RATING REPORT

Alliance Sugar Mills Limited

REPORT DATE:
December 30, 2022

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	*Dec 30, 2022*		*Dec 17, 2021*	

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 36K 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.

RYK group has recently added a distillery plant having capacity of 125,000 liters per day. The plant is strategically located for economies in transportation of raw material from its two sugar manufacturing units and also ethanol for export.

Sector Update

Table 1: Area Under Cultivation and Sugarcane Production

	Area Under Cultivation (Hect)			Production (Tonnes)		
	2018-19	**2019-20**	**2020-21**	**2018-19**	**2019-20**	**2020-21**
Punjab	710,610	643,430	776,980	44,906,310	43,346,580	57,000,000
Sindh	279,472	286,090	279,694	16,691,323	17,233,832	18,335,533
KPK	110,991	109,359	107,438	5,532,012	5,753,957	5,627,545
Baluchistan	N/A	N/A	N/A	N/A	N/A	N/A
Total	1,101,073	1,038,879	1,164,112	67,129,645	66,334,369	80,963,078

Source - PSMA

- Pakistan is the 6th largest sugar producer and 8th largest sugar consumer in the world. Sugar production is the second largest agricultural industry in Pakistan after textile. Pakistan's sugarcane production stood at ~81m MTs in MY21, up 22% YoY given expansion in area under cultivation following assurances from Government of Pakistan (GoP) of affixing Minimum Support Price (MSP) for sugarcane and higher retail price for sugar.
- Punjab has the highest sugarcane production, comprising two-third of the aggregate sugarcane output in MY21, followed by Sindh (25%), KPK (8%) and Baluchistan (<1%).
- GoP banned export of sugar in February 2020 on recommendations of Sugar Advisory Board (SAB) to arrest the pricing uptick. As such, there is no restriction on the import of sugar, though prior permission is required from the Economic Coordination Committee (ECC) to control its inflow. Sugar imports was minimal during MY22, due to the high sugar production, which has consistently translated in an increase in carry-over stock.
- Sugar prices in Pakistan have depicted volatility historically, given demand/supply gap and market inefficiencies. The provincial government sets the MSP for the sugarcane, incorporating cost of production of farmers. During the last 3-year period (MY20-22), MSP has increased notably to encourage farmers for sugar production, as they were moving towards alternate crop cultivation given lower profitability in sugarcane. Therefore, with increase in MSP, retail price has also escalated.
- Punjab and KPK sugarcane price is Rs. 300/40kg, which is 33% higher than preceding year, while pricing in Sindh posted a YoY increase of 21%, to Rs. 302/40kg bag.

Table 2: Sugarcane Indicative Price and Retail Average Price

Year	Sugarcane Price (Rs.)			Season Avg. Retail/KG (Rs.)
	Punjab	Sindh	KPK	
2016-17	180	182	180	64.9
2017-18	180	182	180	53.7
2018-19	180	182	180	59.8
2019-20	190	192	190	76.6
2020-21	200	202	200	93.5
2021-22	225	250	225	83.8
2022-23	300	302	300	90.8

Source - PSMA

- The recent flood has manifested devastating effects on the agricultural output including sugarcane. Sindh, which accounts for 31% of national aggregate sugarcane production, was the most affected area in terms of agricultural damage.
- Sugarcane is mainly grown in northeast region of Pakistan, where impact of flood was minimal.
- Given the higher carry-over stocks, there are ongoing discussions between the Sugar Advisory Board (SAB) and Pakistan Sugar Mills Association (PSMA) to allow export of sugar. However, GoP allowed 100,000 tons of sugar exports while the same can go upto 500,000 tons keeping in view of the local prices and available stocks.

Operational Update

- As planned, ASML has increased its operational capacity during the year to 15,000 TPD from 12,000 TPD during last year.

- During the outgoing year, the mill operated for 124 days (MY21: 107 days, MY20: 103 days) in line with the industry.

- ASML crushed 1.56m MT of sugar cane which is 34% higher than the previous year number of 1.16m MT. The reasons of increase in sugar crushed is enhancement in crushing capacity, increased crushing days and farmer friendly policies of the Company which led to timely supply of sugarcanes.

- Consequently, overall sugar production was also recorded higher at 155K MT (MY21: 115KMT, MY20: 97K MT) in MY22, while the sucrose recovery rate remained intact at 9.93 (MY21: 9.89).

