RATING REPORT

Alliance Sugar Mills (Private) Limited

REPORT DATE:
January 24, 2020

RATING ANALYSTS:
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RATING DETAILS

	Initial Rating	
Rating Category	**Long-term**	**Short-term**
Entity	A-	A-2
Rating Action	*Initial*	
Rating Outlook	Stable	
Rating Date	January 20 '20	

COMPANY INFORMATION

Incorporated in 2011	**External auditors:** Riaz Ahmad & Company Chartered Accountants
Private Limited Company	**Chairman/CEO:** Mr. Tarik Jawaid
Key Shareholders (with stake 5% or more): • RYK Mills Limited – 99.99%	

APPLICABLE METHODOLOGY(IES)

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

Alliance Sugar Mills (Private) Limited

OVERVIEW OF THE INSTITUTION

Alliance Sugar Mills (Private) Limited was incorporated in May, 2011 under the companies' ordinance, 1984 (now Companies Act, 2017). The manufacturing unit is located at KLP Road, Rasheed Abad, Tapa Likpur, Ubaro, Ghotki, and head office at 3-B Nisar Road, Nisar Colony, Cantt Lahore.

Profile of Chairman/CEO

Mr. Tarik Jawaid is the Chairman and CEO at ASML. He has over 15 years of experience in corporate/investment banking with institutions like Credit Suisse, ABN AMRO Bank and DIB Capital. He got involved in Pakistan's sugar sector through RYK Mills Limited, in which he was involved in project development since inception. He holds a Bachelor of Economics degree from Bates College, USA.

RATING RATIONALE

ASML is a wholly owned subsidiary of RYK Mills Limited (RYK) and is strategically located in Tehsil Ubarau of District Ghotki, Sindh, where sucrose content is high. ASML is primarily involved in manufacturing and sale of white crystalline sugar and its byproducts. The company has gradually enhanced its crushing capacity, which is currently over 14,000 tpd.

The ratings draw comfort from the stable operations of the company during the last two years. The company has registered increase in net sales mainly on account of higher volumetric sales resulting from capacity expansions and some improvement in selling price during FY19. The ratings also factor in steady improvement in sucrose recovery rate in the last three years owing to provision of support to farmers and continued capex in energy efficiencies. The company's capacity to meet its financial obligations is considered adequate, as depicted by increasing funds from operations generation and steady improvement in the debt service coverage ratio. Given higher volumetric sales, the overall debt burden has moderated on account of considerable reduction in short-term borrowings, partially offset by slightly higher long-term debt. Resultantly, the relatively elevated gearing and debt leverage ratios stood lower at end-FY19. While the business risk profile is currently undiversified, the management intends to establish bagasse-based co-generation power plant and industrial ethanol manufacturing project, which are in planning phase.

Key Rating Drivers

Corporate Profile

ASML is primarily involved in manufacturing and sale of white crystalline sugar and its byproducts. The company was incorporated in May 2011 and commenced its commercial operations in January 2013 with a designed sugarcane crushing capacity of 6,000 tons per day (tpd). Over the years, the company has gradually enhanced its crushing capacity, which currently stands at over 14,000 tpd. The production unit is located in Tehsil Ubarau of District Ghotki, Sindh. The Board of Directors (BoD) at ASML consisted of four members. There is no segregation of duties between the Chairman of the BoD and CEO as Mr. Tarik Jawaid holds both positions.

Crushing operations were largely stable during FY19, though the company registered 10% increase in sugar production owing to improvement in sucrose recovery to 10.84% (FY18: 9.82%). The steady improvement in sucrose recovery rate is mainly a result of the management's efforts to incentivize the local farmers. ASML not only disburses agricultural loans to farmers in the form of seeds, fertilizers and pesticides/weedicides but also provides trainings about plant protection, better crop health and modern agricultural techniques to enhance output per acreage. ASML has installed two steam turbines of power generating capacities of 7.5 MW and 6.0 MW while the overall power requirement at full capacity is 11.0 MW. The company regularly conducts Balancing, Modernization and Replacement (BMR) activity to keep its pace with modern technology to enhance production and cost efficiencies.

Growth in revenue underpinned by higher volumes and improved selling price, though net income burdened by higher finance cost and tax charge

Net sales of the company increased by 40% to Rs. 9.2b during FY19, mainly on account of considerable improvement in selling price and accelerated volumetric sales in the local market. Resultantly, gross profit of the company increased to Rs. 1.6b (FY18: Rs. 1.1b), though gross margin remained flat at 16.9% (FY18: 16.9%). Operating expenses increased slightly to Rs. 276m (FY18: Rs. 243m) owing to higher administrative and other expenses, partially offset by some decline in distribution costs. Despite decline in short-term borrowings, the company recorded higher financial charges of Rs. 1b during FY19 (FY18: Rs. 724m) as a result of higher benchmark rates. Accounting for tax expense, the company reported lower net income of Rs. 181m during FY19 (FY18: Rs. 298m) owing to decrease in net margin to 2% (FY18: 4.5%).

