RATING REPORT

Alliance Sugar Mills Limited

REPORT DATE:
February 07, 2024

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	*Feb 7, 2024*		*Dec 30 ,2022*	
Rating Action	*Reaffirm*		*Reaffirm*	

COMPANY INFORMATION

Incorporated in 2011	**External Auditors:** HLB Ijaz Tabassum & Co. Chartered Accountants
Public Limited Company	**CEO:** Mr. Farrukh Naseem Akhtar Naik
Key Shareholders (with stake 5% or more):	
RYK Mills Limited 99.99%	

APPLICABLE METHODOLOGY

VIS Entity Rating Criteria: Corporates (May 2023)
https://docs.vis.com.pk/docs/CorporateMethodology.pdf

VIS Rating scale (2023)
https://docs.vis.com.pk/docs/VISRatingScales.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

Farrukh Naseem Akhtar Naik is currently in employment of RYK Group where he served as Group Head of Administration before being appointed as CEO of Group concern M/s Alliance Sugar Mills Limited. Farrukh boasts an extensive career over 30 years having served in armed forces as well as NAB before joining RYK Group. He has been a valuable asset in terms of his expertise and leadership and has been with the group for over 7 years now.

Financial Snapshot

Tier-1 Equity:

RATING RATIONALE

Alliance Sugar Mills Limited (ASML) is a wholly owned subsidiary of RYK Mills Limited (RYK). RYK 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) and ethanol manufacturing. ASML has been principally engaged in manufacturing and sale of sugar and its byproducts. 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.

Last year, RYK group added a distillery plant having a 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.

Business Risk & Sector Update: Pakistan is the seventh-largest producer and the fifth-largest consumer of sugar. The sector has strategic importance due to linkages with national food security, rural economy, and agricultural growth. Sugar production contributes 0.8% to GDP and 3.7% to agriculture's value addition. According to the Economic Survey of Pakistan, sugar industry is the country's second largest agro-based business after the textile industry. In terms of sugarcane production, Punjab produces 67% of the sugarcane, followed by Sindh (25%), Khyber Pakhtunkhwa (KPK) (8%), and Baluchistan (less than 1%). The country has the capacity to raise production by 4.0 million tons and export USD 2.0b worth of sugar and USD 500m worth of ethanol by using the same land but raising yields by 40 to 50 percent. According to the data collected by Ministry of Food Security, through September 30, 2022, at least 5.3 million metric tons (MT) of sugar has been removed from inventories or has been consumed. More than 1.7m MT surplus sugar was available at the start of crushing season MY23. Additionally, exporting this surplus sugar would have generated USD 1.0b in foreign currency.

The inherent cyclicality in crop yields and raw material prices is believed to have a substantial impact on the business risk profile of the sugar sector. Furthermore, there is a noticeable difference in pricing mechanisms, with the price of the end product, granulated sugar, being set by market forces whereas sugarcane cost being regulated by the government. A typical sugarcane crop has a 3 to 5-year production cycle, with government assistance to farmers and crop productivity playing a major role. In 2022-23 season, the crushing season took off a bit late owing to disagreement between PSMA, which represents the sugar mill owners, and Government of Pakistan, to allow export of 2 million tons of sugar, to cover up for the higher costs associated with producing sugar and pulling the industry out of crisis. In addition, almost 33% of the 22 million hectares of total cultivable land were inundated by flood while damage to the sugarcane crops resulted in a loss of USD 273m in the outgoing year. On aggregate, direct losses from rice, cotton, and sugarcane were USD 1.30b (rice: USD 543m, cotton: USD 485m, and sugarcane: USD 273m).

