RATING REPORT

Ashraf Sugar Mills Limited

REPORT DATE:

March 17, 2023

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	*March 17, 2022*		*April 08, 2022*	
Rating Outlook	Stable		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 (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

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:

MY22: Rs. 3.6b; MY21: Rs. 3.4b; MY20: Rs. 2.9b

Assets:

MY22: Rs. 15.4b; MY21: Rs. 12.0b; MY20: Rs. 10.0b;

Profit After Tax:

MY22: Rs. 139.4m; MY21: Rs. 400.4m; MY20: Rs. 308.0m

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. The ratings are underpinned by extensive sponsors experience, long-standing business relationships with institutional customers.

Key Rating Drivers

Business Risk & Sector Update: Pakistan is the seventh-largest producer and the fifth-largest consumer of sugar. According to the Economic Survey of Pakistan, sugar industry is the country's second-largest agro-based business after the textile industry. In terms of sugarcane production, Punjab produces 67% of the sugarcane, followed by Sindh (25%), Khyber Pakhtunkhwa (KPK) (8%), and Baluchistan (less than 1%). Its production contributes 0.8% to GDP and 3.7% to agriculture's value addition. The country has the capacity to raise production by 4.0 million tons and export USD 2.0b worth of sugar and USD 500m worth of ethanol by using the same land but raising yields by 40 to 50 percent. According to the data collected by Ministry of Food Security, through September 30, 2022, at least 5.3 million metric tons (MT) of sugar has been removed from inventories or has been consumed. The volume of sugar consumed each day is around 15,980 tons. More than 1.7m MT surplus sugar was available at the start of crushing season MY23. Additionally, exporting this surplus sugar would have generated USD 1.0b in foreign currency. During CY22, almost 33% of the 22 million hectares of total cultivable land were inundated by flood while damage to the sugarcane crops resulted in a loss of USD 273m. On aggregate, direct losses from rice, cotton, and sugarcane were USD 1.30b (rice: USD 543m, cotton: USD 485m, and sugarcane: USD 273m).

The inherent cyclicality in crop yields and raw material prices is believed to have a substantial impact on the business risk profile of the sugar sector. Furthermore, there is a noticeable difference in pricing mechanisms, with the price of the end product, granulated sugar, being set by market forces whereas sugarcane cost being regulated by the government. A typical sugarcane crop has a 3- to 5-year production cycle, with government assistance to farmers and crop productivity playing a major role. In 2022-23 season, the crushing season took off a bit late owing to disagreement between PMSA, which represents the sugar mill owners, and Government of Pakistan, to allow export of 2 million tons of sugar, to cover up for the higher costs associated with producing sugar and pulling the industry out of crisis.

According to the most recent USDA semi-annual sugar report published on October 3, 2022, due to the damage brought on by the flood, the estimated harvested area is to contract by 4.7% to 1.23 million hectares. As a result, the forecast for sugarcane output in 2022–2023 has decrease to 82.4 million tons (2021-22: 89 million tons-2020-21: 81 million tons). Sugar output in 2022–2023 is predicted to be reduced to 7.0 million metric tons (MT); a 4% reduction in production. Meanwhile, due to population growth and demand from the developing food processing industry, sugar consumption is projected to rise by around 3% to 6.1 MT in 2022–2023. Despite expected modest reduction in output, there will still be a surplus that may be exported, and the 1 million tons of exports were anticipated for 2022–2023. The Government has, however, approved 250,000 tons on 30 January 2023 for the three provinces of Pakistan (Quota based).

Update on penalty imposed by Competition Commission of Pakistan (CCP): Developments with regards to penalties imposed by CCP on certain sugar mills and legal proceedings for interim relief initiated by the ASML, have been incorporated in the rating. The Company has filed an appeal with the Competition Appellate Tribunal against the order dated August 13, 2021 of the CCP, in which a penalty of Rs. 835.7m was imposed on ASML. At the time of filing the appeal, the tribunal was not constituted. ASML, also challenged the order dated August 13, 2021, in a writ petition before the Lahore High Court (LHC). The operation of the said order has been suspended and CCP has been restrained from recovering the penalty imposed in terms of an order of the LHC dated October 2021. Beside the Writ Petition is pending adjudication before the LHC, the

Commission Appellate Tribunal was formed and on the start of hearing the Commission Appellate Tribunal has restrained the CCP from recovering the penalty imposed on the Mills. Next hearing of the case is fixed for 06 April 2023.

