RATING REPORT

RYK Mills Limited

REPORT DATE
September 19, 2024

RATING ANALYSTS:
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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 Date	*September 19, 2024*		*October 05, 2023*	
Rating Outlook/Rating Watch	Positive		Positive	
Rating Action	Reaffirmed		Maintained	

COMPANY INFORMATION

Incorporated in 2007	**External auditors:** HLB Ijaz Tabassum & Co. Chartered Accountants
Public Limited Company	**Primary Sponsor Director:** Mr. Makhdum Omer Shehryar
Key Shareholders (with stake 5% or more):	**Chief Executive Officer (CEO):** Mr. Shaharyar Khan
Mr. Makhdum Omer Shehryar ~ 33.5% *ME Capital (Pvt.) Limited ~ 27.4%* *Mr. Moonis Elahi ~ 13.9%* *31-A Estates Limited ~ 7.5%* *Ms. Tahreem Elahi ~ 7.4%*	

APPLICABLE METHODOLOGY(IES)
Applicable Rating Criteria: Corporates:
https://docs.vis.com.pk/docs/CorporateMethodology.pdf

APPLICABLE RATING SCALE(S)
VIS Issue/Issuer Rating Scale:
https://docs.vis.com.pk/docs/VISRatingScales.pdf

RYK Mills Limited

OVERVIEW OF THE INSTITUTION	RATNG RATIONALE

RYK Mills Limited *was incorporated in June 2007 under the repealed Companies Ordinance, 1984 (now Companies Act, 2017). Head office is located at 75-D/4 Sarfraz Rafique Road, Cantt Lahore.*

Company Profile:

RYK Mills Limited (RYKML or "the Company") is a public limited company incorporated in 2007. The Company's registered office is located in Lahore Cantt, while its manufacturing facilities are situated in Rahim Yar Khan, Punjab. RYKML's business activities include the production and sale of sugar, ethanol, related by-products, as well as the generation and sale of electricity.

The Company wholly owns Alliance Sugar Mills Ltd. ("ASML") engaged in the production of sugar and related by products.

Group Profile:

RYK Group ("the Group" or "RYKG") is a agribusiness conglomerate in Pakistan, primarily engaged in sugar manufacturing, power generation, and ethanol production. Established in 2007, the Group currently produces approximately 6% of Pakistan's total sugar output as of today, as per the management. The Group is also involved in biomass energy production, with an operational installed capacity of 61 MW and potential for expansion by an additional 55 MW. Additionally, the Group is one of the producers of ethanol in Pakistan with a fully integrated supply of molasses, as per the management. This integration supports the operation of its existing ethanol plant with a capacity of 125,000 liters per day and allows for a planned expansion of an additional 125,000 liters per day. The Group operates through its units, RYKML and ASML.

Business Segments:

Sugar: The Company operates a sugar mill with a crushing capacity of 20,000 tons per day (MY23: 20,000 TPD, MY22: 19,500 TPD)). In 1HMY24, this segment accounted for approximately 75.9% (MY23: 84.8%, MY22: 92.6%) of total Company sales. RYKML serves a diverse clientele, including businesses and government institutions, with export destinations in Asia and Europe.

Ethanol: The Company installed a distillery plant at Sadiqabad, which started its commercial operations in Jan'23, with a total capacity of 125,000 liters/day. The Company exports approximately 99.3% of its total ethanol production. In 1HMY24, this segment contributed around 18.7% (MY23: 9.7%%, MY22: 0%) of the total sales of the Company.

Power: RYKML operates 30 megawatts (MW) of bagasse based independent power plant, which besides meeting internal requirements sell excess power to Central Power Purchasing Agency (CPPA).

Operational Performance:

Crushing Season	MY21	MY22	MY23	MY24
Crushing Capacity (In TPD)	19,500	19,500	20,000	20,000
Crushing Period in days	120	142	111	111
Cane Crushed (MT)	1,887,061	2,447,393	2,032,978	2,032,677

Mr. Makhdum Omer Shehryar has over 20 years of experience across the banking, industrial, and power sectors. He holds a Bachelor's degree in Finance from Stern Business School, New York University. His banking career began in 1995 with Citibank, United Bank Limited, and Paine Webber, focusing on structuring and executing financial products across various industries. In 2005, he shifted to his family business, advancing in large-scale corporate farming and sugarcane processing. Under his leadership, the RYK Group has become a major producer of sugar and biomass energy in Pakistan, developing over 60,000 TCD of sugar capacity and 108 MW of biomass energy. As founder and main sponsor, he manages the Group's operations and strategic growth.

