# RATING REPORT

## Alliance Sugar Mills Limited

**REPORT DATE:**
December 17, 2021

**RATING ANALYST:**
Muhammad Tabish
muhammad.tabish@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 |
| Rating Outlook | *Stable* | | *Stable* | |
| Rating Date | *Dec 17, 2021* | | *Nov 12, 2020* | |

| COMPANY INFORMATION | |
|---|---|
| **Incorporated in 2011** | **External auditors:** HLB Ijaz Tabussum & Co. Chartered Accountants |
| **Public 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 (August 2021) https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf |

# Alliance Sugar Mills Limited

## OVERVIEW OF THE INSTITUTION

*Alliance Sugar Mills 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 16 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 Limited (ASML) is part of RYK Group (established by Mr. Makhdum Omer Shehryar in 2007). The group is amongst the largest sugar manufacturers with cumulative sugarcane crushing capacity of around 33K tons per day (tpd) along with presence in power generation (30 MW of bagasse-based power plant). ASML has been engaged in manufacturing and sale of sugar and its byproducts with operating track record of nearly a decade. Headquartered in Lahore, the Company has a manufacturing facility located in Ghotki. Moreover, overall power requirement at full capacity is 11.0 MW which is met through two steam turbines.

During the period under review, ASML changed its legal status from 'Private Limited' to 'Public Limited' Company. Authorized share capital has also been increased by Rs. 1b to Rs. 2.5b (Sept'20: Rs. 1.5b) at end-Sept'21.

**Operational Performance:**

Sugarcane crushing capacity remains unchanged at 12,000 tpd. As per management, there are plans to enhance the capacity by ~25% in the ongoing year for which the capex has already been completed. The Capex included steam efficiency enhancement project and construction of warehouse space.

During the outgoing year, the mill operated for 107 days (MY20: 103 days; MY19: 97 days) which aligns with the industry. ASML crushed 1.16m MT of sugarcane which is 19% higher than the previous year. Consequently, overall sugar production was also recorded higher at 115K MT (MY20: 97K MT) in MY21 despite slight decline in recovery rate (owing to industry-wide early commencement of crushing activity). Utilization levels have depicted considerable improvement in comparison to previous year.

**Figure: Sugar Mill (Capacity & Production)**

| | MY19 | MY20 | MY21 |
|---|---|---|---|
| Sugarcane Crushing Capacity (TPD) | 12,000 | 12,000 | 12,000 |
| Total Cane Crushed (Ton) | 1,179,316 | 978,200 | 1,162,231 |
| Number of Crushing Days | 97 | 103 | 107 |
| Crushing Per Day (Ton) | 12,158 | 9,497 | 10,862 |
| Capacity Utilization | 101% | 79% | 91% |
| Sugar Produced | 127,810 | 97,070 | 114,990 |
| Sucrose Recovery Rate | 10.84 | 9.92 | 9.89 |

Going forward, management expects sugar production to increase in the ongoing year given the indication of higher crop coverage area, healthy crop size and attractive sugarcane prices available to farmers.

**Key Rating Drivers:**

**Local demand supply dynamics of sugar sector are projected to depict some improvement in the ongoing year given the indication of higher crop coverage area.**

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

Typically, sugarcane production has a 3-5 year cycle, driven largely by government support for farmers and crop yield. Sugar cane production has increased by 22% to 81 MT on account of increase in area under cultivation and improvement in crop yield during MY21. Based on around 68% crushing and an average recovery rate of 10.2%, the sector has produced 5.6m MT (MY20: 4.8m MT) of sugar in MY21. Moreover, sugar demand is projected at 5.9m MT for the period. While narrow demand and supply dynamics may lead to high sugar prices, government plans to import sugar to keep the prices in check. Also, margins may also be curtailed due to increasing trend in sugarcane prices. During MY21, sugarcane procurement prices have been recorded as higher against the minimum support price of Rs. 202 per mound. However, sector's risk profile draws support from diversification into distillery, power and other segments.