Production and capacity utilization update: The company reported higher crushing capacity of 20,000 tpd (MY21:10,000 tpd) for MY22 as a result of regularization of crushing capacities of various sugar mills by Directorate General of Industries, Price, Weights & Measures (DGIPWM) Punjab vide order dated Feb 16, 2022. The same was subject to payment of requital amount of Rs. 200m in lump sum and have been paid by the company on 10th February, 2023. During the 2021-22 crushing season, the mill remained operational for 137 days (MY21: 119 days) in line with higher cane availability. Cane crushed also stood higher at 11,690 tpd, with a YoY growth of 36.5% (MY21: 3.7%) while capacity utilization was decreased to 58.5% (MY21: 85.7%) as a result of revision in installed capacity. Sucrose recovery rate improved slightly to 9.22% (MY21: 9.18%) owing to cane quality and process efficiencies from Balancing, Modernization and Replacement (BMR). As a result of higher crushing and recovery rate, sugar production augmented to 147,678 tons during MY22 as compared to 93,465 tons in the preceding year. Molasses production also increased by ~56% despite marginal decrease in recovery rate to 4.55% (MY22: 4.59%).

Ongoing crushing season started a bit late on Nov 25, 2022. During Q1'MY23 sucrose recovery rates were reported higher at 9.45% on account of some delay in start of crushing and availability of better quality cane. Ongoing crushing season is expected to last till mid-march 2023. In addition, average sucrose recovery rate is also expected to improve to 9.7% in MY23. A snapshot of sugar production and capacity utilization is presented below:

	MY20	MY21	MY22	1QMY23
Crushing Capacity – tpd	10,000	10,000	20,000	20,000
Cane Crushed – tpd	8,259	8,565	11,690	10,566
Crushing Days	109	119	137	37
Capacity Utilization – %	82.6%	85.7%	58.5%	52.8%
Sucrose Recovery – %	9.79	9.18%	9.22	9.45
Sugar Produced – tons	81,636	93,465	147,678	34,189
Molasses Produced-Tons	35,726	46,757	72,833	16,571
Molasses Recovery Rate-%	4.28	4.59	4.55	4.24

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 one 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: To meet quality standards and to expand its institutional client base, the company conducts BMR on regular basis. Additionally, the quality of sugar sold to institutional clients also conforms with export quality standards. Property, Plant and Equipment stood higher at Rs. 7.8b (MY21: Rs. 6.7b) majorly due to addition of Rs. 986.6m in plant and machinery which pertained to gears, motors, VFDs, mill balancing and bearings in addition to other components to enhance process efficiencies. In addition, capital work in progress of Rs. 827.7m (MY21: Rs. 486.3m) was largely related to one turbine of 20 MW (Rs. 456m), and falling film evaporator (FFE) (Rs. 241m) to enhance steam saving. Installation of turbine and FFE has been completed recently. Expansion was financed through 83.8% debt, while the remaining was funded through equity.

The turbines were installed in pursuance of the company's diversification plan to tap steel business. The first phase of this plan involved installation of turbines and enhanced automation. Meanwhile, the second phase involved upgradation of boiler house entailing replacement of low-pressure boilers with high pressure boilers of 140 ton/hour to achieve bagasse saving along with installation of furnaces. The second phase along with installation of another turbine have been put on hold in view of surge in cost of project amidst unfavorable macroeconomic indicators and import restrictions imposed by the GoP to narrow the current account deficit. The management intends to continue this once the economic situation becomes viable.

Profitability: During MY22, net sales were recorded higher at Rs. 10.9b (MY21: Rs. 7.0b) with a YoY growth of ~55% driven by higher volumetric sales of sugar and molasses despite decrease in average selling prices. Net revenue emanated from sugar sales amounted higher at Rs. 9.1b (MY21: Rs. 6.1b) with a contribution of ~84% (MY21: 87%) in the sales mix. The company sold 123.9K MT of sugar (MY21: 77.8K MT), an increase of 59%, whereas average selling prices of sugar were reported lower at Rs. 73,331/MT (MY21: Rs. 78,555/MT) during MY22. Sugar prices remained suppressed as a result of excess supply of sugar and regularization of sugar sector by the Govt. Nearly 70% (MY21: 80%) of the sugar sales were made to corporate clients in the outgoing year. Meanwhile, client concentration risk has increased given the entire institutional sales emanated from only seven clients as compared to ten clients in the preceding year. The company has developed a carefully crafted policy with for each of its institutional client, matching with their specific standards of order quality and delivery. ASML is one of the single-digit club members for Coca Cola supplies, meeting its contractual obligations for the past seven years. During the outgoing year, sales made to Coca Cola Pvt. Ltd. exhibited a volumetric increase of 83%.

