VIS
Credit Rating Company Limited

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ASHRAF SUGAR MILLS LIMITED

Chief Executive: Aurangzeb Mohsin

RATING DETAILS

RATINGS CATEGORY	LATEST RATING		PREVIOUS RATING	
	Long-term	**Short-term**	**Long-term**	**Short-term**
ENTITY	A-	A2	A-	A2
RATING OUTLOOK/ WATCH	Stable		Stable	
RATING ACTION	Reaffirmed		Reaffirmed	
RATING DATE	May 12, 2025		April 26, 2024	

APPLICABLE METHODOLOGY(IES):
VIS Entity Rating Criteria Methodology – Industrial Corporates
(https://docs.vis.com.pk/docs/CorporateMethodology.pdf**)**

Rating Scale:
(https://docs.vis.com.pk/docs/VISRatingScales.pdf)

Rs. Million	MY23A	MY24A	1QMY25M
Net Sales	10,145.13	10,792.28	4,670.35
Profit Before Tax	480.84	387.02	412.04
Profit After Tax	281.28	71.00	357.17
Paid up Capital	232.72	232.72	232.72
Equity (excl. Revaluation Surplus)	3,970.27	4,119.33	4,476.50
Total Debt	7,503.90	8,375.40	7,648.25
Leverage (x)	2.85	3.40	2.79
Gearing (x)	1.89	2.03	1.71
Funds From Operations (FFO)	1,205.72	506.31	180.88
FFO/Total Debt (x)	0.16	0.06	0.09
Net Margin (%)	3%	1%	8%

**Annualized, if required*
A - Actual Accounts
M - Management Accounts

RATING RATIONALE

The reaffirmation of the entity's ratings at 'A-/A2' with a Stable outlook reflects a medium business risk profile, underpinned by the cyclical and seasonal nature of the sugar industry, procurement-related challenges, and policy-driven volatility. The assessment considers the Company's ability to manage cost pressures amid elevated raw material cost and moderate institutional demand. While gross margins remained under pressure, improved net profitability in the ongoing period has supported internal cash generation. Capitalization indicators were high due to seasonal borrowing, although such trends are expected to normalize over the business cycle. Liquidity has remained adequate while the debt coverage improved during the ongoing period due to lower finance costs. The outlook incorporates expectations of gradual stabilization in operating performance and financial metrics.

COMPANY PROFILE

Ashraf Sugar Mills Limited ("ASML" or "the Company") is a public limited company incorporated in Pakistan on September 9, 1978 under the repealed Companies Act, 1913 (now replaced by the Companies Act, 2017). Its registered office is located in, Lahore, while the manufacturing facilities are based in Ashrafabad, District Bahawalpur. The Company is engaged in the production and sale of crystalline sugar, molasses, and other by-products catering to both domestic and international markets.

Group Profile

ASML is part of 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.

GOVERNANCE

The Board of Directors is composed of four members, including one female director. Three committees operate under the oversight of the Board: The Finance Committee, the Technical Committee, and the Human Resource Committee. During the period, a Chief Operating Officer (COO) position was added to the management structure.

INDUSTRY PROFILE & BUSINESS RISK

The business risk profile of the sugar sector in Pakistan is assessed as medium, shaped by seasonal and cyclical production patterns, competitive procurement pressures, government intervention, and exposure to price and interest rate risks. Sugarcane production is concentrated within a 3–4-month window (Nov – Mar), while sugar stocks must be carried throughout the year, exposing mills to price and interest rate risks. Low crop yields and variations in sucrose recovery rates persist due to the absence of R&D and mechanized farming. Despite these inefficiencies, sugar demand remains inelastic, driven by population growth and demand from ancillary industries.

The perishable nature of sugarcane necessitates proximity between farms and sugar mills, resulting in high competition for procurement and exerting pressure on raw material costs. This is further compounded by the minimum procurement price set by the government, which particularly affected smaller players. However, in line with IMF conditionalities, this policy has been discontinued from the 2024-25 season onward.

Sugar demand is primarily driven by population growth and increasing demand from the food processing and beverage industries, which account for approximately 7% of total production. Sugar, being a commodity, competition risk on the demand side is medium to low though the demand vs supply situation affects all players.

However, it remains high on the supply side due to the clustering of mills near sugarcane-growing areas.

During the crushing season 2023-24, total sugarcane crushed was 67,380,000 MT compared to 65,135,310 MT in the previous year. The government increased the minimum support price (MSP) for sugarcane to Rs. 400 per 40 kg in Punjab (from Rs. 300) and Rs. 425 per 40 kg in Sindh (from Rs. 302). It should be noted that the actual procurement price for sugar mills is usually higher depending upon proximity of other sugar mills. Sugar production was 6.5 million tons as per the US Department of Agriculture (USDA) report (2022-23: 6.8 million tons). Sucrose recovery remained largely consistent with the previous season, recorded at 10.23%.