Sugar Production (MT)	187,953	243,965	215,217	204,934
Sucrose Recovery	10.0%	10.0%	10.6%	10.1%
Molasses Produced	87,255	112,130	92,870	88,874
Molasses Recovery	4.6%	4.6%	4.6%	4.4%
Power	**MY21**	**MY22**	**MY23**	**1HMY24**
Installed Capacity (MWh)	262,800	262,800	262,800	262,800
Electricity Produced (MWh)	99,582	127,212	99,563	80,252
In-house Consumption	22,478	21,798	8,336	7,743
Operating Days	220	276	246	129
Capacity Factor (%)	38.0%	48.4%	37.9%	30.5%
Average Tariff Rate/MWh	12,611	12,489	13,288	14,988
Distillery	**MY23**		**1HMY24**	
Ethanol Capacity per day (Ltrs)	125,000		125,000	
Actual Number of days Operated	213		134	
Etthanol Production Capacity (Ltrs)	26,625,000		16,750,000	
Ethanol Actual Production (Tons)	27,634,931		17,228,039	
Capacity Utilization (%)	104.0%		103.0%	

Sugar Segment:

The Company faced production challenges in MY23 due to limited sugarcane availability caused by floods, resulting in a reduced crushing period of 111 days (MY22: 142 days). This reduction, alongside actual crushing per day falling short of capacity, stemmed from decreased sugarcane supply and competitive pressures within the industry. The cane crushed was lower, leading to a decline in sugar and molasses output. In the MY24 season, the crushing period remained at 111 days, with total cane crushed reaching 2,032,677 metric tons (MT) (MY23: 2,032.978 MT), producing 204,934 metric tons of sugar. The sucrose recovery rate decreased to 10.1% (MY23: 10.6%, MY22: 10.0%), influenced by the poor quality of sugarcane during the year, effected by environmental and supply chain constraints due to floods.

Power Segment:

In 1HMY24, the power unit operated for 129 days (MY23: 246 days, MY22: 220 days). Total electricity generated was 80,252 MWh (MY23: 99,563 MWH, MY22: 127,212 MWH). Of this output, approximately 90.4% (MY23: 91.6%, MY22: 82.9%) was sold to the Central Power Purchasing Agency (CPPA) during the period. The capacity factor decreased due to fewer operational days, while the average tariff rate increased by 12.8%. It is important to note that the plant's capacity is capped at 45% for tariff payments and electricity dispatch as per CPPA regulations for bagasse-based co-generation power plants.

Ethanol Segment:

During 134 days (MY23: 213 days) of operations in the 1HMY24, ethanol production amounted to 17,228,039 MT (MY23: 27,634,931 MT). The distillery in 6 months of MY24 operated at its full capacity with a capacity utilization of 103.0% (MY23: 104.0%).

Sugar Industry Overview:

In MY23, the industry faced a decline in supply due to flooding that adversely affected the availability and quality of sugarcane. In MY24, production indicated a recovery, attributed to improved crop yields. However, sugarcane procurement costs rose by 36.6%

to PKR 440.31 per 40 kg (MY23: PKR 322.41 per 40 kg). Concurrently, the average sugar selling price increased by 40% to PKR 134 per kg (MY23: PKR 96 per kg). In anticipation of further price increases and potential export allowances, industry participants chose to retain inventory from the prior year and continued to build sugar reserves during MY24. With the government's expected export allowance not materializing, the industry is currently experiencing a buildup of sugar stock, resulting in stagnated sugar prices in recent months.

Key Rating Drivers:

Ratings reflect the business risk profile of sugar sector

The business risk profile of the sugar sector is assessed as medium, with low exposure to economic cyclicality but high seasonality and sensitivity to sugarcane production levels and quality. Competition risk in the industry is considered medium to low, with a low risk of substitute products for sugar. However, the industry is characterized by high fragmentation with elevated competition within the sector.

The sugar industry is currently facing the challenge of surplus stock. According to industry estimates, around 1.2 mln tons of surplus sugar was available by mid-July. Inventory build-ups within the industry have led to increased short-term debt utilization, thereby exacerbating the financial burden. This build-up has resulted in stagnating sugar prices, further complicating the operating environment. The Government had approved the export of 150,000 metric tons of sugar; however, the industry is now seeking approval to export an additional 100,000 tons worth $600 mln to ease the pressure. . Nevertheless, even if approved, exporting such a large surplus closer to the new crushing season poses a challenge.