**Growth in sales revenue has remained limited over the past three years.**

Topline of the company amounted to Rs. 9.8b (MY20: Rs. 9.7b; MY19: Rs. 9.3b) in MY21 with entire contribution from local sales. The limited growth in sales revenue is largely attributable to lower volume of sugar sold during the outgoing year while average sugar sale price stood higher at Rs. 88,680 per ton (MY20: Rs. 77,924 per ton). While client concentration depicts granularity, key customers of ASML include FMCGs and confectionaries. Industrial sales account for around two-third of total sales.

**Figure: Sugar Sales Data**

| | MY19 | MY20 | MY21 |
|---|---|---|---|
| **Sugar Sold - Quantity (MT)** | 164,042 | 132,434 | 114,128 |
| **Sugar Price (Rs. per MT)** | 60,496 | 77,924 | 88,680 |

**Operating margins have depicted weakening while bottom-line was significantly supported by mark up income from associate and reduction in financial charges.**

In MY21, gross margins declined to 13.5% (MY20: 19.3%) given sizeable jump in average sugarcane procurement cost (MY21: Rs. 264 per 40kg; MY20: Rs. 231 per 40kg). The ratio of sugarcane cost to gross sugar sales increased significantly to 75.7% (MY20: 54.7%) in MY21. The increase in administrative overheads largely remained in line with inflation whereas distribution cost noted a reduction mainly due to absence of repair and maintenance. Bottom-line profitability was significantly supported by decline in financial charges (owing to lower average utilization of short-term financing) and other income which mainly pertained to markup income from associate. As a result, net margins have sustained at 4.6% (MY20: 4.9%).

**Healthy cash flow generation over the review period has supported the overall liquidity profile**

ASML's cash flow generation has improved on a timeline basis, coupled with debt repayments, FFO to long-term debt improved to 0.56x (MY20: 0.45x) during MY21. The debt servicing ability continues to remain strong as reflected by DSCR of 1.14x (MY20: 1.22x) in MY21. Nevertheless, current ratio was recorded below 1.0x indicating room for improvement while coverage of short-term borrowings in relation to stock in trade and trade debts stood at 0.82x at end-MY21.

Stock levels at end-Sept'21 were reported higher at Rs. 1.9b; of which around 75% (in volumetric terms) has been sold subsequently. Trade debt were reported at Rs. 828m at end-MY21 with entire receivables outstanding for less than one month.

**Adequate capitalization levels; leverage indicators have improved on account of increase in equity base**

Equity base of the company has grown gradually on a timeline basis on account of profit retention and was reported at Rs. 3.5b (MY20: Rs. 3.0b) at end-MY21. The

| | |
|---|---|
| | company has not paid out dividends for the past five years. Debt profile of the company comprises a mix of short-term and long-term borrowings. Long-term debt (inclusive of current portion) stood at Rs. 1.2b (MY20: Rs. 1.7b) at end-MY21 which will be fully repaid by 2022. Gearing and debt leverage indicators have improved to 1.33x (Sept'20: 1.54x) and 1.55x (Sept'20: 2.37x), respectively at end-Sept'21. |

