry margins. Overall, the industry remains exposed to moderate but persistent business risk, with cyclical output and stable consumption, while structural inefficiencies, high working-capital intensity, and policy-driven volatility continue to constrain the operating environment.

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Steel

The overall business risk profile of Pakistan's long steel/rebar manufacturing sector is considered medium to high, reflecting its cyclical demand pattern, fragmented industry structure and sensitivity to input costs. Demand for rebar is closely linked to construction, infrastructure and real estate activity; accordingly, sector performance remains influenced by broader macroeconomic conditions, public development spending and private-sector investment. During FY25, demand remained under pressure due to subdued construction activity, elevated energy costs and weak affordability; however, operating conditions showed signs of improvement in FY26, supported by easing financing costs and some recovery in construction-related activity.

The sector remains exposed to volatility in imported scrap and billet prices, exchange rate movements and energy tariffs, given the energy intensive nature of steel manufacturing. Pricing power also remains constrained due to competition among organized and unorganized players, while excess capacity in the market continues to keep margins sensitive to demand fluctuations. Although substitution risk remains low, as steel rebar remains a key reinforcement material in construction, manufacturers continue to compete for the same construction-led demand pool.

Regulatory developments also remain relevant for the sector, particularly with respect to import duties, taxation of scrap transactions, regional tax exemptions and energy pricing. While recent policy measures have aimed to improve documentation and create a more level playing field for formal steel manufacturers, frequent changes in duties, taxes and energy tariffs continue to add uncertainty to business planning. Sector performance will remain subject to the pace of recovery in construction activity, input cost trends, energy pricing and policy continuity.

Operational Update

Sugar Segment	Units	MY23A	MY24A	MY25A	MY26A
Crushing Capacity	TPD	25,000	25,000	25,000	25,000
Crushing Period in days	Numbers	101	101	88	114
Cane Crushed	Tons	1,939,704	1,986,317	1,591,876	2,064,147
Sugar Production	Tons	210,728	202,676	152,244	222,563
Sucrose Recovery (%)	% Age	10.90%	10.20%	9.69%	10.78%
Molasses Produced	Tons	88,450	88,360	76,038	92,967
Molasses Recovery Rate	% Age	4.60%	4.50%	4.78%	4.50%
Steel Billet Segment	**Units**	**MY23A**	**MY24A**	**MY25A**	**3QMY26**
Installed Capacity	Tons	150,000	150,000	150,000	150,000
Production	Tons	128,000	136,236	124,273	76,821
Capacity Utilization	% Age	85.30%	90.82%	82.85%	68.11%
Re-Rolling Mill	**Units**	**MY23A**	**MY24A**	**MY25A**	**3QMY26**
Installed Capacity	Tons	300,000	300,000	300,000	300,000
Production	Tons	102,910	124,733	111,753	69,601
Capacity Utilization	%	34.30%	41.60%	37.25%	30.86%

Sugar Segment

SSML operates with an installed sugarcane crushing capacity of 25,000 TCD. Operational performance improved during the season, supported by better cane availability and improved sucrose recovery, which increased to 10.78% from 9.69% in MY25. The extended crushing period and stronger recovery supported higher sugar production. Average sugarcane procurement prices increased to PKR 480 per maund from PKR 443 per maund in the preceding season.

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Steel Segment

The Company's steel operations comprise billet production and a re-rolling mill, with installed capacities of 150,000 tons and 300,000 tons, respectively. During 3QMY26, utilization moderated, particularly in the re-rolling segment, while billet operations remained comparatively better utilized. The Company continues to retain headroom across its steel capacities to scale production as market conditions improve. Average steel scrap procurement prices increased to USD 403/MT from USD 390/MT in the preceding year.

