RATING REPORT

Etihad Sugar Mills Limited

REPORT DATE:

April 9, 2025

RATING ANALYSTS:

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RATING DETAILS				
Rating Category	**Latest Rating**		**Previous Rating**	
	Long-term	**Short-term**	**Long-term**	**Short-term**
Entity	A	A2	A	A2
Outlook/Rating Watch	Stable		Stable	
Rating Action	Reaffirmed		Upgrade	
Rating Date	*April 09, 2025*		*February 21, 2024*	

COMPANY INFORMATION	
Incorporated in 2006	**External auditors:** Crowe Hussain Chaudhury & Co., Chartered Accountants
Public Un-listed Company	**Chairman of the Board:**
Key Shareholding	**Chief Executive Officer:** Mr. Sakandar Ali Choudhry
Al-Jawahir Technical Overseas Contracting LLC-FZ, Dubai ~40.66%	
Mr. Hashim Jawan Bakhat ~10.696%	
Chaudhary Muhamad Munir ~10.809%	
Technical Associates Pakistan (Pvt) Limited ~9.1%	
Mr. Faisal Munir ~9.091%	
Mr. Muhammad Shakil ~7.107%	
Mr. Sohail Munir ~6.577%	

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

OVERVIEW OF THE INSTITUTION

Etihad Sugar Mills Limited (ESML) was incorporated in 2006 as an unquoted public limited under the Companies Ordinance, 1984. Principal business activity of the company is manufacturing and sale of sugar and its byproducts.

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Company Profile.

Etihad Sugar Mills Limited ("ESML" or "the Company") was incorporated in 2006 as an unquoted public limited under the Companies Ordinance, 1984. The principal business activity of the Company is manufacturing and sale of sugar and its byproducts. ESML head office is in Lahore, while the manufacturing facilities are located in District Rahim Yar Khan, Punjab.

Operational Performance:

Crushing Season	21-22	22-23	23-24
Total Crushing Capacity TCD	16,000	16,000	25,000
Crushing Days	138	111	112
Total Cane Crushed	2,336,469	1,975,739	2,098,489
Cane Crushed TCD	16,931	17,799	18,737
Sugar Production	241,830	217,034	216,326
Sucrose Recovery Ratio	10.35%	10.99%	10.31%
Molasses Produced	111,784.75	90,424.53	91,346.31
Molasses Recovery	4.78%	4.58%	4.35%

In 2024, the volume of cane crushing increased by 6.2% to 2,098,489 metric tons, compared to the previous period, when severe floods had adversely impacted crop yields. The recovery in cane yield contributed to the higher availability of cane leading to an increase in crushing volume in the current period. In the prior year, a slight delay in crushing activities resulted in a higher sucrose recovery rate of 10.99%, which has now normalized to 10.31% in the current year. Additionally, as per management, the quality of sugarcane procured in 2024 was lower than anticipated, with reduced juice content and a higher fiber concentration compared to the cane procured in the 2023 season. This resulted in lower sugar production of 216,326 metric tons (2023: 217,034 metric tons) despite higher cane crushing volume. Molasses recovery was also low at 4.35% (2023: 4.58%) in 2024.

Industry Update:

In 2024-25, sugarcane production is projected to reach 83.5 million metric tons (MMT), reflecting a 3% increase from the previous year, according to the U.S. Department of Agriculture (USDA). The growth is attributed to an expansion in the cultivation area, driven by the government's increase in the minimum support price (MSP) over the past two years. However, the MSP policy has been discontinued from the beginning of the 2024-25 season following commitments under the International Monetary Fund (IMF) program. Additionally, production has been supported by improved yields, facilitated by post-flood recovery efforts and enhanced sucrose recovery rates, particularly in the Sindh region.

Meanwhile, sugar prices increased by 24% year-on-year in FY24. The prices peaked at around PKR 157/kg before moderating to PKR 134/kg, largely influenced by government-imposed restrictions on export allowances, which contributed to price stabilization.

According to the US Department of Agriculture (USDA), sugar consumption is expected to rise marginally to 6.6 MMT in 2025 (2024: 6.4 MMT), driven by population growth and increased demand from the food processing and beverage industries, with the latter accounting for approximately 7% of total production. Meanwhile, production is projected at 6.8 MMT in 2025 (2024: 6.6 MMT). Despite the anticipated production surplus, USDA expects Pakistan to continue prioritizing domestic price stability and supply sufficiency.