Improvement in liquidity and debt coverage ratios owing to higher cash flows generation

Barring a decline in FY17, the company has generated increasing cash flows from operations, which support the liquidity profile. In line with the higher profits, the company generated Rs. 671m in funds from operations (FFO) during FY19 (FY18: Rs. 425m; FY17: Rs. 359m). Resultantly, the debt service coverage ratio improved to 1.26x by end-FY19 (FY18: 1.04x; FY17: 1.04x) despite increase in finance cost and largely stable debt repayment. Likewise, FFO to total debt and FFO to long-term debts ratios also improved to 0.28x (FY18: 0.06x; FY17: 0.05x) and 0.64x (FY18: 0.28x; FY17: 0.19x) with the reduction in debt levels. The current ratio remained stable at 0.89x at end-FY19 (FY18: 0.89x; FY17: 0.90x) and has room for improvement. However, inventory plus trade debt to short-term borrowings ratio improved to 0.88x (FY18: 0.71x; FY17: 0.79x) as the company tends to finance fertilizers and seed loans to farmers from short-term borrowings.

Capitalization & Funding

Equity base of the company augmented to Rs. 2.6b by end-FY19 owing to retention of profits on a timeline basis. Meanwhile, total liabilities decreased to Rs. 6.2b, mainly on account of accelerated volumetric sales and significant reduction in short-term borrowings. Trade & other payables stood higher at Rs. 805m at end-FY19. The debt profile of the company comprises a mix of short-term and long-term borrowings. Outstanding balance of short-term borrowings moderated to Rs. 2.7b by end-FY19 (FY18: Rs. 5.6b; FY17: Rs. 5b) as the company was able to offload sugar inventory at higher market price. However, long-term debt stood higher at Rs. 1.2b as the company mobilized new borrowings to partially fund the capex. Consequently, gearing and debt leverage ratios moderated to 1.84x (FY18: 3.0x; FY17: 3.29x) and 2.4x (FY18: 3.3x; FY17: 3.5x) by end-FY19.

Going forward, the company intends to enhance its crushing capacity to 16,000 tpd. The future plan also include establishment of 30 MW of bagasse-based co-generation power plant and industrial ethanol manufacturing project. While the said projects are currently in planning phase, the mobilization of long-term debt may weigh on the leverage indicators, going forward.

Alliance Sugar Mills (Private) Limited Annexure I

FINANCIAL SUMMARY *(amounts in PKR millions)*			
BALANCE SHEET	**FY17**	**FY18**	**FY19***
Non-Current Assets	4,331	4,333	4,559
Stock in Trade	3,925	3,975	2,284
Loans and Advances	861	871	794
Other Receivables	149	846	472
Cash & Bank Balance	76	56	356
Total Assets	**9,443**	**10,301**	**8,755**
Trade & Other Payables	118	383	805
Accrued Markup	112	166	343
Short-term Borrowings	4,973	5,644	2,653
Long-Term Borrowings *(Inc. current matur)*	1,917	1,545	2,091
Total Liabilities	**7,346**	**7,908**	**6,181**
Tier-1 & Total Equity	2,098	2,394	2,958
Paid-up Capital	1,439	1,439	1,439
INCOME STATEMENT	**FY17**	**FY18**	**FY19**
Net Sales	2,522	6,610	9,246
Gross Profit	516	1,115	1,563
Operating Profit	501	954	1,297
Profit Before Tax	30	230	294
Profit After Tax	109	298	181
FFO	359	425	671
RATIO ANALYSIS	**FY17**	**FY18**	**FY19**
Gross Margin (%)	20.4	16.9	16.9
Net Working Capital	(473)	(764)	(542)
FFO to Long-Term Debt (x)	0.19	0.28	0.64
FFO to Total Debt (x)	0.05	0.06	0.28
Debt Servicing Coverage Ratio (x)	1.04	1.04	1.26
Gearing (x)	3.29	3.00	1.84
Debt Leverage (x)	3.50	3.30	2.40
Current Ratio (x)	0.92	0.89	0.89
Inventory + Receivables to Short-term Borrowings (x)	0.79	0.71	0.88

**Management Accounts*

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix 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 — Appendix III

Name of Rated Entity	Alliance Sugar Mills (Private) 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				
20-01-2020	A-	A-2	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 Meetings Conducted

Name	Designation	Date
Mr. Tarik Jawaid	CEO	July 12, '19
Mr. Irfan Qamar	Head Internal Audit	July 12, '19
Mr. Tarik Jawaid	CEO	January 09, '20
Mr. Irfan Qamar	Head Internal Audit	January 09, '20