Profitability

During MY25, SSML's net sales increased by 13.0% YoY to PKR 56.7bn, primarily supported by higher sugar sales, increasing the segment's contribution to 58.9% of total revenue (MY24: 45.8%). Conversely, steel sales, comprising billet and rebar, declined despite higher sales volumes, mainly due to lower realized prices, reducing the segment's contribution to 41.1% from 54.2% in MY24. Despite topline growth, gross margin contracted to 10.8% (MY24: 15.9%), primarily reflecting higher sugar production costs amid weaker sucrose recovery and increased sugarcane procurement prices, alongside margin pressure in the steel segment due to higher scrap procurement costs. Higher employee-related expenses, which increased by 22% YoY, further contributed to cost pressures. Lower operating expenses, higher other income, including income from scrap sales, and a 40.7% decline in finance costs to PKR 2.95bn (MY24: PKR 4.98bn) provided some support to earnings. However, these benefits were insufficient to offset the decline in gross profitability and higher tax expense. The tax charge increased to PKR 1.44bn in MY25 from PKR 832mn in MY24, primarily reflecting higher super tax, deferred tax and prior-year tax adjustments, further constraining bottom-line performance. Consequently, net profit declined to PKR 393mn in MY25 from PKR 604mn in MY24.

During 9MMY26, net sales amounted to PKR 32.4bn, with sugar and steel contributing 51% and 49% of total revenue, respectively. Sugar segment performance benefited from improved selling prices, while higher molasses volumes provided additional support. Conversely, steel operations remained under pressure due to lower realized prices of both billets and rebar, coupled with lower sales volumes. Gross margin improved to 12.7%, primarily supported by better sugar pricing and recovery. Operating expenses remained relatively contained, while higher other income provided additional support to operating profitability. However, the benefit was partly offset by finance costs of PKR 2.44bn, reflecting continued reliance on short-term borrowings to finance working capital requirements. Furthermore, the effective tax rate remained elevated at 88.4%, absorbing a substantial portion of pre-tax earnings. Consequently, the Company reported a modest net profit of PKR 81mn during 9MMY26.

The steel segment has faced challenges, as the Company initially launched its products at lower prices to gain market share. The Company is now looking to revise its pricing strategy to improve margins in the segment.

Financial Risk

Capital Structure

During MY25, the Company's equity base strengthened to PKR 8.0bn from PKR 7.7bn, mainly due to retained earnings. The equity base includes PKR 910mn received as an advance against equity. Total borrowings declined to PKR 21.7bn at end-MY25 from PKR 23.1bn in MY24, reflecting lower utilization of short-term financing. Working capital requirements also moderated, with inventory declining to PKR 6.9bn from PKR 17.2bn in MY24, while trade receivables decreased to PKR 4.0bn from PKR 6.6bn, reflecting lower funds tied up in the operating cycle. Long-term borrowings stood at PKR 8.7bn, primarily utilized to finance the extraction steam turbine generator and ethanol distillery projects. The syndicate facility of PKR 5.5bn was almost fully utilized, with PKR 5.49bn drawn against remaining project commitments of PKR 2.1bn. Consequently, the long-term funding gap widened to PKR 3.5bn, indicating potential reliance on short-term borrowings to finance long-term assets. Capitalization indicators improved during the year, with gearing declining to 2.71x (MY24: 2.99x) and leverage decreasing to 3.36x (MY24: 4.20x), supported by lower overall borrowings.

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During 9MMY26, the Company's equity base moderated to PKR 7.3bn, primarily reflecting dividend payments of PKR 413mn and other comprehensive losses, including losses on the remeasurement of staff retirement benefits. Meanwhile, total borrowings increased significantly to PKR 34.5bn, primarily driven by higher utilization of short-term financing to support seasonal working capital requirements. The increase in working capital absorption reflects additional funds tied up in inventory of PKR 11.54bn and trade receivables of PKR 840mn during the period. Consequently, short-term borrowings increased to PKR 26.6bn by end-9MMY26. Long-term borrowings stood at PKR 8.4bn. The increased working capital requirements, alongside continued funding needs for ongoing projects, exerted further pressure on the Company's capitalization profile. Accordingly, gearing increased to 4.71x and leverage rose to 6.04x by end-9MMY26, reflecting a significant weakening in the overall capitalization structure.

Debt Coverage & Liquidity

During MY25, the Company's FFO remained under pressure, reflecting weaker profitability and elevated finance costs, which constrained internal cash generation. Nevertheless, debt servicing coverage improved to 1.20x (MY24: 1.05x), primarily supported by lower interest rates compared with the preceding year, which eased the finance cost burden. Liquidity indicators remained weak, with the current ratio declining to 0.88x (MY24: 0.97x), while stock-in-trade and trade receivables covered only 0.78x of short-term borrowings, reflecting limited liquidity headroom. However, the cash conversion cycle improved to 114 days (MY24: 133 days), primarily due to lower inventory holding and receivable days, indicating some improvement in working capital management.

