RATING REPORT

Ashraf Sugar Mills Limited

REPORT DATE:

February 22, 2021

RATING ANALYSTS:

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RATING DETAILS		
	Initial Rating	
Rating Category	Long-term	Short-term
Entity	A-	A-2
Rating Date	*22 February, 2021*	
Rating Outlook	Stable	

COMPANY INFORMATION	
Incorporated in 1978	**External auditors:** Azhar Zafar & Company Chartered Accountants
Public Limited (Unlisted) Company	**Chairman:** Ch. Muhammad Zaka Ashraf **CEO:** Mr. Aurangzeb Mohsin
Key Shareholders (with stake 5% or more): Ch. Muhammad Zaka Ashraf -- 78.53% Ch. Khan Muhammad Ashraf -- 5.67%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria: Corporates (May 2019) ***https://www.vis.com.pk/kc-meth.aspx***

Ashraf Sugar Mills Limited

OVERVIEW OF THE INSTITUTION

Ashraf Sugar Mills Limited (ASML) was incorporated as a Public Limited Company in September 1978 under the Companies Act, 1913 (now Companies Act, 2017). The registered office of the company is located at 11 Upper Mall, Lahore.

Profile of Chairman

Ch. Muhmmad Zaka Asharf is an ex-chairman Pakistan Cricket Board and ex-president/CEO of Zarai Taraqiati Bank Ltd. He also held portfolios of Advisor to Chief Minister Sindh, Central Chairman of All Pakistan Sugar Mills Association, Member Executive Committee Lahore Chamber of Conference & Industry and Vice Chairman of the Federation of Pakistan Chamber of Commerce and Industry Standing Committee on Food & Agriculture.

Profile of CEO

Mr. Aurangzeb Mohsin has been associated with AGI since 2013 and was appointed as CEO in Sep'20. He is retired banker with more than 40 years of experience in the banking sector.

Financial Snapshot

Tier-1 Equity: end-FY20: Rs. 2.9b; end-FY19: Rs. 2.5b; end-FY18: Rs. 2.4b.

Assets: end-FY20: Rs. 10.0b; end-FY19: Rs. 12.5b; end-FY18: Rs 12.6b.

Profit After Tax: FY20: Rs. 308.0m; FY19: Rs. 9.4m; FY18: Rs. 277.8m.

RATING RATIONALE

Ashraf Sugar Mills Limited (ASML) is primarily involved in production and sale of crystalline sugar, molasses and other by-products. Majority of the shareholding is vested with the sponsoring family. The company is a part of 'Ashraf Group of Industries' having presence in sugar, coal mining, stone quarry, livestock & dairy, power, corporate agriculture farming and real estate. Crushing capacity of the mill stands at 10,000 tpd while power requirements of the company is entirely met through bagasse-based captive power source of 26.5 MW.

The ratings assigned incorporate topline growth on back of higher sugar offtake coupled with increase in sugar prices. However, gross margins of the company are largely on the lower side vis-à-vis other industry players mainly due to lower sucrose recovery. The management has been striving for quality improvement and process efficiencies through extensive BMR to meet quality standards of corporate clientele which contributes towards more than two-third of the revenue. The ratings also factor in capital expenditure contemplated by the management in the near term to conserve energy and reduce production losses which is likely to augur well for the company. The capex would also include upgradation of power house and installation of furnaces in view of the management's plan to tap steel business, going forward. This would allow the company to remain competitive and curtail the risk emanated from cyclicality of sugar sector to some extent through diversification. Furthermore, liquidity is considered adequate and capitalization indicators are sound. While decrease in recovery rates due to early start of crushing season and increase in sugarcane procurement cost may put strain on profitability in the ongoing year, the same is expected to partially offset given positive outlook for average retail prices of sugar. Meanwhile, the ratings remain sensitive to business risk emanating from inherent cyclicality in crop levels, raw material prices and any adverse changes in regulatory duties. Completion of efficiency and severity initiatives with improvement in gross margins while maintaining leverage and liquidity at comfortable level is considered important, going forward.