As of November 2024 end, sugar stocks were estimated at approximately 1.08 million tons, including unutilized export quotas of 604,000 tons. By early December, industry estimates placed leftover stocks—excluding exportable quantities—at around 554,959 tons, incorporating fresh stocks entering the market.

Key Rating Divers:

Business Risk Profile

Industry Risk: Medium

The business risk profile of the sugar sector in Pakistan is assessed as medium, shaped by seasonal and cyclical production patterns, competitive procurement pressures, government intervention, and exposure to price and interest rate risks. Sugarcane harvesting is concentrated within a 2–3-month window (Dec – Feb/Mar), while sugar stocks are to be carried throughout the year, thus exposing mills to price and interest rate risks. Low crop yields and variations in sucrose recovery rates persist due to absence of R&D and mechanized farming. Despite these inefficiencies, sugar demand remains inelastic, driven by population growth and demand from ancillary industries.

The perishable nature of sugarcane necessitates proximity between farms and sugar mills, resulting in high competition for procurement and exerting pressure on raw material costs. This is further compounded by the minimum procurement price set by the government, which particularly affects smaller players. However, the government intervention in sugarcane pricing has been discontinued from the beginning of the 2024-25 season on behest of the IMF. While competition risk on the demand side is medium to low, given sugar's commodity nature, it remains high on the supply side due to the clustering of mills near sugarcane-growing areas.

Profit margins are influenced by fluctuations in sugar prices, which depend on stock levels, expectation of new harvest, artificial shortages, and government trade policies. The cost structure is largely locked during the crushing season, with sugarcane procurement accounting for ~90% of total production cost, while selling prices vary throughout the year, creating price risk for mills. Additionally, sugar companies incur significant interest costs on carrying sugar stockpiles, making them vulnerable to interest rate movements.

The sector operates under strict government controls, including licensing restrictions for new mills, minimum support prices for sugarcane to protect farmers (now done away with), and import/export regulations, all of which influence market dynamics. While protectionist policies keep domestic sugar prices higher than international levels, they also lead to periodic surpluses or shortages. In surplus years, export opportunities help stabilize local prices but remain dependent on government policy decisions.

The sector's risk profile will remain sensitive to volatility in the spread between sugarcane procurement costs and sugar selling prices, as well as changes in government policies. Despite these challenges, sugar's status as an essential commodity with no direct substitutes provides stability to the industry's overall risk profile.

Financial Risk Profile

In 2024 the company's revenue increased by 9% primarily due to higher prices, while volumes declined as a result of lower recoveries and the management's decision to control offtake in anticipation of further price adjustments and the expected government allowance for exports. However, the delay in government approval of exports, aimed at stabilizing domestic prices, led to an industry-wide inventory buildup and exerted pressure on margins. The Company's average sugar prices increased by 37%, exceeding the industry average, whereas molasses prices grew only by 8% during the year. The overall weighted average selling price of products increased by approximately 32%, while the cost of raw materials consumed rose by 47%

during the period under review. Consequently, gross margins were lower at 16.29% in 2024 (2023: 20.23%), albeit remaining around its historical range.

In addition to lower gross margins, an increase in short-term borrowings to finance higher working capital requirements further impacted profitability. Resultantly, net margins were reported at 5.15% in 2024 (2023: 8.40%). Working capital requirements increased mainly due to higher inventory levels leading to greater reliance on short-term borrowings. This higher debt utilization resulted in an increase in gearing and leverage ratios, which rose to 0.84x (2023: 0.26x) and 1.42x (2023: 1.32x), respectively. Despite this increase, capitalization remains conservative relative to industry benchmarks.

The rise in short-term borrowing led to a higher financial burden. This, coupled with lower operational profitability, contributed to a contraction in Funds from Operations (FFO), with the Debt Service Coverage Ratio (DSCR) declining to 1.41x in 2024 (2023: 1.92x), though it remained at healthy level. The current ratio declined to 1.27x (2023: 1.32x) though remained sufficient and well aligned with the assigned ratings.

