RATING REPORT

Ashraf Sugar Mills Limited

REPORT DATE:

April 08, 2022

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	*April 08 , 2022*		*February 22, 2021*	
Rating Outlook	Stable		Stable	

COMPANY INFORMATION

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

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Corporates (August 2021)
https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf

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

Chaudhary Muhmmad Zaka Ashraf 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: 1QFY22: Rs. 3.5b; end-FY21: Rs. 3.4b; end-FY20: Rs. 2.9b; end-FY19: Rs. 2.5b.

Assets: 1QFY22: Rs. 15.5b; end-FY21: Rs. 12.0b; end-FY20: Rs. 10.0b; end-FY19: Rs. 12.5b.

Profit After Tax: 1QFY22: Rs. 104m; FY21: Rs. 400.0m; FY20: Rs. 308.0m; FY19: Rs. 9.4m.

RATING RATIONALE

The ratings assigned to Ashraf Sugar Mills Limited (ASML) take into account the company's association with 'Ashraf Group of Industries' having business interests in sugar, coal mining, stone quarry, livestock & dairy, power, corporate agriculture farming and real estate. Business risk profile of sugar sector is high given inherent cyclicality in crop levels and raw material prices along with any adverse changes in regulatory duties. However, given the projected higher crop coverage area and yields, the balance of raw material demand supply dynamics is expected to remain manageable. The ratings further take note of developments with regards to penalties imposed by CCP on certain sugar mills and legal proceedings for interim relief initiated by the subject company. However, in the meanwhile, uncertainty of the outcome would persist on the sector. The material impact of penalty imposed (amounting to Rs. 835) on ASML will be significant therefore VIS will continue to monitor further development in this matter.

The ratings are underpinned by extensive sponsors experience, long-standing business relationships with institutional customers and relatively maintained scale of crushing operations. The ratings incorporate dip in revenues during the outgoing year owing to decline in volumetric sale of sugar, monotone revenue stream coupled with gross margins being on a lower side than peers primarily on account of 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 over four-fifths to the revenue. The ratings also factor in capital expenditure contemplated by the management by the end of next financial year to conserve energy and reduce production losses which is likely to bode 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. The liquidity profile exhibited improvement in line with higher cash flow generation to meet contractual obligations. The ratings reflect improvement in gearing by end of outgoing year; however, owing to notable increase in total liabilities in line with recognition of customer advance as contract liability under the new accounting policy, leverage increased on a timeline basis. Both leverage and gearing indicators exhibit a magnified position at end-1QFY22 given the seasonality inbuilt in the sugar industry where each quarter has sizably varying working capital requirements. The ratings remain sensitive to completion of efficiency and severity initiatives with improvement in gross margins while maintaining leverage and liquidity at comfortable level.

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. 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.

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, Chaudhary Muhammad Zaka Ashraf, who also holds majority shareholding in ASML. Presently, Board of Directors (BoD) comprises four members including the CEO; 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 was extended for another year and is now valid till Nov'22; 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.

Business Risk & Sector Update: Pakistan is the world's fifth largest producer of sugarcane, the sixth largest producer of cane sugar and the eighth largest consumer of sugar. Sugarcane production accounts for 3.4% in agriculture's value addition and 0.7% in the country's GDP. Sugarcane is grown on approximately 1.2 million hectares and provides the raw material for 90 sugar mills. The increase in area under cultivation was mainly on account of favorable weather conditions and higher economic returns. The sugar industry is the country's second largest agriculture-based industry after textiles. The business risk profile of sugar sector is considered high given inherent cyclicality in the crop yields and raw material prices. Moreover, there is notable disparity in pricing mechanism where major input cost, sugarcane support price, is regulated by the government while the price of end-product, granulated sugar, is determined by the equilibrium of demand and supply forces. Typically, sugarcane crop has production cycle of 3-to-5 years, driven largely by government support for farmers and crop yield.