According to the most recent USDA sugar report published on April 12, 2023, sugarcane production is expected at 83.5m MT during 2023-24, three percent above 2022-23 production, on account of expected recovery in yield in areas which were previously impacted by the floods. For the season 2023-24, the estimated harvesting end-MY23: Rs. 3.4b; end-MY22: Rs. 2.7b; end-MY21: Rs. 3.4b

Total Assets: end-MY23: Rs. 9.5b; end-MY22: Rs. 12.8b; end-MY21: Rs. 8.7b

Profit After Tax: MY23: Rs. 702.4m; MY22: Rs. (669.5m); MY21: Rs. 399.0m

area is also expected to increase to 1.25 million hectares (2022-23: 1.23 million hectares). Sugar output for the forthcoming season is expected to clock at 7.05 million MT, a marginal increase from that in 2022-23. Moreover, due to population growth and demand from the developing food processing industry, sugar consumption is projected to rise by around 3% to 6.3 million MT. In view of accumulating sugar stocks, the Govt. allowed 250,000 tons of sugar in MY23. Sugar prices remained relatively low throughout the 2022-23 crushing season. However, following the season's conclusion, sugar prices experienced a noticeable increase in line with inflationary pressures. While this upswing has boosted the gross profitability of most industry players, those operating with a highly leveraged capital structure have encountered difficulties due to the increased interest rates, which could potentially impact their bottom line.

Production Update:

Sugar Division:
The sugarcane crushing capacity on per day basis remained at 14.5K MT during the review period. Crushing season for 2022-23 lasted for a total of 103 days as compared to 124 days in the last crushing season owing to lower cane availability. Resultantly, sugarcane crushed was reported lower at 1.2m MT (2021-22: 1.6m MT) while sucrose recovery rate improved to 10.16% (2021-22: 9.93%) as a result of better-quality crop. As per the management, cane procured from mill gate area accounts for approximately 60% of the total requirement. Sugar production for the outgoing season was recorded lower at 123,585 MT (2021-22: 154,937 MT). Similarly, molasses production decreased to 57,846 MT (2021-22: 72,087 MT) with largely intact recovery rates of 4.61% (2021-22: 4.62%). A snapshot of production related information of sugar segment is tabulated below:

Description	Unit	2020-21	2021-2022	2022-2023
Crushing Capacity	TPD	12,000	14,500	14,500
Total No of days Crushing	No	107	124	103
Capacity Utilization	%	91	87	81
Total Cane Crushed	M.T	1,162,231	1,559,680	1,216,291
Total Sugar Production	M.T	114,990	154,937	123,585
Sugar Recovery Rate	%	9.89	9.93	10.16
Molasses Production	M.T	55,969	72,087	57,846
Molasses Recovery	%	4.53	4.62	4.61

The company has started crushing for the ongoing season 2023-24 on November 25, 2023. As per the management, recovery rates are expected to remain largely intact, while sugar production is expected to increase by around 10% in the ongoing season due to higher crop availability. ASML also conducts Balancing, Modernization and Replacement (BMR) on a regular basis to enhance process efficiencies. In the outgoing year, ASML incurred around Rs. 100m, which included some replacements including cooling tower.

Revenues and Profitability: During MY23, topline exhibited a considerable growth to Rs. 17.6b (MY22: Rs. 8.04b) largely driven by nearly two-fold increase in volumetric sales of sugar, coupled with 29.8% increase in its selling prices. In the past year, ASML has sold all of its molasses to the RYK distillery plant, which commenced its commercial operations in January 2023. Sugar sales accounted for ~88% of the total sales while molasses contributed around 11.2%. Bagasse and mud sales have remained limited on a timeline basis. During MY23, the company exported 2,500 MT of sugar sales at an average price of Rs. 169,565/MT. Around 80-85% sugar sales are made in open market on cash basis through brokers or dealers. The remaining sales are to corporate clients, who typically make purchases either with advance payment or on a credit basis, with terms varying from 60 to 120 days.

Description	MY22			MY23		
	Amount (Rs in mil)	Selling Price	Qty (MT)	Amount (Rs in mil)	Selling Price	Qty (MT)
Sugar						
Local	6,441.6	71,421.7	90,191	15,062.9	78,778.6	191,206
Export	-	-	-	423.9	169,565.8	2,500
Molasses	1,507.2	20,459.5	73,667	1,916.2	33,125.9	57,846
Bagasse	70.0	3,046.4	22,992	163.5	3,149.9	51,912
Press mud	19.7	-	-	17.1	-	-
Net Sales	**8,038.5**			**17,583.6**		