Etihad Sugar Mills Limited Appendix I

Financial Summary

Balance Sheet (PKR Millions)	FY21A	FY22A	FY23A	FY24A
Property, plant and equipment	7,738.00	12,355.18	11,739.30	11,194.06
Right-of-use Assets	0.00	0.00	10.12	0.00
Intangible Assets	0.00	18.49	0.62	0.00
Long-term Investments	4,448.00	4,619.92	5,986.30	5,986.30
Stock-in-trade	7,973.00	3,849.93	3,085.83	7,251.83
Trade debts	0.00	17.49	41.48	45.25
Short-term Investments	0.00	0.00	0.00	0.00
Cash & Bank Balances	110.00	111.63	98.87	193.04
Other Assets	3,320.00	3,624.76	5,310.83	6,055.02
Total Assets	23,589.00	24,597.40	26,273.35	30,725.50
Creditors	2,444.00	2,578.86	190.49	155.13
Long-term Debt (incl. current portion)	2,395.00	1,553.73	2,052.22	950.28
Short-Term Borrowings	7,179.00	3,636.99	314.15	8,092.18
Total Debt	9,574.00	5,190.72	2,366.37	9,042.46
Other Liabilities	2,356.00	3,932.87	9,522.91	6,056.49
Total Liabilities	14,374.00	11,702.45	12,079.77	15,254.08
Paid up Capital	990.00	990.00	990.00	990.00
Revenue Reserve	4,416.00	4,630.28	6,894.66	8,440.21
Other Equity (excl. Revaluation Surplus)	669.00	1,300.62	1,300.62	1,300.62
Sponsor Loan	669.00	1,300.62	1,300.62	1,300.62
Equity (excl. Revaluation Surplus)	6,075.00	6,920.90	9,185.28	10,730.83

Income Statement (PKR Millions)	FY21A	FY22A	FY23A	FY24A
Net Sales	16,465.80	14,538.32	22,765.04	24,751.48
Gross Profit	3,337.80	2,349.29	4,605.79	4,032.96
Operating Profit	2,988.80	1,879.04	3,923.11	3,306.16
Finance Costs	750.00	1,140.85	1,213.27	1,930.11
Profit Before Tax	2,541.80	1,098.46	3,072.63	1,805.80
Profit After Tax	1,495.80	497.82	1,913.04	1,273.70

Ratio Analysis	FY21A	FY22A	FY23A	FY24A
Gross Margin (%)	20.27%	16.16%	20.23%	16.29%
Operating Margin (%)	18.15%	12.92%	17.23%	13.36%
Net Margin (%)	9.08%	3.42%	8.40%	5.15%
Funds from Operation (FFO) (PKR Millions)	2,042.62	871.94	1,745.32	1,537.35
FFO to Total Debt* (%)	21.34%	16.80%	73.76%	17.00%
FFO to Long Term Debt* (%)	85.29%	56.12%	85.05%	161.78%
Gearing (x)	1.58	0.75	0.26	0.84
Leverage (x)	2.37	1.69	1.32	1.42
Debt Servicing Coverage Ratio* (x)	2.22	1.12	1.92	1.41
Current Ratio (x)	1.04	1.07	1.32	1.27
(Stock in trade + trade debts) / STD (x)	1.15	1.15	11.28	0.95
Return on Average Assets* (%)	7.42%	2.07%	7.52%	4.47%
Return on Average Equity* (%)	29.66%	7.66%	23.76%	12.79%
Cash Conversion Cycle (days)	86.39	102.03	42.35	88.65

**Annualized, if required*

A - Actual Accounts

M - Management Accounts

REGULATORY DISCLOSURES — Appendix II

Name of Rated Entity	Etihad 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				
09-04-2025	A	A2	Stable	Reaffirmed
21-02-2024	A	A2	Stable	Upgrade
25-10-2022	A-	A2	Stable	Reaffirmed
06-12-2021	A-	A2	Stable	Reaffirmed
19-11-2020	A-	A2	Stable	Reaffirmed
10-01-2020	A-	A2	Stable	Initial

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.
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

Name	Designation	Date
Mr. Sohail Dil	CFO	21ST Feb 2025
Mr. Sajid Ali	AGM Accounts & Finance	