Total sugarcane cultivation area for 2021-22 is 1,271K hectares around 9% higher than the previous year, while sugarcane production for the year is projected at 84,800K tons which is approximately 11% higher than the last year production of 76,360K tons. According to United States Department of Agriculture (USDA) semi-annual report of 28th Sep'21, sugar production in 2021-22 is forecasted at 6.7 million tons, around 11% higher than the current years' estimate of 6.0 million tons while sugar consumption, is expected to rise to 5.9 million tons (MY21: 5.8m MT). However, despite sufficient supply, sugar prices witnessed an increasing trend over the last three years with prices in Sep'21 recorded 92% higher than the prevailing prices in Oct'18. To control prices, Government of Pakistan (GoP) imported more than 350,000 tons of sugar in 2020-21. The increase in sugar production is expected to drive closing stocks to 2.8 million tons by end-MY22. Given current scenario of higher production, the imports allowed to build stocks to cater to exponential price increase are now discontinued. Resultantly, average sugar prices in MY21 are expected to remain lower than the previous year.

During MY21, sugarcane procurement prices have been recorded as high as Rs. 350 per mound in Punjab and Rs. 275 per mound in Sindh against the minimum support price of Rs. 200 per mound and Rs. 202 per mound in respective provinces. Punjab sugar mills commenced their crushing season MY22 on November 15, 2021, which is currently underway. For the ongoing crushing season 2021-22, notified prices of sugarcane were revised to Rs. 225 per 40 Kg in Punjab and Rs. 250 per 40 Kg in Sindh. Even after substantial increase in support prices by the Provincial Governments, the industry is procuring sugarcane at higher rates. However, as per management, due to higher crop yield, the premium paid above support prices is relatively lower than the previous season. Further, sucrose recovery rates are also expected to at around current levels with no further decline expected in the medium term.

As per the latest USDA report issued on 15th Mar'22, sugar production in 2022/23 is forecasted to reach 7.2m MT, a marginal increase over the good 2021/22 crop, due to slight increase in area and sugarcane yields. Similarly, sugar consumption is expected to increase by around 3% to 6.1m MT for 2022/23 on account of population growth and demand from the expanding food processing sector. As a result, ending stocks are expected to be higher leading to a larger exportable surplus entering 2022/23; the same is projected to result in sugar exports of one million tons in 2022/23.

Regulatory Matter involving penalty imposed by Competition Commission of Pakistan (CCP): The ratings have incorporated the developments with regards to penalties imposed by CCP on certain sugar mills and legal proceedings for interim relief initiated by the subject company. However, in the meanwhile, uncertainty of the outcome would persist on the sector. The material impact of penalty imposed, amounting to Rs. 835m on ASML will be significant and hence VIS will continue to monitor further development in this matter.

Production and capacity utilization update: Production capacity remained unchanged at 10,000 tpd. The mill was operational for 119 days during 2020-21 season (2019-2020: 109 days; 2018-19: 101 days) and crushed 1.0m tons (2019-2020: 834.2K tons ;2018-19: 859.4K tons;) of sugarcane leading to improved capacity utilization of 85.7% (2019-2020: 76.5%; 2018-19: 85.1%) during the outgoing year. On the other hand, sucrose recovery rate decreased to 9.18% (2019-2020: 9.79%; 2018-19: 10.23%) during the outgoing season owing to higher proportion of non-variety cane in total cane crushed. As per the management, the sugarcane crop has a three-year cycle output so despite good quality cane seed used for first year (plant), the usage of non-variety cane in the second (retour-I) and third (retour-II) year resulted in decline in of sucrose recovery. However, despite decline in recovery, total sugar produced increased to 93,465 tons (2019-2020: 81,636 tons 2018-19: 87,879 tons) owing to improved capacity utilization.

In addition, with increased crushing and improved recovery rate of 4.59% (2019-2020: 4.28%; 2018-19: 4.59%), molasses production increased to 46,757 tons (2019-2020: 35,726 tons; 2018-19: 39,395 tons) during 2020-21 season. As per directives of the government, the ongoing crushing season started 5 days late than the preceding year from November 15, 2022 (2020-2021: from November 10, 2020; 2019-20: from November 27, 2019). The positive momentum in the capacity utilization has continued in the ongoing year as ASML crushed higher quantity of sugarcane at 522,219 tons (by end-Dec'20: 416,239 tons) and produced 43,755 tons (by end-Dec'20: 37,128 tons) by end-Dec'21. On the other hand, sucrose recovery rate further plummeted to 8.37% on account of continued usage of non-variety cane coupled with first leg of crushing season completed; as the sugarcane matures the sugar content increases so the recovery rate is always lower during the initial crushing phase while it increases gradually towards the end. As per management, the ongoing crushing season is expected to span over 140 days with crushing expected to finish by end-Mar'22. Further, the capacity utilization is projected to be higher at 105% with sucrose recovery projected to improve by 70-80 basis points and clock at 9.2% for 2021-2022 season. A snapshot of production statistics is given below:

	FY19	FY20	FY21	1QFY22
Crushing Capacity – tpd	10,000	10,000	10,000	10,000
Cane Crushed – tpd	8,509	8,259	8,565	11,353
Crushing Days	101	109	119	49
Capacity Utilization – %	85.09	82.59	85.65	113.53
Sucrose Recovery – %	10.23	9.79	9.18	8.37
Sugar Produced – tons	87,879	81,636	93,465	43,755
Molasses Produced-Tons	39,395	35,726	46,757	22,086
Molasses Recovery Rate-%	4.59	4.28	4.59	4.23

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 (FY21: 85%; FY20: 68%; FY19: 53%). 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)	FY21
1	Coca Cola Beverages Pakistan Ltd.	2,367.1
2	Lotte Akhtar Beverages (Pvt.) Ltd.	1,143.0
3	Shamim and Company (Pvt.) Ltd.	534.4
4	Sukkur Beverages (Pvt.) Ltd.	352.7
5	Pakistan Beverage Limited	153.7
6	Haidri Beverages (Pvt.) Ltd.	103.3
7	Northern Bottling Company (Pvt.) Ltd.	94.8
8	Murree Brewery Company Ltd.	62.4

9	Pakola Products Limited	44.7
10	Ajmair Foods (Pvt.) Ltd.	40.3
	Total Top-10 Customers Sales	**4,896.4**

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. 6.8b (FY21: Rs. 6.7b; FY20: Rs. 6.7b) at end-1QFY22. The capex involved BMR for process efficiencies in sugar house and installation of Falling Film Evaporators (FFE).

The management had contemplated to make a phase-wise capital expenditure of around Rs. 2.7b for FY21 and FY22 out of which Rs. 1.7b would be financed through long-term loan. ASML procured Rs. 462.0m against the sanctioned limit of Rs. 1.5b from National Bank of Pakistan by end-1QFY22. The loan would be repayable in thirty-two quarterly installments with a grace period of two years. Further Rs. 152.0m was obtained from Samba Bank against the sanctioned limit of Rs. 200.0m during Jan'22 while Rs. 48 m was obtained till Sep'21. The loan is repayable in eighteen quarterly installments with a grace period of six months. The first phase of capex amounting to Rs. 1.1b involving installation of two turbines of 20 MW each, efficiency improvements through change of piping system and increased automation coupled with civil works would be completed by end-Apr'22. Meanwhile, the upgradation of power house involving replacement of low-pressure boilers with high-pressure boilers of 140 tons/hour with an expected capex of around Rs. 1.6b would be finished by end-Feb'23. The high-pressure boilers will result in bagasse saving which is in turn expected to positively impact margins going forward. 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. 780m in FY24 and FY25. 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.

Increase in sugar prices major reason for positive momentum in margins: Despite increase in average price of sugar to 78,545/MT (FY20: 66,207/MT), ASML's revenue was recorded lower at Rs. 6.95m (FY20: Rs. 7.9b) owing to sizable decline in volumetric sale of sugar to 77,829 MT (FY20: 111,010 MT) during FY21. On the other hand, in line with increased capacity utilization and higher molasses recovery, the quantum sales of molasses increased to 40,000 MT (FY20: 33,500 MT) resulting in higher revenue booked from the same amounting to Rs. 840.2m (FY20: 572.5m) during the outgoing year. As per the management, in line with improved crop yield leading to higher projected sugar production for FY22-23 along with higher carryover stocks the sugar prices are expected to slightly slide by Rs. 3-5/kg for the next season. On the other hand, molasses prices are expected to remain intact in the short to medium-term given its sustained demand for ethanol. A snapshot of the revenue mix is presented below:

Rs. Million	FY19	FY20	FY21	1QFY22
Sugar Sold (MT)	120,304	111,010	77,829	23,887
Sugar Price/MT	54,468	66,207	78,554.9	79,175.8
Molasses Sold (MT)	39,653	33,500	40,000	17,177
Molasses Price/MT	10,371	17,090	21,006.2	18,428.1