Cost of sales were recorded higher at Rs. 14.9b (MY22: Rs. 7.3b) during MY23, which was largely rationalized with inflationary impact on raw material cost and other cost components. The company procured cane at an average cost of Rs. 318.8/maund (2021-22: Rs. 259.4/ maund). Gross profits increased significantly to Rs. 2.7b (MY22: Rs. 751.9m) in line with higher sale volumes and better rates. Resultantly, gross margins improved to 15.3% (MY22: 9.4%) in MY23. The administrative and distribution expenses were largely rationalized. Financial charges were recorded higher at Rs. 1.46b (MY22: Rs. 1.1b), mainly due to higher reliance on working capital financing coupled with elevated markup rates. Other income increased to Rs. 95.6m (MY22: Rs. 28.0m), mainly due to higher markup income from associated company. Other expenses were recorded at Rs. 48.8m (MY22: Rs. 7.3m). These mainly include expenses for workers' profit participation fund. Accounting for taxation, net profit was recorded Rs. 702.4m vis-à-vis a loss of Rs. 669.5m in SPLY, with net margins improving to 4.0% (MY22: -8.3%) in MY23. Going forward, the management projects that the carryover sugar stock at end-Sept'23 will contribute to an increase in revenues, aided by higher average selling prices of sugar.

Retail sugar prices, while remaining relatively elevated, exhibited some decrease in the last quarter of MY23, on account of government intervention aimed at reducing smuggling across the Afghan border and hoarding of sugar stock. Meanwhile, given higher support prices of sugarcane at Rs. 425/maund for Sindh for the crushing season 2023-24 and lower available sugar stocks in the country, it is expected that sugar prices may increase, going forward. Sugar prices have shown resilience, even during the crushing season, on account of overall decrease in carried over sugar stocks in the country and inflationary pressure. Meanwhile, elevated markup rates are expected to impact net profitability in the ongoing year as well.

Liquidity Profile:

The liquidity position of the company has shown considerable improvement in MY23. Funds from operations (FFO) were recorded higher at Rs. 862.4m (MY22: Rs. -188.5m) mainly on the back of higher profitability. This, along with overall decrease in debt levels have resulted in, increase in FFO-to-total debt and FFO-to-long-term debt to 0.30x and 2.74x, respectively. Similarly, debt service coverage ratio (DSCR) improved to 1.19x (MY22: 0.48x).

Stock in trade was recorded lower at Rs. 1.9b (MY22: Rs. 5.8b), with finished goods amounting to Rs. 1.89b (MY22: Rs. 5.8b) at end-MY23. In terms of volume, the company held 26,000 MT of sugar stock as of Sep 30, 2023. Trade debts were recorded higher at Rs. 2.07b (MY22: Rs. 926.8m) while as a percentage of sales, trade debts remained at 11.7% (MY22: 11.5%). The ageing of trade debts is considered manageable given all receivables were outstanding for less than six months period. Other receivables amounted to Rs. 416m (MY22: Rs. 1.2b) by end MY23, largely pertained to export subsidy receivables amounting to Rs. 258.0m while the rest included advance tax receivables. Cash and bank balances increased to Rs. 176.7m (MY22: Rs. 51.5m). Trade and other payables amounting to Rs. 2.42b (MY22: Rs. 1.97b), mainly included advances received from RYK of around Rs. 2b against sale of molasses. ASML executes all related party transactions at arm's length, ensuring fairness and impartiality in its dealings. Accrued markup was recorded lower at Rs. 321.4m (MY22: Rs. 408.4m). Current ratio has remained below one whereas short-term borrowings coverage improved to 1.54x (MY22: 1.02x), due to lower outstanding short-term borrowings at end-MY23. Maintaining cash flow coverages and improvement in working capital management is considered imperative from ratings perspective.

Capitalization Profile: Tier-1 equity of ASML stood higher at Rs. 3.4b (MY22: Rs. 2.7b) as of Sep 30, 2023, primarily due to profit retention. The debt profile of ASML majorly comprised short-term borrowings, with proportion of long-term loans decreasing over the years due to repayments. Short-term borrowings were recorded substantially lower at Rs. 2.6b (MY22: Rs. 6.6b) in line with lifting of majority of sugar stocks by end-MY23. These facilities are secured against pledge of refined sugar in bags with 10% to 25% margin, first pari passu charge and ranking charge on all present and future current assets of the Company and personal guarantees of directors of the Company and directors of RYK Mills Limited. Mark-up is payable quarterly at the rates ranging from 1-9 Month KIBOR carrying a spread of 1.25-2.50%. Lease liabilities were recorded lower at Rs. 60.1m (MY22: Rs. 90.8m), which included vehicles leased for office use. Long-term financing (including current portion) has decreased to Rs. 254.1m (MY22: Rs. 734.1m) by end-MY23.