With a carryover stock of 1.129 million tons at the start of the crushing season on November 1, 2023, total available sugar supply for the year was about 7.9 million tons. Domestic sugar consumption is estimated at 6.4 MMT in 2024 which resulted in excess carryover stocks in the market. As a result of pressure from sugar mills, government allowed exports of up to 750,000 MT between Jun-Dec 2024 according to industry sources, the major chunk of which went to Afghanistan with actual exports happening late in the year.

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

Sugar prices in MY24 averaged PKR 143.92/kg, reflecting a 24% increase from PKR 115.97/kg in MY23. Prices peaked at PKR 157/kg before stabilizing at PKR 134/kg. Currently, retail prices range between PKR 165/kg and PKR 170/kg due to a reported supply shortfall of nearly one million metric tons.

As of April 2025, total sugar production in Pakistan for the 2024–25 crushing season is estimated at approximately 5.7 million metric tons, representing a notable decline from the previous year's output of 6.84 million metric tons. This has resulted in a supply-demand gap, with domestic consumption projected at 6.6 million metric tons according to USDA estimates. Earlier forecasts had anticipated production to reach 6.8 million metric tons; however, actual output remained lower due to factors including reduced sucrose recovery and adverse weather conditions.

Product Profile & Capacity

Crushing Season	MY23	MY24	MY25
Crushing Period in days	104	109	97
Cane Crushed (MT)	1,098,076	997,035	958,759
Sugar Production (MT)	107,159	95,910	89,487
Sucrose Recovery	9.76%	9.63%	9.33%
Molasses Produced	43,056	41,673	41,766
Molasses Recovery	3.92%	4.18%	4.36%

The Company's cane crushing declined by 3.8% to 958,759 MT (MY24: 997,035 MT), primarily on account low harvest of cane in the area due to water availability issues in the region, which resulted in a shift towards alternative cash crops. Prior to MY23, the Company benefited from relatively favorable procurement conditions, as a major regional competitor, Ittefaq Sugar, was non-operational. However, following the resumption of operations by this competitor in MY23, management has reported increased competition in sugarcane procurement, contributing to a downward trend in cane crushing volumes. Additionally, the Company deliberately limited procurement to specific cane varieties to ensure adherence to quality standards required by institutional buyers. Sugar production also declined by 6.7% in MY25, driven by a lower sucrose recovery, which was adversely affected by heat wave conditions impacting crop quality.

As per the management, the Company has initiated cane development projects to ensure a more sustainable availability of cane in the coming years.

FINANCIAL RISK

Assigned ratings also consider the financial risk profile of the Company. Revenue growth during the period was supported by an increase in average sugar prices, which partially offset lower sales volumes stemming from reduced production and lower institutional demand. Margins were impacted by higher cane procurement costs and competitive pressures, resulting in lower gross margins. Subsequent improvement in net margins was supported by a reduction in finance costs. Capitalization indicators depicted an increase in gearing and leverage due to higher short-term borrowings for inventory financing. Liquidity remained adequate, although a declining trend in the current ratio was observed due to internally financed capital expenditure. Improvement in liquidity was noted in the subsequent period. Coverage metrics reflected a decline during the year due to lower profitability, though an improvement was seen in the following period due to easing of financial costs and improved profitability.

Profitability

During MY24, ASML reported revenue increase to PKR 10,792 million (MY23: PKR 10,145 million), driven by a rise in average sugar prices to PKR 116.34/kg (MY23: PKR 90.36/kg). The increase in price partially offset the decline in volumetric sales, which was impacted by lower sugar production and reduced institutional demand from key beverage sector clients amid region-specific consumption pressures. Consequently, revenue growth remained modest at 6.4%, while cost of sales rose by 19% year-on-year due to elevated cane procurement costs. Competitive pressure from regional players, particularly Ittefaq Sugar, continued to affect cane sourcing costs. Additionally, the reduction in institutional off-take—typically associated with higher margins—further constrained profitability, resulting in a decline in gross margin to 18.35% (MY23: 19.76%), though remaining within the historical level.

In 1HMY25, gross margins declined further to 17.11% (1HMY24: 18.35%) due to a continued increase in sugarcane procurement cost, which rose by 1.5% to approximately PKR 420.48/40kg (MY24: PKR 414.55/40kg). Although average sugar prices remained subdued in the initial months, an increase was observed from February onward. Net margin improved to 7.07% (1HMY24: 0.66%), primarily on account of lower finance costs following a reduction in the SBP policy rate.