Th average procurement cost of sugarcane increased to Rs. 255/maund vis-à-vis Rs. 195/maund in the previous year, the same represented the major chunk constituting around 88% (FY20: 83%) of the total manufacturing cost for FY21. On the other hand, despite higher sugarcane procurement cost and reduction in sucrose recovery, the gross margins of the company exhibited positive trajectory increasing to 13.6% (FY20: 11.7%) owing to increase in retail prices of sugar, higher recovery rate of molasses and an improvement in capacity utilization indicators which lead to better absorption of fixed cost components of cost of sales. Further, administrative expenses increased to Rs. 191.2m (FY20: Rs. 166.7m) despite decrease in revenue mainly as result of increase in employee related expenses stemming from inflationary pressure on salaries along with higher legal expenses incurred. On the other hand, distribution and marketing expense declined to Rs. 22.7m (FY20: 31.9m) during FY21 on account of decrease in sugar loading expenses; the same is in sync with reduction in volume of sugar sold in the outgoing year. Further, other expenses stood higher at Rs. 22.9m (FY20: Rs. 18.1m) owing to increased contribution to workers' profit participation fund during FY21. The other income reduced sizably to Rs. 71.5m (FY20: Rs. 163.6m) during FY21 in line with lower gain on disposal of fixed assets amounting to Rs. 6.3m during FY21 as opposed to significant gain of Rs.90.2m booked in the preceding year. On the contrary, the finance cost was rationalized to Rs. 373.9m (FY20: Rs. 575.7m) owing to sharp dip in benchmark interest rates coupled with reduction in quantum of total borrowings of the company during the period under review. Despite slight dent to topline, ASML reported higher profit of Rs. 400.4m (FY20: Rs. 308.0m) during FY21 as a result of enhanced margins and curtailment of interest expense.

Going forward, the management projects to close FY22 with a topline of Rs. 9.0b. The company booked net revenue of Rs. 2.2b by end-1QFY22; however, given cyclicality vested in the sugar sector with first half of the year associated with procurement and crushing, the same is not considered a true reflective of the revenue position. As per the management, the increase in revenues is projected to be driven by higher institutional sales. Further, the gross margins were also recorded lower at 11.4% during 1QFY22 owing to early crushing season start, low sucrose recovery and high sugarcane cane support price decided. Going forward, the margins are expected to return to FY21's level on account of increase in recovery level as the crushing season progresses coupled with efficiency improvements pertaining to recent capital expenditure incurred.

Improvement in liquidity and debt coverage profile: Liquidity position of the company has improved during the rating review period on account of adequate cash flows in relation to long-term outstanding obligations and sound debt service capacity. In line with improvement in margins and higher profitability, Funds from Operations (FFO) exhibited considerable improvement to Rs. 682.2 (FY20: Rs. 404.0m) during FY21. The sizable improvement in the liquidity profile can be assessed from the fact that the FFO for FY21 is higher than the FFO for the last three fiscal periods. Although, there has been a slight increase in total borrowings during the period under review, FFO in terms of outstanding obligations was sizable and showcased an improving trend. FFO to total debt and FFO to long-term debt were recorded higher at 0.23x (FY21: 0.14x) and 0.68x (FY20: 0.33x) at end-FY21. Similarly, debt service coverage also exhibited improving trend and was also sound at 1.66x (FY20:1.27x) at end-FY21. Going forward, according to the management, cash flow position is expected to remain intact on account of maintenance of market share with continued sale to institutional clients and projected efficiency improvements in the operational processes.