Key Rating Drivers

Corporate Profile: ASML, initially named as Bahawalpur Sugar Mills Limited, is a part of Ashraf Group of Industries (AGI) which was founded by late Chaudhary Muhammad Ashraf. After the demise of founder, the group has been led by his son, Ch. Muhammad Zaka Ashraf, who also holds majority shareholding in ASML. Presently, Board of Directors (BoD) comprises three members; being an unlisted public entity the company meets the minimum requirement of board members.

Among other group companies, H.M. Iqbal Coal Mines (Pvt.) Ltd. (HMICM) is located in Hyderabad at the Lakhra coal fields. These leasehold mines, stretched over an area of 2000 acres, were acquired in 1970 for a tenure of 30 years; the lease has been in renewal every 10 years since then. In 1978, HMICM also acquired mining rights in Dandot, Tehsil Pind Dadan Khan, District Jhelum in Punjab that is spread over an area of 1000 acres. AGI has also acquired leasehold & exploration rights of stone quarry (granite) in Nagar Parkar near (Karonjhar Hills) District Tharparkar in the name of K.M. Mining & Minerals and M/s Red Bricks. Livestock farming has been carried out under the name of Ashraf Dairies at various locations, which are majorly adjacent to the group's agri farms. AGI has also completed various construction projects in real estate including hospitals, industrial buildings and other engineering projects in various cities. The group started a multi-fuel (mainly baggase-based and 20% other biomass) power project of 31.2 MW under the banner of Bahawalpur Energy Limited. License acquired from NEPRA is valid till Nov'21; however, the project has not signed energy purchase agreement yet due to disagreement with CPPA on upfront tariff terms and the case is pending in the court of law.

Production update: Production capacity remained at 10,000 tpd. The mill was operational for 109 days during 2019-20 season (2018-19: 101 days; 2017-18: 132 days) and crushed 834.2K tons (2018-19: 859.4K tons; 2017-18: 1,062.7K tons) of sugarcane leading to lower capacity utilization of 76.5% (2018-19: 85.1%; 2017-18: 80.5%). Sucrose recovery rate decreased to 9.79% (2018-19: 10.23%; 2017-18: 10.06%) during the outgoing season. Resultantly, total sugar produced decreased to 81,636 tons (2018-19: 87,879 tons; 2017-18: 106,845 tons).

With lower crushing and recovery rate of 4.28% (2018-19: 4.59%; 2017-18: 5.16%), molasses production decreased to 35,726 tons (2018-19: 39,395 tons; 2017-18: 54,800 tons) during 2019-20 season. As per directives of government, the mill started crushing earlier from November 10, 2020 for 2020-21 season (2019-20: from November 27, 2019). ASML has crushed 416,239 tons of sugarcane as of December 31, 2020 and has produced sugar of 37,128 tons yielding a recovery rate of 8.92%. As per management, the ongoing crushing season is expected to last for 110 days and recovery rate is expected to decrease by 0.5% owing to earlier start of crushing which may lead to production losses of around 4K tons in sugar output. A snapshot of production statistics is given below:

	FY18	FY19	FY20
Crushing Capacity – tpd	10,000	10,000	10,000
Cane Crushed – tpd	8,051	8,509	7,653
Crushing Days	132	101	109
Capacity Utilization – %	80.51	85.09	76.53
Sucrose Recovery – %	10.06	10.23	9.79
Sugar Produced – tons	106,845	87,879	81,636
Molasses Produced- tons	54,800	39,395	35,726
Molasses Recovery Rate-%	5.16	4.59	4.28

Total power requirement of the company while running at full capacity is around 17 MW which is entirely met through bagasse-based captive power source of 26.5 MW capacity. The company has two low pressure turbines of 15 MW and 1 turbine of 5 MW. Another turbine of 6.5 MW is used as a backup source.

