

RATING REPORT

Alliance Sugar Mills (Private) Limited

REPORT DATE:

November 12, 2020

RATING ANALYST:

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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A-	A-2	A-	A-2
Rating Outlook	Stable		Stable	
Rating Date	November 12, 2020		January 20, 2020	

COMPANY INFORMATION

Incorporated in 2011

External auditors: HLB Ijaz Tabussum & 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 Javaid 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

Alliance Sugar Mills (Private) Limited (ASML) is a part of RYK Group that was established by Mr. Makhdum Omer Shehryar in 2007. ASML is a wholly owned subsidiary of RYK Sugar Mills Limited. There is no change in crushing capacity of the group which also has a 30 MW of bagasse-based IPP. ASML is primarily involved in manufacturing and sale of white crystalline sugar and its byproducts. The company has sugarcane crushing capacity of 12,000 tons per day (tpd).

The assigned ratings take into account the group's profile, experienced management team and scalable sugarcane crushing operations. The group also focuses on establishing relations with the suppliers where the company provides support to farmers in the form of better quality seed and fertilizer which has resulted in improvement in sucrose recovery over the review period.

Business risk profile of the sugar sector is considered high given the inherent cyclicality in crop levels and raw material prices. Moreover, distortion in pricing mechanism of raw material prices and refined sugar also creates challenges for sugar mills.

Given the decline in area under cultivation in the outgoing year and the resultant decline in sugar production, average sugar prices have increased significantly. However, increase in profitability for the sugar sector is expected to be limited (barring those players that have sizeable carryover stock) due to significant jump in sugar cane prices and decline in recovery ratio (Tiddi Dal pest attack) in the outgoing year. Business risk profile of the sugar sector is considered high given the inherent cyclicality in crop levels and raw material prices. Moreover, distortion in pricing mechanism of raw material prices and refined sugar also creates challenges for sugar mills.

Sugarcane nameplate crushing capacity remained unchanged at 12,000 tpd over the past three crushing seasons.

Sugarcane nameplate crushing capacity remained unchanged at 12,000 tpd over the past three crushing seasons. Actual sugar production remained lower due to limited availability of raw material. Enhancing recovery rate remains a key focus area with management's continuous 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.

Financial Profile

Higher topline and improvement in gross margins to derive profitability growth in MY20.

Similar to other players in the market, revenue base of the company is highly dependent on the sector dynamics being directly proportional to volumes of cane procurement and retail sugar prices in the local market. Sales of the company stood higher at Rs. 9.7b in MY20, out of which all sales were made locally. Increase in sales was driven by higher average selling prices while quantity of sugar stock at year-end declined. The company sold 132.4k tons of sugar during the period (FY19: 122.4k tons) at a higher average selling price. Gross margin of the company, is highly dependent on the cost of cane and retail price, improved to 18.7% in MY20. While client concentration depicts granularity, key customers of ASML include FMCGs and confectionaries. Industrial sales account for around two-third of total sales.

Satisfactory liquidity profile

ASML sells sugar in the open market on a cash basis. However, trade debts were recorded

higher at Rs. 2.3b at end-MY20 (MY19: Rs. 452.1m) in view of favorable sugar prices currently prevailing in the market. These trade receivables are secured and aged less than 1 month with a sizeable chunk of the receivable having been recovered subsequent to end-September 2020. In addition to loans to farmers, ASML follows a practice of making advance payments to major sugarcane farmers/suppliers to ensure smooth supply of sugarcane during the crushing season. These amounts are reflected in loans and advances, which increased to Rs. 1.2b by end-MY20 (MY19: Rs. 794.9m) largely due to settlement of advances paid to sugarcane farmers/suppliers. ASML has depicted a rise in its cash flow generation over the review period, which has supported the overall liquidity position of the company. Nonetheless, current ratio was recorded below 1.0x and signifies room for improvement. Inventory plus trade debt to short-term borrowings ratio stood higher at 1.16x (FY19: 0.91x).

Leverage indicators have improved on a timeline basis but continue to remain on the higher side

Equity base of the company has grown gradually on a timeline basis on account of profit retention. Equity level was reported at Rs. 2.9b (FY19: Rs. 2.5b) while ASML has a total debt of Rs. 4.457b at end-September 2020. Debt profile largely comprises short term loans utilized for financing working capital needs. Long term debt from the commercial bank has a payback period of three to five years. Gearing and leverage indicators have historically been reported on the higher side but have declined at end-September 2020 due to sizeable reduction in stock levels. Management plan to establish a 30 MW bagasse-based co-generation power plant has been shelved for the time being. The management is actively looking for feasible projects to diversify its revenue base and mitigate risk factors.

Alliance Sugar Mills (Private) Limited
Annexure I

FINANCIAL SUMMARY <i>(amounts in PKR millions)</i>				
<u>BALANCE SHEET</u>	FY17	FY18	FY19	FY20
Non-Current Assets	4,331	4,333	4,562	4,548
Stores, Spare & Loose Tools	94	120	139	234
Stock in Trade	3,925	3,975	2,293	827
Trade Debts	-	17	452	2,309
Loans and Advances	861	871	795	1,176
Other Receivables	155	928	462	437
Cash & Bank Balance	76	56	36	62
Total Assets	9,443	10,301	8,739	9,594
Trade & Other Payables	118	383	801	1,570
Accrued Markup	112	166	253	218
Short-term Borrowings	4,973	5,644	2,787	2,696
Long-Term Borrowings <i>(Inc. current matur)</i>	1,917	1,545	2,091	1,761
Total Liabilities	7,346	7,908	6,195	6,642
Tier-1 Equity	2,097	2,393	2,545	2,952
Total Equity	2,098	2,394	2,545	2,952
Paid-Up Capital	1,439	1,439	1,439	1,439
<u>INCOME STATEMENT</u>	FY17	FY18	FY19	FY20
Net Sales	2,522	6,610	9,246	9,713
Gross Profit	516	1,115	1,557	1,817
Profit from Operations	501	954	1,300	1,582
Profit Before Tax	30	230	241	562
Profit After Tax	109	298	153	408
FFO	359	425	560	711
<u>RATIO ANALYSIS</u>	FY17	FY18	FY19	FY20
Gross Margin (%)	20.4	16.9	16.8	18.6
Net Working Capital	(473)	(764)	(630)	(258)
FFO to Long-Term Debt (x)	0.19	0.28	0.27	0.40
FFO to Total Debt (x)	0.05	0.06	0.11	0.16
Debt Servicing Coverage Ratio (x)	1.04	1.04	1.15	0.93
ROAA (%)	1.5	3.0	1.6	4.3
ROAE (%)	5.3	13.3	6.2	13.8
Gearing (x)	3.29	3.00	1.92	1.49
Debt Leverage (x)	3.50	3.30	2.43	2.25
Current Ratio (x)	0.92	0.89	0.87	0.95
Inventory + Receivables to Short-term Borrowings (x)	0.79	0.71	0.91	1.16

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 Rating				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	RATING TYPE: ENTITY				
	11/12/2020	A-	A-2	Stable	Reaffirmed
	1/20/2020	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	Meeting Date		
	1	Mr. Tarik Jawaid	Chief Executive Officer	October 7, 2020	
	2	Mr. Irfan Qamar	Group General Manager IAD	October 7, 2020	