- Utilization levels has decreased to 83.85% in MY22 from 90.52% in MY21 owing to increase in operational capacity of the plant.

Table 3: Operations

	MY20	MY21	MY22
Sugarcane Crushing Capacity (TPD)	12,000	12,000	15,000
Total Cane Crushed (Ton)	978,200	1,162,231	1,559,680
Number of Crushing Days	103	107	124
Crushing Per Day (Ton)	9,497	10,862	12,578
Capacity Utilization	79%	91%	84%
Sugar Produced	97,070	114,990	154,937
Sucrose Recovery Rate	9.92	9.89	9.93

- Going forward, management expects sugar production to increase in the ongoing year given the indication of higher sugar recovery.

Key Rating Drivers:

Topline declined owing to lower offtake and prices

- Net sales of the Company down to Rs. 8.0b (MY21: 9.85b) declined by 18% Y/Y. The sales were entirely local based as GoP has restricted the sugar exports.
- The decline in sales revenue was attributable to decrease in volumetric offtake of sugar by 21% Y/Y, whereas, the effective prices of the same was also dropped by 5% during MY22.
- GoP did not allow sugar exports during MY22, however, the Company is carrying higher stocks in anticipation that the GoP will uplift the ban on sugar exports.
- Sugar remained the largest portion of sales with 82.2% (MY21: 88.5%, MY20: 91.7%) in MY22, however, registering a decline on timeline basis. (see table 5 below)

Table 4: Revenue (%)

	MY19	MY20	MY21	MY22
Sugar (%)	95.5	91.7	88.5	82.2
Molasses (%)	4.2	6.6	8.9	16.7
Bagasse (%)	0.1	1.7	2.5	0.9
Mud (%)	0.2	0.1	0.1	0.3

- Going forward, the volumetric offtake and prices will remain dependent on the GoP decisions of exports and intervention in market forces in order to control prices.

Table 5: Sugar Sales

	MY20	MY21	MY22
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 lower other income and high finance cost turned the bottom line into negative

- During MY22, gross margins declined to 9.5% (MY21: 13.4%) given drop in offtake.
- However, the operating expenses increased marginally by 3%, decrease in other income to meagre Rs. 27m (MY21: Rs. 181m) in MY22, due to low markup income resulting in further deterioration in profitability. Consequently, operating margins dropped to 6.3% in MY22 (MY21: 12.4%).
- Finance cost of the Company jumped up to Rs. 1.1b in MY22 (MY21: Rs. 712m) due to increase in overall borrowings and hiked interest rates. This further cause the bottom line of the Company to turn negative with net loss of Rs. 647.3m in MY22.

Cashflow position remained bleak during MY22 making the overall liquidity to stay under pressure

- ASML's cash flow generation remained weak during MY22 due to negative bottom line of income statement.

- FFO turned out to be negative Rs. (49.1)m in MY22. In line with the FFO, DSCR clocked in at 0.50x.

- Current ratio of the Company historically remained lower than 1x meaning negative working capital. (MY22: 0.86x, MY21: 0.92x, MY20: 0.95x).

- The same has bridged by mobilizing further short term borrowings on balance sheet.

- Cash conversion cycle of the Company notably bloated further as at Sep'2022 mainly due to increase in inventory levels. Management has intentionally sold lower volumes in the outgoing year in an anticipation to sell the same at higher prices during current year.

- Overall liquidity will remain a key function of internal cash generation during MY23.

Table 6: Liquidity Indicators

	MY20	MY21	MY22
Current Ratio (x)	0.95	0.92	0.86
Funds from Operations (Rs. m.)	781	667	(49)
Inventory+Trade debts/ST Borr. (x)	1.35	0.82	1.07
No. of Days Receivable	114	31	44
No. of Days Inventory	44	83	294
No. of Days Payable	96	10	83
Cash Conversion Cycle (Days)	**61**	**104**	**254**

Increases capitalization levels

- Equity base of the Company declined to Rs. 2.8b as at Sep'22 compared to Rs. 3.4b as at Sep'21 on the back of negative profitability.
- ASML has not paid out any dividend during the last six years.

- The Company has mobilized Rs. 400m of LT debt during MY22 while paid Rs. 657m during the same period. Consequently, LT debt (including lease liabilities) declined to Rs. 1.04b as at Sep'22 (Sep'21: 1.32b).

- However, short term borrowings registered an increase to stand at Rs. 6.37b as at Sep'22 (Sep'21: Rs. 3.39b).