| FINANCIAL SUMMARY *(amounts in PKR millions)* | | | | Appendix I |
|---|---|---|---|---|
| **BALANCE SHEET** | **MY18** | **MY19** | **MY20** | **MY21** |
| Property, Plant & Equipment | 4,326.4 | 4,581.2 | 4,590.3 | 4,510.2 |
| Long-term Investment | 6.5 | 10.0 | 12.1 | 12.4 |
| Stores, Spares. And Loose Tools | 120.2 | 110.1 | 171.7 | 137.6 |
| Stock in Trade | 3,975.4 | 2,293.3 | 947.1 | 1,947.7 |
| Trade Debts | 17.2 | 452.1 | 3,015.4 | 827.6 |
| Loans & Advances | 870.8 | 794.9 | 1,013.9 | 23.7 |
| Other Receivables | 846.1 | 321.4 | 240.8 | 1,089.3 |
| Cash & Bank Balance | 56.3 | 36.2 | 98.9 | 110.1 |
| Total Assets | **10,301.4** | **8,607.8** | **10,161.2** | **8,839.1** |
| Trade & Other Payables | 382.6 | 801.3 | 2,063.4 | 246.8 |
| Short-term Borrowings | 5,643.7 | 2,787.4 | 2,939.9 | 3,385.9 |
| Long-Term Borrowings *(Inc. current maturity)* | 1,554.9 | 2,090.7 | 1,717.1 | 1,236.1 |
| Total Liabilities | **7,907.8** | **6,063.2** | **7,143.2** | **5,371.5** |
| Paid-up Capital | 1,439.0 | 1,439.0 | 1,439.0 | 1,439.0 |
| Retained Earnings | 954.1 | 1,105.6 | 1,579.0 | 2,028.6 |
| Total Equity | 2,393.1 | 2,544.6 | 3,018.0 | 3,467.6 |
| | | | | |
| **INCOME STATEMENT** | | | | |
| Net Sales | 6,609.5 | 9,246.1 | 9,689.7 | 9,852.5 |
| Gross Profit | 1,115.0 | 1,557.4 | 1,871.4 | 1,333.0 |
| Operating Profit | 954.1 | 1,299.7 | 1,697.3 | 1,223.5 |
| Profit Before Tax | 230.0 | 241.5 | 646.3 | 572.7 |
| Profit After Tax | 298.1 | 152.7 | 472.6 | 449.6 |
| FFO | 425.0 | 530.9 | 781.0 | 691.2 |
| | | | | |
| **RATIO ANALYSIS** | | | | |
| Gross Margin (%) | 16.9% | 16.8% | 19.3% | 13.5% |
| Net Margin (%) | 4.5% | 1.7% | 4.9% | 4.6% |
| Net Working Capital | (764.4) | (659.3) | (266.1) | (287.6) |
| FFO to Long-Term Debt (x) | 0.28 | 0.25 | 0.45 | 0.56 |
| FFO to Total Debt (x) | 0.06 | 0.11 | 0.17 | 0.15 |
| Debt Servicing Coverage Ratio (x) | 1.04 | 1.13 | 1.22 | 1.14 |
| ROAA (%) | 3.0% | 1.6% | 5.0% | 4.7% |
| ROAE (%) | 13.3% | 6.2% | 17.0% | 13.9% |
| Gearing (x) | 3.00 | 1.92 | 1.54 | 1.33 |
| Debt Leverage (x) | 3.30 | 2.38 | 2.37 | 1.55 |
| Current Ratio (x) | 0.89 | 0.86 | 0.95 | 0.94 |
| Inventory + Receivables to Short-term Borrowings (x) | 0.71 | 0.98 | 1.35 | 0.82 |

# 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.

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**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.

<table>
<tr><th colspan="6">REGULATORY DISCLOSURES — Appendix III</th></tr>
<tr><td>Name of Rated Entity</td><td colspan="5">Alliance Sugar Mills Limited</td></tr>
<tr><td>Sector</td><td colspan="5">Sugar</td></tr>
<tr><td>Type of Relationship</td><td colspan="5">Solicited</td></tr>
<tr><td>Purpose of Rating</td><td colspan="5">Entity Rating</td></tr>
<tr><td rowspan="5">Rating History</td><td>Rating Date</td><td>Medium to Long Term</td><td>Short Term</td><td>Rating Outlook</td><td>Rating Action</td></tr>
<tr><td colspan="5"><u>RATING TYPE: ENTITY</u></td></tr>
<tr><td>12/17/2021</td><td>A-</td><td>A-2</td><td>Stable</td><td>Reaffirmed</td></tr>
<tr><td>11/12/2020</td><td>A-</td><td>A-2</td><td>Stable</td><td>Reaffirmed</td></tr>
<tr><td>1/20/2020</td><td>A-</td><td>A-2</td><td>Stable</td><td>Initial</td></tr>
<tr><td>Statement by the Rating Team</td><td colspan="5">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.</td></tr>
<tr><td>Probability of Default</td><td colspan="5">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.</td></tr>
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<tr><td rowspan="2">Due Diligence Meetings Conducted</td><td colspan="2">Name</td><td colspan="2">Designation</td><td>Date</td></tr>
<tr><td colspan="2">Mr. Irfan Qamar</td><td colspan="2">Head of Internal Audit</td><td>Nov 18, 2021</td></tr>
</table>