

RATING REPORT

Ashraf Sugar Mills Limited

REPORT DATE:

April 26, 2024

RATING ANALYSTS:Muhammad Subhan
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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 26, 2024		March 17, 2023	
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 RATING SCALE(S)

VIS Issue/Issuer Rating Scale:

<https://docs.vis.com.pk/docs/VISRatingScales.pdf>

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Corporates

<https://docs.vis.com.pk/docs/CorporateMethodology.pdf>

Ashraf Sugar Mills Limited

OVERVIEW OF THE
INSTITUTION

RATING RATIONALE

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. Muhammad Zaka Ashraf is an ex-chairman Pakistan Cricket Board and ex-president/ CEO of Zarai Taraqati 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 Commerce & 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.

Corporate Profile:

Ashraf Sugar Mills Limited (ASML or “the Company”) is an entity within the Ashraf Group of Industries, which was incorporated in 1978 as a Public Limited Company. The group possesses a diverse business portfolio, which spans across sugar production, coal mining, stone quarrying, livestock & dairy farming, power generation, corporate agriculture farming, and real estate development. ASML's corporate headquarter is located at Upper Mall, Lahore, with its manufacturing operations based in Ashrafabad, District Bahawalpur. The mill specializes in producing refined crystalline sugar, molasses, and other by-products, catering to both domestic and international markets.

Operational Performance:

Crushing Season	MY24	MY23	MY22
Crushing Period in days	109	104	137
Cane Crushed (MT)	997,035	1,098,076	1,601,555
Sugar Production (MT)	95,910	107,159	147,678
Sucrose Recovery	9.63%	9.76%	9.22%
Molasses Produced	41,673	43,056	72,833
Molasses Recovery	4.18%	3.92%	4.55%

The Company faced production challenges in terms of availability of sugarcane due to floods in MY23. Resultantly, a shortened crushing period was recorded at 104 days (MY22: 137 days). Cane crushed was also recorded lower (MY23: 1,098,076 MT; MY22: 1,601,555 MT) which resulted in lower production of sugar, molasses and bagasse as compared to MY22.

Reportedly, the crop area and irrigation methods in the areas adjacent to ASML have improved, particularly due to the increased profitability of the cane crop this year. However, the challenge continued in MY24 where the availability of sugarcane was constrained by higher procurements by other sugar mills in the area. Consequently, cane crushed declined further to 997,035 MT in MY24 despite a marginal increase in the crushing period recorded at 109 days. After the restart of two mills, the challenge of achieving maximum capacity utilization will persist in the upcoming season.

Key Rating Drivers**Medium business risk profile characterized by high cyclicity and moderate capital and competitive intensity**

VIS has assigned a medium business risk to the sugar industry given its moderate level of barriers of entry, technology risk, and capital-intensive nature. However, industry's high cyclicity with the production of sugarcane possess a raw material availability risk.

The industry faces an inelastic demand linked with the growing population in the country coupled with government's measure to allow exports further supporting its stable demand. However, unfavorable sugar prices expose the industry to lower revenue gains.

The future outlook of the sugar industry appears challenging due to prevailing economic conditions of the country, higher discount rate of SBP may cause drastic increase in finance cost of the Company, and increase in sugarcane support prices by the provinces which increases the production cost of sugar with no adequate corresponding increase in the sugar prices.

Improvement in the gross and net margins despite a decrease in the topline

The Company reported a 6.68% decline in the topline in MY23 to Rs 10,145.14 mln (MY22: 10,871.14 mln) resulting from decline of 11.75% in the quantity of sugar sold. The average prices of both sugar and molasses increased by 9.57% and 53.18% respectively which helped to improve gross margins to 19.76% in MY23 (MY22: 11.09%). This further positively impacted the net margin standing at 2.77% during the year under review (MY22: 1.28%) despite rising operational and finance costs. The net margin further improved to 5.3% during 1QMY24 with higher sugar price.

Improvement in the coverage profile based on higher profitability

ASML reported a higher DSCR at 1.22x in MY23 (MY22: 1.01x). This was backed by the significant rise in FFO by 164.94% at Rs 1,205.72 mln (MY22: Rs 455.09 mln) resulting from improved profitability performance in MY23. FFO to total debt also improved to 0.16x in MY23 (MY22: 0.10x).

Higher short term borrowings deteriorated gearing and leverage ratios

The total debt of the company rose by 71.84% during MY23 to PKR 7,470.3 mln (MY22: Rs 4,347.2 mln) due to substantial increase in short-term borrowings to finance the working capital requirements, which also contributed to the considerable increase in total liabilities to Rs 11,305.84 in MY23 (MY22: Rs 9,856.83). Consequently, the gearing of the Company deteriorated to 1.88x in MY23 (MY22: 1.20x) along with the leverage ratio weakening to 2.85x in MY23 (MY22: 2.73x).