Molasses sales, accounting for 14.5% (MY21: 12%) of the revenue mix, almost doubled to Rs. 1.6b (MY21: 0.8b) on account of nearly 2x increase in volumetric sales while average selling prices decreased by around 5%. Around 95% (MY21: 87%) of the molasses sales comprised indirect exports, which entails sales to distilleries making ethanol for export. Breakdown of the sugar and molasses sales in terms of volume and average selling prices is presented below:

Rs. Million	MY20	MY21	MY22	Q1'MY23
Sugar Sold (MT)	111,010	77,829	123,950	29,375
Sugar Price/MT	66,207.0	78,554.9	73,331.4	70,785.0
Molasses Sold (MT)	33,500	40,000	79,000	-
Molasses Price/MT	17,090.0	21,006.2	19,911.4	-

Cost of sales increased to Rs. 11.3b (Rs. 7.4b) mainly on account of increase in average cost of procurement of sugarcane in. Sugarcane purchase and procurement development expenses amounted to 90.3% (MY21: 88.4%) of the total cost of goods manufactured. Despite increase in recovery rates, gross margins decreased to 11.1% (MY21: 14.3%) mainly on account of higher procurement price of sugarcane, coupled with lower average selling prices during MY22. Furthermore, administrative and general expenses and distribution expenses were largely rationalized with inflationary pressure. Other income increased to Rs. 49.8m (MY21: Rs. 17.5m) on account of interest income received from bank deposits. Other operating charges of Rs. 19.7m (MY21: Rs. 22.9m), largely included employee related fund contributions. Finance cost was recorded substantially higher at Rs. 709.6m (MY21: Rs. 373.9m), primarily on account of higher average markup rates and increase in overall debt levels. Resultantly, profit after taxation was recorded lower at Rs. 139.4m (MY21: Rs. 400m) along with decline in net margins to 1.3% (MY21: 5.7%) owing to the impact of higher finance cost and effective tax rate.

During Q1'MY23 net sales stood lower at Rs. 2.1b (Q1'MY22: Rs. 2.2b) which largely included revenue from sugar offtake. Average selling prices of sugar were lower at Rs. 70,784.9/maund (Q1'MY22: Rs. 79,175.8/maund). Gross margins were recorded higher at 14.7% (Q1MY22: 11.4%) primarily due to higher sucrose recovery rates. The company procured cane at an average cost of Rs. 309/maund (Q1'MY22: Rs. 257.7/maund). Net profit was recorded lower at Rs. 80.5m (Q1MY22: Rs. 104.0m) due to higher finance cost incurred. Albeit average selling prices have shown upward trend due to inflationary pressure, nonetheless, bottomline is expected to remain stressed due to higher finance cost. Growth in topline is expected to be largely supported by higher average selling prices and increase in volumetric offtake due to export sales. In addition, higher average recovery rates in the ongoing season would bode well for the gross margins.

Liquidity: Liquidity profile of the company weakened during the outgoing year. Funds From Operations (FFO) decreased to Rs. 461.7m (MY21: Rs. 682.2m), mainly in line with lower profitability recorded for the outgoing year. Resultantly, FFO to long term debt and FFO to total-debt declined to 0.30x (MY21: 0.68x) and 0.11x (MY21: 0.23x), respectively. Debt service coverage ratio (DSCR) declined to 1.02x (MY21: 1.66x), during MY22, mainly due to higher principal repayments and lower FFO.