As a result of higher equity base and lower debt levels, gearing and leverage have improved notably to 0.84x (MY22: 2.72x), and 1.74x (MY22: 3.68x), respectively as of Sep 30, 2023. As per the management, in the short-to-medium term, ASML does not intend to raise any long-term debt for capital expenditure. Moreover, with increased cash flows that are in line with its profitability, the company anticipates maintaining a steady level of short-term borrowing. Resultantly, capitalization indicators are projected to improve steadily on account of equity growth in line with internal capital generation, going forward.

FINANCIAL SUMMARY *(amounts in PKR millions)*			
BALANCE SHEET	**MY21**	**MY22**	**MY23**
Property, Plant & Equipment	4,495.3	4,393.5	4,266.1
Stores, Spares. And Loose Tools	149.6	191.8	371.5
Stock in Trade	1,933.8	5,838.4	1,881.1
Trade Debt	826.3	926.8	2,065.5
Loans and Advances	39.0	55.9	44.0
Other Receivables	999.9	1,210.4	416.1
Cash and Bank Balances	110.2	51.5	176.7
Other Assets	190.2	173.7	232.3
Total Assets	8,744.3	12,841.9	9,453.2
Long-Term Financing *(Inc. current maturity)*	1,247.0	734.1	254.1
Lease Liabilities (Inc. current portion)	73.8	90.8	60.1
Trade and Other Payables	222.5	1,974.8	2,422.0
Short-term Borrowings	3,385.9	6,639.1	2,566.0
Total Debt	4,706.8	7,464.1	2,880.2
Deferred Taxation	67.9	110.2	214.5
Other Liabilities	331.0	550.5	491.7
Total Liabilities	5,328.2	10,099.6	6,008.4
Paid-Up Capital	**1,439.0**	**1,439.0**	**1,439.0**
Tier-1 Equity	3,416.0	2,742.4	3,444.8
Total Equity	**3,416.0**	**2,742.4**	**3,444.8**
INCOME STATEMENT	**MY21**	**MY22**	**MY23**
Net Sales	9,852.5	8,038.5	17,583.7
Gross Profit	1,318.8	751.9	2,686.1
Finance Cost	711.9	1,106.3	1,462.0
Other Income	181.2	28.0	95.6
Profit Before Tax	510.5	-638.3	916.9
Profit After Tax	399.0	-669.5	702.4
FFO	667.4	-188.5	862.4
RATIO ANALYSIS	**MY21**	**MY22**	**MY23**
Gross Margin (%)	13.4%	9.4%	15.3%
Net Margin (%)	4.0%	-8.3%	4.0%
Current Ratio (x)	0.92	0.86	0.88
Net Working Capital	(346.7)	(1,400.1)	(684.5)
FFO to Long-Term Debt	0.51	(0.23)	2.74
FFO to Total Debt	0.14	(0.03)	0.30
Debt Servicing Coverage Ratio (x)	1.12	0.48	1.19
ROAA (%)	4.2%	-6.2%	6.3%
ROAE (%)	12.4%	-21.7%	22.7%
Gearing (x)	1.38	2.72	0.84
Debt Leverage (x)	1.56	3.68	1.74
Inventory + Receivable/Short-term Borrowings (x)	0.82	1.02	1.54
Net Operating Cycle (Days)	84	179	72

*Unaudited

REGULATORY DISCLOSURES — Appendix II

Name of Rated Entity	Alliance Sugar Mills 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				
02/07/2024	A-	A-2	Stable	Reaffirmed
12/30/2022	A-	A-2	Stable	Reaffirmed
12/17/2021	A-	A-2	Stable	Reaffirmed
11/12/2020	A-	A-2	Stable	Reaffirmed
01/20/2020	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.
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Due Diligence Meetings Conducted

Name	Designation	Date
Mr. Fahad Naeem	CFO	11/01/2024
Mr. Saleh Hameed	AGM Finance	11/01/2024