Installation of distillery as a diversification strategy

The Company, during MY23, diversified into ethanol business by installing a distillery to further increase its market share and tap into the ethanol export market. Going forward, this diversification strategy is expected to support the Company's revenue streams and margins.

Tariff revision in power segment to provide support to bottom line

The resolution of the tariff adjustments issue by the National Electric Power Regulatory Authority (NEPRA) concerning eight operational Bagasse Independent Power Producers (Bagasse IPPs), with arrears amounting to PKR 2.0 billion, is anticipated to positively impact the Company's financial performance in MY24. The inflow of funds during the current year is expected to assist the Company in meeting its obligations related to the outstanding Short-Term Securities (STS).

Profitability in MY23 was supported by ethanol sales, with expectations for future growth as business operations expand and export levels increase.

In MY23, revenue increased by 22.8%, primarily due to ethanol sales and sugar exports under a favorable export quota. This revenue growth led to a higher gross margin of 22.0% (MY22: 19.1%), supported by rupee depreciation and elevated sugar prices.

However, despite the improvement in gross margin, the net margin decreased to 4.3% in MY23 (MY22: 5.0%), due to an 81.9% rise in finance costs, which offset exchange gains from ethanol and sugar exports. This trend continued into the first half of MY24, with a further decline in net margin to 3.2%, driven by increased finance costs related to higher short-term borrowing and lower gross margins from declining international ethanol prices.

Going forward, increased contribution from ethanol export sales, tariff revisions in power segment, and anticipated reduction in policy rates is expected to support profitability profile of the Company.

Improving liquidity and coverage metrics

Liquidity profile depicts an improving trend with current ratio at end 1HMY24 at 1x. Higher capital expenditure over the last few years had constrained liquidity. With improved profitability and cash generation, liquidity metrics depict improvement. The same is expected to further strengthen over the projected period. Ratings also draw comfort from the liquid nature of the commodity which gives the Company the flexibility to react to market changes.

Coverage profile remains adequate with DSCR at 1.1x and FFO to total debt and long-term debt at 0.1x and 0.3x respectively. Improvement in the same over the rating horizon in line with the projections will remain important for ratings.

Gearing and Leverage Set to Improve with projected profitability

Compared to peers, gearing and leverage at 1.4x and 2.1x, respectively, remained high at the end of MY23. However, the anticipated profitability increase in FY24 is expected to improve these metrics over the rating horizon. The timely reduction of inventories, maintenance of margins and the realization of one-time power segment arrears will be crucial for improvement in capitalization profile.

Pending Litigation:

The developments in relation to penalties imposed by Competition Commission of Pakistan (CCP) on Pakistan Sugar Mills Association (PSMA) along with majority of the sugar mills and the subsequent legal proceedings initiated by the subject company is still pending. The impact of the imposed penalty amounting PKR 1.5 bln on RYKML would be significant. However, the Company has filed an appeal before the Competition Appellate Tribunal against the order of CCP, along with other sugar mills in Punjab zone. The Appellate Tribunal has restrained the CCP from adopting any coercive measures against The Company for recovery of the fine. The Company also challenged the same order of CCP before the Lahore High Court (LHC) in a writ petition, along with other sugar mills in the Punjab zone. The operation of the said order has been suspended and CCP has been restrained from recovering penalty imposed in terms of the order of the LHC dated Oct 18, 2021. The matter is pending adjudication before the LHC. Given uncertainty and materiality of the outcome, VIS will continue to monitor further developments in this matter.

RYK Mills Limited **Appendix I**

REGULATORY DISCLOSURES

Name of Rated Entity	RYK Mills Limited
Sector	Sugar
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	see table below
Instrument Structure	N/A
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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Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook/Rating Watch	Rating Action
RATING TYPE: ENTITY				
19/09/2024	**A**	**A-2**	**Positive**	**Reaffirmed**
05/10/2023	A	A-2	Positive	Maintained
15/02/2022	A	A-2	Stable	Reaffirmed
19/02/2021	A	A-2	Stable	Reaffirmed
17/01/2020	A	A-2	Stable	Initial

Due Diligence Meetings Conducted

S.No.	Name	Designation	Date
1.	Mr. Makhdum Omer Shehryar	Primary Sponsor Director	July 26, 2024