Adequate liquidity profile

The Company maintains a 3-year average current ratio of 1.08x reflecting an adequate liquidity position. The current ratio, in MY23, slightly reduced to 1.02x (MY22: 1.05x), hence remaining adequate. The short-term debt (STD) coverage also declined to 1.01x (MY22: 1.51x) in MY23 due to higher proportion of short-term borrowings in comparison to the inventory.

Ashraf Sugar Mills Limited
Appendix I

FINANCIAL SUMMARY						
<i>(amounts in PKR millions)</i>						
<u>BALANCE SHEET</u>	MY21	MY22	MY23	1QMY24	MY24(P)	MY25(P)
Property, Plant & Equipment	6,683.7	7,770.6	8,073.4	8,107.8	7,914.3	8,487.2
Intangible Assets	2.0	1.9	1.6	1.3	1.1	0.8
Stores, Spares. And Loose Tools	526.9	390.5	373.5	411.0	341.3	390.2
Stock-in-Trade	2,484.5	4,082.1	6,159.4	7,587.9	5,419.0	5,306.3
Trade Debts	191.7	194.2	46.9	211.1	304.2	385.8
Loan and Advances	487.9	374.9	1,128.3	560.1	318.5	913.7
Cash and Bank Balances	91.0	182.3	93.9	181.3	320.4	394.0
Total Assets	5,427.9	5,571.1	5,848.6	6,019.4	5,304.1	5,501.5
Long Term borrowings (inc. current portion)	999.6	1,515.6	1,352.3	1,270.5	1,900.1	2,224.7
Short term borrowings	1,940.8	2,831.6	6,118.0	4,995.4	5,148.1	5,041.0
Trade and Other Payables	446.9	560.3	390.4	1,603.3	250.7	334.2
Total Liabilities	6,564.3	9,856.8	11,305.8	12,203.2	10,688.8	11,848.9
Tier-1 Equity	3,385.2	3,613.0	3,970.3	4,061.3	3,519.7	3,806.3
Total Equity	5,427.9	5,571.1	5,848.6	6,019.4	5,304.1	5,501.5
<u>INCOME STATEMENT</u>	MY21	MY22	MY23	1QMY24	MY24(P)	MY25(P)
Net Sales	7,008.1	10,871.9	10,145.1	3,211.1	15,860.2	20,116.7
Gross Profit	1,001.5	1,205.5	2,004.8	620.5	2,353.5	2,904.3
Finance Cost	373.9	709.6	1,311.3	338.6	1,534.0	1,910.8
Profit Before Tax	408.3	292.5	480.9	210.9	557.7	706.1
Profit After Tax	400.4	139.4	281.3	170.8	340.3	430.2
<u>RATIO ANALYSIS</u>	MY21	MY22	MY23	1QMY24	MY24(P)	MY25(P)
Gross Margin (%)	14.3%	11.1%	19.8%	19.3%	14.8%	14.4%
Net Margin (%)	5.7%	1.3%	2.8%	5.3%	2.1%	2.1%
Net Working Capital	722.7	340.8	206.1	266.6	350.6	438.2
FFO*	674.3	455.1	1,205.7	-728.7	661.3	916.1
FFO to Long-Term Debt*	0.67	0.30	0.89	-0.57	0.35	0.41
FFO to Total Debt*	0.23	0.10	0.16	-0.12	0.09	0.13
Debt Servicing Coverage Ratio (x)*	1.58	1.01	1.22	0.67	1.13	1.16
ROAA (%)*	3.6%	1.0%	1.7%	3.9%	2.0%	2.6%
ROAE (%)*	12.8%	4.0%	7.4%	17.0%	9.0%	11.7%
Gearing (x)	0.87	1.20	1.88	1.54	2.00	1.91
Debt Leverage (x)	1.94	2.73	2.85	3.00	3.04	3.11
Current Ratio	1.16	1.05	1.02	1.03	1.05	1.05
Inventory + Receivable/Short-term Borrowings (x)	1.4	1.5	1.0	1.6	1.1	1.1
Net Operating Cycle (Days)*	92	111	213	211	157	114
*Annualized if required						

REGULATORY DISCLOSURES		Appendix II				
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
	<u>RATING TYPE: ENTITY</u>					
		04/26/2024	A-	A-2	Stable	Reaffirmed
		03/17/2023	A-	A-2	Stable	Reaffirmed
		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.					
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Due Diligence Meetings Conducted		Name		Designation	Date	
	1	Mr. Asif Hussain Bukhari		CFO		
	2	Mr. Ali Jawwad		Head of Finance	8 th April, 2024	