- Resultantly, capitalization indicators of the Company remain elevated as at Sep'22, wherein, gearing and leverage came at 2.68x and 3.58x, respectively. (Sep'21: 1.38x & 1.56x).

- Going forward, management is not planning to mobilize any long term debt while the short term debt is expected to remain at same level. Capitalization indicators are expected to remain in the same range during the rating horizon.

Table 7: Capitalization Indicators

	Sep'20	Sep'21	Sep'22
Equity (Rs. m.)	3,018	3,416	2,769
LT Debt (Rs. m.)	1,764	4,321	1,044

ST Debt (Rs. m.)	2,940	3,386	6,373
Total Debt (Rs. m.)	4,704	4,707	7,417
Gearing (x)	1.56	1.38	2.68
Leverage (x)	2.37	1.56	3.58

FINANCIAL SUMMARY *(amounts in PKR millions)*					Appendix I
BALANCE SHEET	**MY18**	**MY19**	**MY20**	**MY21**	**MY22**
Property, Plant & Equipment	4,326.4	4,581.2	4,590.3	4,495.3	4356.8
Long-term Investment	6.5	10.0	12.1	13.0	22.0
Stores, Spares. And Loose Tools	120.2	110.1	171.7	149.6	242.6
Stock in Trade	3,975.4	2,293.3	947.1	1,933.8	5863.6
Trade Debts	17.2	452.1	3,015.4	826.3	960.2
Loans & Advances	870.8	794.9	1,013.9	39.0	22.4
Other Receivables	846.1	321.4	240.8	999.9	933.2
Cash & Bank Balance	56.3	36.2	98.9	110.2	46.5
Total Assets	**10,301.4**	**8,607.8**	**10,161.2**	**8,744.3**	**12,676.2**
Trade & Other Payables	382.6	801.3	2,063.4	222.5	1,660.3
Short-term Borrowings	5,643.7	2,787.4	2,939.9	3,385.9	6,373.0
Long-Term Borrowings *(Inc. current maturity)*	1,554.9	2,090.7	1,717.1	1,247.0	982.1
Total Liabilities	**7,907.8**	**6,063.2**	**7,143.2**	**5,328.2**	**9,907.4**
Paid-up Capital	1,439.0	1,439.0	1,439.0	1,439.0	1,439.0
Retained Earnings	954.1	1,105.6	1,579.0	1,977.0	1,329.8
Total Equity	2,393.1	2,544.6	3,018.0	3,416.0	2,768.8
INCOME STATEMENT					
Net Sales	6,609.5	9,246.1	9,689.7	9,852.5	8,042.9
Gross Profit	1,115.0	1,557.4	1,871.4	1,318.8	765.8
Operating Profit	954.1	1,299.7	1,697.3	1,222.4	507.1
Profit Before Tax	230.0	241.5	646.3	510.5	(596.7)
Profit After Tax	298.1	152.7	472.6	399.0	(647.3)
FFO	425.0	530.9	781.0	667.4	(49.1)
RATIO ANALYSIS					
Gross Margin (%)	16.9%	16.8%	19.3%	13.4%	9.5%
Net Margin (%)	4.5%	1.7%	4.9%	4.0%	-8.0%
Net Working Capital	(764.4)	(659.3)	(266.1)	(346.7)	(1,363.1)
FFO to Long-Term Debt (x)	0.28	0.25	0.45	0.51	(0.05)
FFO to Total Debt (x)	0.06	0.11	0.17	0.14	(0.01)
Debt Servicing Coverage Ratio (x)	1.04	1.13	1.22	1.12	0.50
ROAA (%)	3.0%	1.6%	5.0%	4.2%	-6.0%
ROAE (%)	13.3%	6.2%	17.0%	12.4%	-20.9%
Gearing (x)	3.00	1.92	1.54	1.38	2.68
Debt Leverage (x)	3.30	2.38	2.37	1.56	3.58
Current Ratio (x)	0.89	0.86	0.95	0.92	0.86
Inventory + Receivables to Short-term Borrowings (x)	0.71	0.98	1.35	0.82	1.07

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 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				
	12/30/2022	A-	A-2	Stable	Reaffirmed
	12/17/2021	A-	A-2	Stable	Reaffirmed
	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**		**Date**	
	Mr. Irfan Qamar	Head of Internal Audit		Dec 08, 2022	