Further, stock in trade increased by end-1QFY22; the same largely comprises finished goods inventory owing to cyclicality of sugar sector where highest finished goods inventory buildup is seen by end-March which coincides with the end of the crushing season. Post-March as soon as sales gain momentum, the inventory levels begin to decline. On the other hand, given 85% of ASML's sales are made to institutional clients, the company has to keep higher finished goods inventory as opposed to players offloading sugar in the open market as it is pre-requisite of corporate clients that a specific percentage of final product will be demanded right at end of the financial period. Moreover, in line with the business model of the company involving majority sales to institutional clients, the trade debts have remained on a lower side owing to 91% of the sales made on cash basis. Although all trade debts are unsecured in nature the same are considered good by the management. In addition, the aging of receivables is considered sound given the entire receivables at end-FY21 and end-1QFY22 pertained to overdue up to three months bracket therefore the probability of recovery of the receivables is on the higher side. Loans and advances declined slightly on a timeline basis to Rs 555.1m (FY21: 487.9m; FY20: 639.0m) by end-1QFY22; the same mainly constitute advances extended to suppliers for procurement of sugarcane. 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. Further, trade deposits, prepayments and other receivables increased sizably to Rs. 2.0b (FY21: Rs. 1.2b; FY20: Rs. 681.9m) by end-1QFY22; the increase was manifested in farm advances extended by ASML to sugarcane growers in order to improve the crop yields by substituting low yielding sugarcane varieties by higher yielding varieties. Balance outstanding with statutory authorities constituting advance income tax and sales tax refundable increase to Rs. 374.7m (FY21: Rs. 336.2m; FY20: Rs. 313.7m) at end-1QFY22. The liquidity profile of the company is slightly impacted with aforementioned capital stuck with the government; however, it is an exogenous factor and inherent in the sugar sector therefore rectification of the same is beyond the control of the company.

Trade and other payables stood higher at Rs. 737.1m (FY21: Rs. 446.8m; FY20: Rs. 396.8m) at end-1QFY22 mainly due to increase in trade creditors including suppliers arising from normal course of the business. The current ratio of the company declined on a timeline basis to 1.13x (FY21: 1.16x; FY20: 1.28x) primarily on account of substantial increase in contract liabilities during the period under review. There was an exponential increase in contract liabilities to Rs. 3.0b (FY21: 1.7b; Rs. 263.0m) owing to change in the accounting policy from July'21 onwards that requires all advances taken from institutional clients before delivery of goods to be recorded as liability rather than booked as sale so un till complete sale is not made to the particular client the liability cannot be offset. Previously the advance received from the client was treated as part of sales. Meanwhile, coverage of short-term borrowings via stock in trade and trade debts increased on a timeline to 1.28x (FY21: 1.38x; FY20: 0.78x) by end-1QFY22.

Enhanced equity base coupled with limited increase in total borrowings led to improvement in leverage indicators: during the outgoing year: Tier-1 equity increased to Rs. 3.5b (FY21: Rs. 3.4b; FY20: Rs. 2.9b) by end-1QFY22 as a result of internal capital generation. Sponsors support in terms of interest free, unsecured loan of Rs. 652.1m (FY21: Rs. 652.1m; FY20: Rs. 652.1m) remained intact; the loan is payable on discretion of the company and expected to remain vested in ASML during the medium to long-term.

Short-term borrowings increased to Rs. 3.4b (FY21: Rs. 1.9b; FY20: Rs. 1.6b) by end-1QFY22in line with increase in working capital requirements. The sizable increase in short-term funding by end-1QFY22 is cyclical in nature as the sugar crushing period only lasts for around four months in which maximum stock keeping of final goods takes place; the end of crushing season correlates is the highest working capital requirement period. These short-term borrowings also comprised loan from associate to the tune of Rs. 686.0m (FY20: Rs. 400.0m) at end-FY21 for working capital needs charged at 3M KIBOR plus 1%; the loan is payable in the ongoing year. Long-term borrowings including current portion increased slightly to Rs. 1.3b (FY21: Rs. 1.0b; FY20: Rs. 1.2b) at end-1QFY22. ASML has availed loans amounting Rs. 26.33m (FY20: Rs. 52.7m) and Rs. 48.37m (FY20: Rs. 0m) during FY21 against sanctioned limits of Rs. 79m for Salary Refinancing at 2% markup rate and Rs. 200m for Term Finance against LCs at 3 Months KIBOR + 1.75% markup rate. One more loan was also availed for salary refinancing with outstanding balance of Rs. 41m at 3% markup rate. The other two major loan facilities pertained to demand finance aggregating to Rs. 612.0m (FY20: Rs. 829.1m) at end-FY21 carrying markup at rate of 3M-KIBOR plus 1.25%-2%; the facilities are repayable in sixteen to eighteen quarterly installments ending on 31st Mar'23 and 7th Feb'25 respectively after the availment of one year deferment 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. 220.0m (FY20: Rs. 247.5m), carrying markup at the rate of 3M KIBOR plus 2.25% with repayment in twenty equal quarterly installments. All of these long-term loans would be fully retired by end-Sep'25. Lease liabilities amounted to Rs. 31.8m (FY20: Rs. 50.0m) at end-FY21.