During 9MMY26, debt servicing coverage moderated to 1.07x despite improved FFO, reflecting higher financing requirements and associated finance costs. The increase in accrued markup further highlighted pressure on cash flows. Liquidity indicators improved marginally, with the current ratio increasing to 0.90x and working capital coverage strengthening to 0.87x; however, both remained below comfortable levels. Meanwhile, the net operating cycle extended to 242 days, primarily reflecting seasonal inventory accumulation during the crushing season, which increased working capital requirements. Consequently, the Company continued to rely on short-term borrowings to finance its operating cycle, constraining its overall liquidity position.

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FINANCIAL SUMMARY					(Rs. in millions)
BALANCE SHEET	**MY22**	**MY23**	**MY24**	**MY25**	**9MMY26**
Property, plant and equipment	10,891	10,332	11,076	18,777	20,111
Stock-in-Trade	9,198	8,247	17,160	6,867	18,403
Trade Debts	1,520	5,835	6,580	3,957	4,797
Cash & Bank Balances	190	453	683	486	1,474
Total Assets	24,434	28,077	40,317	34,986	51,591
Trade Payables	495	4,099	930	894	2,900
Long Term Debt	4,380	3,349	2,489	7,892	7,899
Short Term Debt	9,469	4,715	20,671	13,814	26,604
Total Debt	13,849	8,064	23,160	21,706	34,504
Total Liabilities	18,297	20,813	32,568	26,968	44,264
Paid Up Capital	450	450	450	450	450
Total Equity	6,137	7,264	7,749	8,017	7,327
INCOME STATEMENT	**MY22**	**MY23**	**MY24**	**MY25**	**9MMY26**
Net Sales	29,591	44,707	50,195	56,738	32,380
Gross Profit	3,829	6,651	7,980	6,156	4,109
Operating Profit	3,060	4,843	6,418	4,794	3,139
Profit Before Tax	1,570	1,994	1,436	1,841	697
Profit After Tax	1,044	1,144	604	393	81
RATIO ANALYSIS	**MY22**	**MY23**	**MY24**	**MY25**	**9MMY26**
Gross Margin (%)	12.9%	14.9%	15.9%	10.8%	12.7%
Operating Margin (%)	10.3%	10.8%	12.8%	8.4%	9.7%
Net Margin (%)	3.5%	2.6%	1.2%	0.7%	0.3%
Funds from Operation (FFO)	1910.5	2159.4	2264.4	543.3	974.2
FFO to Total Debt*	0.14	0.27	0.10	0.03	0.04
FFO to Long Term Debt*	0.44	0.64	0.91	0.07	0.16
Gearing (x)	2.26	1.11	2.99	2.71	4.71
Leverage (x)	2.98	2.87	4.20	3.36	6.04
Debt Servicing Coverage Ratio* (x)	1.15	1.31	1.05	1.20	1.07
Current Ratio (x)	0.94	1.02	0.97	0.88	0.90
(Stock in trade + trade debts) / STD (x)	1.13	2.99	1.15	0.78	0.87
Return on Average Assets* (%)	5.7%	4.4%	1.8%	1.0%	0.2%
Return on Average Equity* (%)	17.9%	17.1%	8.0%	5.0%	1.4%
Cash Conversion Cycle (days)	86	92	133	114	242

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REGULATORY DISCLOSURES — Appendix II

Name of Rated Entity	Sheikhoo Sugar Mills Limited
Sector	Sugar
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings

Rating History

RATING TYPE: ENTITY

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
11/20/2026	A-	A2	Stable	Reaffirmed
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
11/07/2019	A-	A2	Stable	Reaffirmed
10/16/2018	A-	A2	Stable	Initial

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 Meeting Conducted

S.No.	Name	Designation	Date
1	Ghulam Hussain	Group Manager Treasury	07th Sep 2026
2	Haris Najeeb Dar	GM Accounts & Finance.	
3	Furqan Ahmad	DGM Accounts & Tax	

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