Capital Structure

The capitalization profile depicted higher gearing and leverage ratios in MY24, recorded at 2.03x and 3.40x, respectively (MY23: 1.63x and 2.56x). The increase is mainly attributed to higher short-term borrowings undertaken to finance inventory build-up. In 1HMY25, gearing and leverage ratios further rose to 2.16x and 3.69x, respectively, in line with seasonal working capital requirements. Given the cyclical nature of the sugar industry, capitalization indicators are expected to normalize over the remainder of the operating cycle.

Debt Coverage & Liquidity

The debt service coverage ratio (DSCR) declined to 1.11x in MY24 (MY23: 1.21x) due to a reduction in funds from operations resulting from lower profitability and higher finance charges. The DSCR improved to healthy levels of 1.96x in 1HMY25, supported by lower financial burden with easing interest rates and improved profitability.

The Company generally maintains an adequate and stable liquidity which is reflected in current ratio of 1.00x (MY23: 1.02x) in MY24. In recent years however, the current ratio has depicted a downwards trend due to capital expenditure financed through internal liquidity. An improvement was observed in 1HMY25, with the current ratio increasing to 1.08x, driven by unutilized operational cash flows and enhanced working capital management.

Financial Summary

Balance Sheet (PKR Millions)	MY22A	MY23A	MY24A	1HMY25M
Property, plant and equipment	7,731.69	8,073.42	8,346.09	8,635.56
Intangible Assets	1.87	1.61	1.35	1.09
Stock-in-trade	4,082.07	6,159.43	9,069.38	11,944.91
Trade debts	194.18	46.93	195.02	1,886.69
Cash & Bank Balances	182.25	93.93	114.61	119.60
Other Assets	3,235.87	2,779.15	2,210.69	2,026.43
Total Assets	15,427.93	17,154.47	19,937.14	24,614.28
Creditors	560.31	225.58	319.26	329.63
Long-term Debt (incl. current portion)	1,515.63	1,385.88	1,244.02	1,891.40
Short-Term Borrowings	2,831.59	6,118.02	7,131.38	8,607.48
Total Debt	4,347.22	7,503.90	8,375.40	10,498.88
Other Liabilities	4,949.31	3,576.36	5,320.09	7,118.28
Total Liabilities	9,856.84	11,305.84	14,014.75	17,946.79
Paid up Capital	232.72	232.72	232.72	232.72
Revenue Reserve	2,728.14	3,085.45	3,234.51	3,979.60
Sponsor Loan	652.10	652.10	652.10	652.10
Equity (excl. Revaluation Surplus)	3,612.96	3,970.27	4,119.33	4,864.42

Income Statement (PKR Millions)	MY22A	MY23A	MY24A	1HMY25M
Net Sales	10,871.87	10,145.13	10,792.28	10,534.91
Gross Profit	1,205.48	2,004.80	1,980.76	1,802.82
Operating Profit	1,002.10	1,792.18	1,738.22	1,607.10
Finance Costs	709.58	1,311.34	1,351.20	712.13
Profit Before Tax	292.52	480.84	387.02	894.97
Profit After Tax	139.42	281.28	71.00	745.09

Ratio Analysis	MY22A	MY23A	MY24A	1HMY25M
Gross Margin (%)	11.09%	19.76%	18.35%	17.11%
Operating Margin (%)	9.22%	17.67%	16.11%	15.25%
Net Margin (%)	1.28%	2.77%	0.66%	7.07%
Funds from Operation (FFO) (PKR Millions)	462.61	1,205.72	506.31	826.14
FFO to Total Debt* (%)	10.64%	16.07%	6.05%	15.74%
FFO to Long Term Debt* (%)	30.52%	87.00%	40.70%	87.36%
Gearing (x)	1.20	1.89	2.03	2.16
Leverage (x)	2.73	2.85	3.40	3.69
Debt Servicing Coverage Ratio* (x)	1.04	1.21	1.11	1.96
Current Ratio (x)	1.05	1.02	1.00	1.08
(Stock in trade + trade debts) / STD (x)	1.65	1.08	1.36	1.66
Return on Average Assets* (%)	1.02%	1.73%	0.38%	6.69%
Return on Average Equity* (%)	3.98%	7.42%	1.76%	33.18%
Cash Conversion Cycle (days)	111.44	216.32	308.22	230.85

Annualized, if required

A - Actual Accounts

M - Management Accounts

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/Watch	Rating Action
12/05/2025	**A-**	**A2**	**Stable**	**Reaffirmed**
02/05/2025	A-	A2	Stable	Review Initiated
26/04/2024	A-	A2	Stable	Reaffirmed
17/03/2023	A-	A2	Stable	Reaffirmed
04/08/2022	A-	A2	Stable	Reaffirmed
22/02/2021	A-	A2	Stable	Initial

Instrument Structure	N/A
Statement by the Rating Team	VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.
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Due Diligence Meeting Conducted

Name	Designation	Date
Mr. Asif Bukhari	CFO	30th April 2025