Capital expenditure incurred to comply with product quality standards of corporate clients: Revenue mix of the company was largely tilted towards institutional sales, proportion of which has been increasing on a timeline basis (FY20: 68%; FY19: 53%; FY18: 43%). The company has also received various ISO certifications related to manufacturing, warehousing, marketing & sales of sugar along with 'Hilal' and Food Safety System certifications. Top ten institutional clients of ASML with net sales value are tabulated below:

	Name of Customer (Rs. million)	FY20
1	Coca Cola Beverages Pakistan Ltd.	2,826.6
2	Lotte Akhtar Beverages (Pvt.) Ltd.	1,256.6
3	Shamim and Company (Pvt.) Ltd.	667.4
4	Sukkur Beverages (Pvt.) Ltd.	184.5
5	Marhaba Laboratories (Pvt.) Ltd.	112.2
6	Northern Bottling Company (Pvt.) Ltd.	99.9
7	Murree Brewery Company Ltd.	79.4
8	A. Rahim Foods (Pvt.) Ltd.	71.4
9	Haidri Beverages (Pvt.) Ltd.	55.8
10	Ajmair Foods (Pvt.) Ltd.	47.5
	Total Institutional Sales	**5,401.3**

In order to meet quality standards and to expand its institutional client base, the company has made notable capex in Balancing, Modernization and Replacement (BMR) over the last three years. Property, plant and equipment stood higher at Rs. 6.7b (FY19: Rs. 5.7b; FY18: Rs. 5.5b) at end-FY20. Additions including CWIP of Rs. 436.9m (FY19: Rs. 924.0m; FY18: Rs. 682.0m) mainly pertained to BMR for process efficiencies in sugar house, installation of Falling Film Evaporators (FFE) and automation of six refine sugar vacuum pans along with civil work on factory building and warehouses. Expenditure during FY19 largely included installation of FFE to enhance steam-saving, a turbine of 15 MW, centrifugal machine and a new bagging house among other additions. Meanwhile, BMR during FY18 was mainly related to process efficiencies and quality improvement in sugar house.

The management has contemplated to make a phase-wise capital expenditure of around Rs. 2.7b in the ongoing year out of which Rs. 1.9b would be financed through long-term loan. The management has applied for SBP Temporary Economic Refinance Facility (TERF) charged at a subsidized rate of 5% per annum; window for the said facility is opened till March 31, 2020. The loan would be repayable in thirty-two quarterly installments with a grace period of two years. In the first phase, two turbines of 20 MW each and high pressure boilers of 140 tons/hour would be installed by end-Feb'22. In the second phase, furnaces would be added by end-Feb'23. Estimated cost on turbines, boilers and furnaces would be around Rs. 1.1b. In parallel to the aforementioned additions, equipment needed to control production losses and other machinery like shredders, cutting machines, feeding table, vacuum machines etc. requires an expenditure of Rs. 789.0m in FY22 and FY23. Further, capital expenditure of Rs. 759.8m is proposed for civil works over the same period to accommodate the equipment and synchronize the processes which would be financed through internal cash flows.

The decision of upgrading power house and adding furnaces has been taken in view of the management's plan to tap steel business. This would allow the company to remain competitive and curtail the risk emanated from cyclicality of sugar sector to some extent through diversification.

Lower recovery rate led to decrease in gross margins: The company reported net revenue of Rs. 7.9b (FY19: Rs. 7.0b; FY18: Rs. 6.2b) during FY20. Revenue from sugar was recorded at Rs. 7.3b (FY19: Rs. 6.6b; FY18: Rs. 5.8b). The company was able to sell 111,010 MT (FY19: 120,304 MT; FY18: 119,952 MT) of sugar at an average rate of Rs. 66,207/MT (FY19: Rs. 54,468/MT; FY18: Rs. 48,621/MT) during FY20. Net molasses sales was recorded at Rs. 572.5m (FY19: Rs. 411.2m; FY18: Rs. 392.1m). The company sold 33,500 MT of molasses (FY19: 39,653 MT; FY18: 64,309) at a higher average rate of Rs. 17,090/MT (FY19: Rs. 10,371/MT; FY18: Rs. 6,098/MT) during FY20. Management expects the sugar prices to remain high in the ongoing year as well given overall lower sugar stocks held with the companies and further decrease in sugar production during the 2020-21 season due to lower recovery rates as a result of early onset of crushing. Additionally, molasses prices are also expected to remain intact in the short-term given its sustained demand for ethanol. A snapshot of the revenue mix is presented below:

Rs. Million	FY18	FY19	FY20
Sugar Sold (MT)	119,952	120,304	111,010
Sugar Price/MT	48,621	54,468	66,207
Molasses Sold (MT)	64,309	39,653	33,500
Molasses Price/MT	6,098	10,371	17,090

Despite higher average selling prices for sugar and molasses, gross margins of the company decreased to 11.7% (FY19: 12.4%; FY20: 10.6%) during FY20 primarily on account of lower recovery rate. Cost of sales increased to Rs. 7.0b (FY19: Rs. 6.1b; FY18: Rs. 5.6b). Albeit average procurement cost of sugarcane also increased to Rs. 195/maund vis-à-vis Rs. 189/maund, cost of raw material as proportion of cost of goods manufactured remained largely unchanged at 83% (FY19 & FY18: 84%). On the other hand, salaries, wages and benefits were recorded lower due to rationalization of employee related costs within various departments. Repair and maintenance expenses registered an increase; meanwhile all other costs were largely streamlined with the sales. Nevertheless, the government has fixed the sugarcane support price at Rs. 200/maund for the current season, the issue has remained unresolved and sugarcane prices witnessed further increase across all regions due to shortage of sugarcane and quality issues. Furthermore, involvement of middlemen to facilitate growers - as the government issued orders to channel the payments through banks - has also caused some increase in cane prices. Up till now, the average cost of sugarcane is Rs. 240/maund in the ongoing season, as per management.

Administrative expenses were recorded lower at Rs. 166.7m (FY19: Rs. 186.1m; FY18: Rs. 185.6m) mainly due to lower directors' remuneration, legal and professional fee, operating rental paid, traveling and depreciation. Distribution and marketing expenses decreased slightly to Rs. 31.9m (FY19: Rs. 34.5m; FY18: Rs. 61.7m). Other income decreased to Rs. 163.6m (FY19: Rs. 243.4m; FY18: Rs. 375.5m) on account of lower gain on sale of operating fixed asset during the ongoing year; meanwhile, the company also records net sale of bagasse and mud under the head of other income. Other expenses of Rs. 18.1m (FY19: Rs. 10.6m; FY18: Rs. 17.3m) were incurred during FY20. Finance cost decreased to Rs. 575.7m (FY19: Rs. 731.5m; FY18: Rs. 461.1m) mainly on account of lower average borrowings. Moreover, tax benefit of Rs. 8.9m (FY19: Rs. (136.6)m; FY18: Rs. (33.4)m) was reported due to timing differential of capex made during prior years. The company reported net profit of Rs. 308.0m (FY19: Rs. 9.4m; FY18: Rs. 277.8m) with a net margin of 3.9% (FY19: 0.1%; FY18: 4.5%) during FY20.

Adequate liquidity and debt coverage profile: Despite some increase in profitability**,** funds from operations remained largely stagnant at Rs. 404.0m (FY19: Rs. 397.4m; FY18: Rs. 380.2m) in FY20 mainly on account of higher difference between paid and incurred finance cost. In line with lower overall borrowings, FFO to total debt improved to 0.14x (FY19: 0.07x; FY18: 0.07x) while FFO to long-term debt remained at 0.33x (FY19: 0.32x; FY18: 0.56x). Given lower long-term repayments, debt service coverage ratio increased slightly to 1.27x (FY19: 1.18x; FY18: 1.13x) during FY20.