Stores, spares and loose tools stood lower at Rs. 390.5m (MY21: Rs. 526.9m), this also include items that may comprise of fixed capex. Stores and spares increased to Rs. 589.7m by end Q1'MY23. Stock in trade were recorded higher due to higher finished goods amounting to Rs. 4.1b (MY21: Rs. 2.5b) at end-MY22. As per management, higher sugar stocks largely pertained to sale orders from Coca Cola, which they could not pick up due to supply chain disruptions in flood impacted areas. The same is also reflected in higher contract liabilities of Rs. 3.4b (MY21: Rs. 1.7b) by end-MY22. Stock in trade accumulated to Rs. 5.6b at end Q1'MY23. Trade debts stood almost at prior year's levels while as a percentage of sales remained minimal. As proceeds from credit sales to institutional clients are cleared within 7 to 21 days while open market sales are carried out on cash basis, aging profile of receivables remained healthy given nearly entire receivables were outstanding for less than one month. Loans and advances stood lower at Rs. 374.9m (MY21: Rs. 487.9m), mainly due to decrease in advances made to suppliers. Loans and advances increased to Rs. 517.8m mainly due to higher advances to growers amid crushing season. Trade deposits and prepayments have grown considerably to Rs. 2.0b (MY21: Rs. 1.2b) mainly due to higher margin deposits against advances taken from Coca Cola against sale orders. Trade deposits and prepayments along with contract liabilities have decreased accordingly in line with order offtake during 1QMY23. Balance with statutory authorities amounted to Rs. 384.1m (MY21: 336.2m). Cash and bank balances stood higher at Rs. 182.3m (MY21: Rs. 91.0m). Trade and other payables stood higher at Rs. 560.3m (MY21: Rs. 446.9m), mainly due to increase in sales tax payable amounting to Rs. 246.6m (MY21: Rs. 106.4m). On directions of the government credit terms with cane growers are restricted to a maximum of 15 days through proper banking channel while mill owners are required to pay 11% markup on delayed payments made to cane growers. Accrued markup on secured loans increased to Rs. 146.1m (MY21: Rs. 111.8m) by end-MY22.

Current ratio was reported lower at 1.05x (MY22: 1.16x) at end-MY22. Short term borrowings coverage remained adequate at 1.51x (MY22: 1.38x). Net operating cycle increased to 124 days (MY21: 108 days) mainly due to slower inventory turnover during the outgoing year. Liquidity position is expected to remained under stress in full year. Meanwhile, some recovery is projected, going forward.

Capitalization: Tier-1 equity stood higher at Rs. 3.6b (MY21: Rs. 3.4b) in line with internal capital generation. Sponsors continued to support the company in the form of provision of interest free and unsecured loan, which remained intact at Rs. 652.1m (MY21: Rs. 652.1m). The company has issued bonus shares @ Rs. 0.5/ordinary share during the outgoing year. Long term financing increased to Rs. 1.1b (MY21: Rs. 568.9m) as the company mobilized a demand finance (DF-II) amounting to Rs. 462.0m, priced at 3MK+ 3.0 %, with maximum rate linked with EBITDA, against sanctioned limit of Rs. 1.5b and another long-term loan of Rs. 286.0m, priced at 3MK + 2.15%, to finance capex, as discussed above in the report. Loan payment for the second facility began on Dec'22; meanwhile, quarterly Repayments for DF-II will start in July'23. Short term borrowing stood higher at Rs. 2.8b (MY21: Rs. 1.9b) by end-MY22 in line with working capital requirements. These also includes short term loan from associates amounting to Rs. 594.0m (MY21: Rs. 686.0m), out of which Rs. 100m carries a markup of 3MK +1%. Cash/running finances stood higher at Rs. 2.2b (MY21: Rs. 1.3b), against aggregate sanctioned limit of Rs. 6.3b (MY21: Rs. 4.8b). These facilities carry markup at the rate of matching KIBOR + 1.25% to 3% and are secured by way of pledge of white refined sugar, ranking charge over current asset and 1st pari passu charge over present future assets of the company.

Given substantial rise in overall debt levels gearing increased to 1.2x (MY21: 0.87x). This, along with considerable increase in contract liabilities led to increase in debt leverage to 2.73x (MY21: 1.94x). Leverage indicators mounted upwards by end-1QMY23, due to higher working capital requirements amid crushing season. The company may need to obtain an additional long-term loan Rs. 694.8m to pursue second phase of expansion, when it is feasible. Maintaining leverage indicators at comfortable levels will be key rating sensitivity, going forward.

Environment, Social, and Governance: In pursuit of following Environment, Social and Governance (ESG) framework, the company has been committed to reduce energy and water consumption along with volume of waste to landfills by implementing technologies. This also include increasing dependence on renewable and alternative sources of energy while reducing emissions and preserving biodiversity. Moreover, the company aims to reduce 5% emission in carbon footprints against a baseline year of 2017/2018. To reduce the environmental impact, ASML has been able to achieve ISO 9001:2015 and ISO 14001:2015 for manufacturing, warehousing and marketing and sales of (brown and white) sugar. Sponsors of the company are effectively fulfilling their social and corporate responsibilities through various initiatives including donations and charity made to foundations. With regards to the gender distribution in the work place, female employees comprise 10 % in the company which include micro-biologists, quality lab analyst hired at the Mill.