Given minimal increase in debt level coupled with augmentation of equity base, gearing improved to 0.87x (FY20: 0.97x) by end-FY21. On the other hand, in line with significant increase in total liabilities on account of recognition of customer advance as contract liability under the new accounting policy, leverage increased on a timeline basis to 2.86x (FY21: 1.94x; FY20: 1.73x) by end-1QFY22. Both leverage and gearing indicators exhibit a magnified position at end-1QFY22 given the seasonality inbuilt in the sugar industry where each quarter has sizably varying working capital requirements. Capital expenditure amounting to Rs. 2.0b is planned to be incurred in tranches till end-FY25 against which ASML plans to procure commercial funding therefore capitalization indicators are expected to slightly scale upwards during the rating horizon while remaining under manageable limits.

Ashraf Sugar Mills Limited Annexure I

FINANCIAL SUMMARY *(amounts in PKR millions)*					
BALANCE SHEET	**FY18**	**FY19**	**FY20**	**FY21**	**1QFY22**
Property, Plant & Equipment	5,513	5,656	6,689	6,684	6,819
Stores, Spare & Loose Tools	330	318	269	527	521
Stock in Trade	4,371	3,148	1,075	2,484	4,281
Trade Debts	497	2,050	165	192	53
Loans and Advances	416	257	639	488	555
Trade Deposits, Prepayments and Other Receivables	910	735	632	1,180	2,028
Other Assets	365	313	326	346	388
Cash & Bank Balance	210	43	233	91	882
Total Assets	**12,612**	**12,520**	**10,028**	**11,992**	**15,527**
Trade & Other Payables	334	310	397	447	737
Contract Liabilities	1,240	868	263	1,659	3,007
Accrued Markup	171	276	70	112	108
Deferred Liabilities	1,101	1,168	1,423	1,349	1,349
Other Liabilities	23	28	41	56	66
Short-term Borrowings	5,090	4,659	1,600	1,941	3,396
Long-Term Borrowings *(Including current maturity)*	679	1,228	1,208	1,011	1,343
Total Liabilities	**8,638**	**8,537**	**5,002**	**6,564**	**9,995**
Paid-Up Capital	222	222	222	222	232
Total Equity	3,973	3,983	5,026	5,428	5,532
Tier-1 Equity	2,426	2,512	2,894	3,385	3,489
INCOME STATEMENT	**FY18**	**FY19**	**FY20**	**FY21**	**1QFY22**
Net Sales	6,224	6,964	7,922	6,954	2,208
Gross Profit	661	865	928	947	251
Operating Profit	414	645	730	734	189
Finance Cost	461	732	576	374	92
Profit Before Tax	311	146	299	408	132
Profit After Tax	278	9	308	400	104
FFO	380	397	404	682	-
RATIO ANALYSIS	**FY18**	**FY19**	**FY20**	**FY21**	**1QFY22**
Gross Margin (%)	10.6	12.4	11.7	13.6	11.4
Net Margin (%)	4.5	0.1	3.9	5.8	4.7
Net Working Capital	5.2	381	728	723	1,025
FFO to Long-Term Debt (x)	0.56	0.32	0.33	0.68	-
FFO to Total Debt (x)	0.07	0.07	0.14	0.23	-
Debt Servicing Coverage Ratio (x)	1.13	1.18	1.27	1.66	-
ROAA (%)	2.3	0.1	2.7	3.6	3.0
ROAE (%)	12.7	0.4	11.4	12.8	12.1
Gearing (x)	2.38	2.34	0.97	0.87	1.36
Debt Leverage (x)	3.56	3.40	1.73	1.94	2.86
Current Ratio (x)	1.00	1.06	1.28	1.16	1.13
Inventory + Receivables to Short-term Borrowings (x)	0.96	1.12	0.78	1.38	1.28

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				
04/08/2022	A-	A-2	Stable	Reaffirmed
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.

Due Diligence Meetings Conducted

	Name	Designation	Date
1	Mr. Asif Hussain Bukhari	CFO	17th March, 2022
2	Mr. Ali Jawwad	Head of Finance	17th March, 2022