Stock in trade declined to Rs. 1.1b (FY19: Rs. 3.1b; FY18: Rs. 4.4b) as a result of higher sugar off-take and simultaneous decrease in sugar inventory to 5,747 tons (FY19: 67,546 tons; FY18: 35,121 tons) by end-FY20. Trade debts stood lower at Rs. 165.1 (FY19: Rs. 2.0b; FY18: Rs. 497.0m) by end-FY20; higher trade debts outstanding at end-FY19 were due to extended credit period provided to customers to accommodate them amid change in sales tax regime. The proportion of credit sales witnessed a notable increase to 75% (FY19: 63%; FY18: 53%) over the few years in line with higher corporate sales. The company provides a credit period of 30 to 60 days to institutional clients while majority of the open market sale is conducted on a cash basis.

Loans and advances stood higher at Rs. 639.0m (FY19: Rs. 257.0m; FY18: Rs. 416.5m) by end-FY20 mainly on account of higher loans extended to growers amounting Rs. 526.6m (FY19: Rs. 123.3m; FY18: Rs. 26.0m). The company has been providing unsecured and interest free loans to mill gate growers in order to assist them in purchasing seeds, fertilizers and pesticides. Trade deposits, prepayments and others amounting Rs. 631.9m (FY19: Rs. 735.4m; FY18: Rs. 909.8m) mainly pertained to margin deposits, payments against letters of credit and other advance payments. Balance outstanding with statutory authorities constituting advance income tax and sales tax refundable amounted to Rs. 313.7m (FY19: Rs. 297.4m; FY18: Rs. 347.6m) at end-FY20. Cash and bank balances were higher at Rs. 232.5m (FY19: Rs. 42.7m; FY18: Rs. 209.9m) at end-FY20. Improvement in current ratio was witnessed (FY29: 1.28x; FY19: 1.06x; FY18: 1.00x). Meanwhile, coverage of short-term borrowings via stock in trade and trade debts decreased to 0.78x (FY19: 1.12x; FY18: 0.96x).

Enhanced equity base coupled with lower borrowings led to improvement in leverage indicators: Tier-1 equity increased to Rs. 2.9b (FY19: Rs. 2.5b; FY18: Rs. 2.4b) by end-FY20 as a result of profit retention. Sponsors support in terms of interest free, unsecured loan of Rs. 652.1m (FY19: Rs. 652.1m; FY18: Rs. 652.1m) remained intact; the loan is payable on discretion of the company.

Short-term borrowings declined to Rs. 1.6b (FY19: Rs. 4.7b; FY18: Rs. 5.1b) by end-FY20 in line with decrease in working capital requirements. These short-term borrowings also comprised loan from associate to the tune of Rs. 400m (FY19 & FY18: Nil) for working capital needs charged at 3M KIBOR plus 1%. Long-term borrowings including current portion stood at Rs. 1.2b (FY19: Rs. 1.2b; FY18: Rs. 679.2m) at end-FY20. ASML has availed loans amounting Rs. 52.7m and Rs. 78.3m during FY20 (FY19 & FY18: Nil) against sanctioned limits of Rs. 79m and Rs. 82m, respectively under SBP Refinance scheme for payment of salaries and wages. These two facilities are charged at subsidized rate of 2% and 3% respectively; the loans are repayable in eight quarterly installments starting from 31 Jan'21 and ending on 30 Sep'22. The remaining amounts have been completely drawdown by end-October 31, 2020. Other loan facilities pertained to demand finance amounting Rs. 815.3m carrying markup at rate of 3M KIBOR plus 1.75%-2% and are repayable in sixteen to eighteen quarterly installments. The company has availed deferment of one year for repayment of these loans under the SBP regulatory relief to dampen the effects of Covid-19. The same deferment relief has been availed for another term finance facility of Rs. 261.3m, carrying markup at the rate of 3M KIBOR plus 2.25% and is repayable in twenty equal quarterly installments. All of these long-term loans would be fully retired by end-July'25. Lease liabilities amounted to Rs. 50.0m (FY19: Rs. 68.8m; FY18: Rs. 77.3m) at end-FY20.