The Board of Directors comprised four members including two independent directors, with a female representation. Throughout the year the company carries out various seminars, including sustainable agriculture seminars arranged by ICAP, Bonsucro etc. In addition, various in-house and external trainings are conducted for development of employees, like agricultural training for identifying cane verities for procurement team.

Ashraf Sugar Mills Limited — Annexure I

FINANCIAL SUMMARY *(amounts in PKR Millions)*				
BALANCE SHEET	**MY20**	**MY21**	**MY22**	**Q1'MY23**
Property, Plant & Equipment	6,689.4	6,683.7	7,770.6	7,785.2
Stores, Spares. And Loose Tools	268.6	526.9	390.5	589.7
Stock-in-Trade	1,075.0	2,484.5	4,082.1	5,568.8
Trade Debts	165.1	191.7	194.2	146.9
Loan and Advances	639.0	487.9	374.9	517.8
Trade Deposits and Prepayments	631.9	1,180.3	2,038.6	953.6
Balances with Statutory Authorities	313.7	336.2	384.1	398.6
Cash and Bank Balances	232.5	91.0	182.3	275.1
Other Assets	12.3	10.0	10.7	13.2
Total Assets	**10,027.5**	**11,992.2**	**15,427.9**	**16,248.9**
Trade and Other Payables	396.8	446.9	560.3	1,090.3
Short-Term Borrowings	1,600.0	1,940.8	2,831.6	4,103.0
Long-Term Borrowings *(Inc. current maturity)*	1,177.4	982.2	1,487.2	1,411.6
Deferred Liabilties (Inc. current portion)	1,422.6	1,349.4	1,370.0	1,369.0
Contract Liabilities	263.0	1,658.9	3,378.2	2,383.1
Accrued Markup on secured Loans	70.3	111.8	146.1	144.1
Other Liabilties	71.7	74.3	83.5	96.1
Total Liabilities	**5,001.8**	**6,564.3**	**9,856.8**	**10,597.2**
Paid-Up Capital	400.0	400.0	400.0	400.0
Tier-1 Equity	2,894.1	3,385.2	3,613.0	3,693.5
Total Equity	**5,026.5**	**5,427.9**	**5,571.1**	**5,651.6**
INCOME STATEMENT	**MY20**	**MY21**	**MY22**	**Q1'MY23**
Net Sales	7,922.2	7,008.1	10,871.9	2,092.3
Gross Profit	928.2	1,001.5	1,205.5	308.6
Finance Cost	575.7	373.9	709.6	156.4
Other Income	163.6	17.5	49.8	17.3
Profit Before Tax	299.4	408.3	292.5	106.9
Profit After Tax	308.0	400.4	139.4	80.5
FFO	404.0	682.2	461.7	146.7
RATIO ANALYSIS	**MY20**	**MY21**	**MY22**	**Q1'MY23**
Gross Margin (%)	11.7%	14.3%	11.1%	14.7%
Net Margin (%)	3.9%	5.7%	1.3%	3.8%
Current Ratio (x)	1.28	1.16	1.05	1.05
Net Working Capital	728.1	722.7	340.8	403.0
FFO to Long-Term Debt	0.33	0.68	0.30	0.30*
FFO to Total Debt	0.14	0.23	0.11	0.11*
Debt Servicing Coverage Ratio (x)	1.27	1.66	1.02	1.20
ROAA (%)	2.7%	3.6%	1.0%	2.0%*
ROAE (%)	11.4%	12.8%	4.0%	8.7%*
Gearing (x)	0.97	0.87	1.20	1.50
Debt Leverage (x)	1.7	1.9	2.7	2.9
Inventory + Receivable/Short-term Borrowings (x)	0.8	1.4	1.5	1.4
Net Operating Cycle (Days)	43	106	122	N/A

**Annualized*

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	
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 2022 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
03/17/2023	A-	A-2	Stable	Reaffirmed
04/08/2022	A-	A-2	Stable	Reaffirmed
02/22/2021	A-	A-2	Stable	Initial

Due Diligence Meetings Conducted

	Name	Designation	Date
1	Mr. Asif Hussain Bukhari	CFO	14th Feb, 2023
2	Mr. Ali Jawwad	Head of Finance	14th Feb, 2023