Trade and other payables stood higher at Rs. 396.8m (FY19: Rs. 310.1m; FY18: Rs. 334.4m) at end-FY20 mainly due to increase in sales tax payable. Meanwhile, contract liabilities, which pertain to advance payment from corporate clients, stood lower at Rs. 263.0m (FY19: Rs. 868.2m; FY18: Rs. 1.2b) at end-FY20. Current liability arising from accrued markup on overall borrowings decreased to Rs. 70.3m (FY19: Rs. 276.5m; FY18: Rs. 170.7m) by end-FY20. Given lower debt levels and overall decrease in total liabilities coupled with higher equity base, gearing and debt leverage decreased to 0.97x and 1.73x (FY19: 2.34x and 3.40x; FY18: 2.38x and 3.56x) respectively, by end-FY20. Given increase in long-term borrowings for capital expenditure, leverage indicators are likely to increase, though are expected to remain manageable, going forward.

Ashraf Sugar Mills Limited Annexure I

FINANCIAL SUMMARY *(amounts in PKR millions)*			
BALANCE SHEET	**FY18**	**FY19**	**FY20**
Property, Plant & Equipment	5,513	5,656	6,689
Stores, Spare & Loose Tools	330	318	269
Stock in Trade	4,371	3,148	1,075
Trade Debts	497	2,050	165
Loans and Advances	416	257	639
Trade Deposits, Prepayments and Other Receivables	910	735	632
Other Assets	365	313	326
Cash & Bank Balance	210	43	233
Total Assets	**12,612**	**12,520**	**10,028**
Trade & Other Payables	334	310	397
Contract Liabilities	1,240	868	263
Accrued Markup	171	276	70
Deferred Liabilities	1,101	1,168	1,423
Other Liabilities	23	28	41
Short-term Borrowings	5,090	4,659	1,600
Long-Term Borrowings *(Including current maturity)*	679	1,228	1,208
Total Liabilities	**8,638**	**8,537**	**5,002**
Paid-Up Capital	222	222	222
Total Equity	3,973	3,983	5,026
Tier-1 Equity	2,426	2,512	2,894
INCOME STATEMENT	**FY18**	**FY19**	**FY20**
Net Sales	6,224	6,964	7,922
Gross Profit	661	865	928
Operating Profit	414	645	730
Finance Cost	461	732	576
Profit Before Tax	311	146	299
Profit After Tax	278	9	308
FFO	380	397	404
RATIO ANALYSIS	**FY18**	**FY19**	**FY20**
Gross Margin (%)	10.6	12.4	11.7
Net Margin (%)	4.5	0.1	3.9
Net Working Capital	5.2	381	728
FFO to Long-Term Debt (x)	0.56	0.32	0.33
FFO to Total Debt (x)	0.07	0.07	0.14
Debt Servicing Coverage Ratio (x)	1.13	1.18	1.27
ROAA (%)	2.3	0.1	2.7
ROAE (%)	12.7	0.4	11.4
Gearing (x)	2.38	2.34	0.97
Debt Leverage (x)	3.56	3.40	1.73
Current Ratio (x)	1.00	1.06	1.28
Inventory + Receivables to Short-term Borrowings (x)	0.96	1.12	0.78

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	Ashraf 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				
	02/22/2021	**A-**	**A-2**	**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.				
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. For conducting this assignment, analyst did not deem necessary to contact external auditors or creditors given the unqualified nature of audited accounts and diversified creditor profile. Copyright 2020 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.				
Due Diligence Meetings Conducted		Name	Designation	Date	
	1	Mr. Asif Hussain Bukhari	CFO	4th February, 2021	
	2	Mr. Ali Jawwad	Head of Finance	4th February, 2021	