

RATING REPORT

Indus Sugar Mills Limited

REPORT DATE:

October 16, 2024

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-1	A-	A-1
Outlook/Rating Watch	Stable		Stable	
Rating Action	Reaffirmed		Reaffirmed	
Rating Date	October 16, 2024		December 7, 2023	

COMPANY INFORMATION

Incorporated in 1980	External auditors: Malik & Co Chartered Accountants
Public Limited Company (Unquoted)	CEO/Chairman: Mr. Ayub Sabir Izhar
<i>Key Shareholders (with stake 5% or more):</i>	
Mr. Hamza Dastgir – 27.3%	
Mr. Ayub Sabir Izhar – 19.6%	
Begum Syeda Iqbal – 9.3%	
Mr. Sardar Husnain Bahadur Khan Dreshak – 6.41%	
Mr. Sardar Ali Raza Khan Dreshak – 6.38%	
Mr. Sardar Zulfiqar Khan Dreshak – 6.37%	

APPLICABLE METHODOLOGY(IES)

Applicable Rating Criteria: Corporates:<https://docs.vis.com.pk/docs/CorporateMethodology.pdf>

APPLICABLE RATING SCALE(S)

VIS Issue/Issuer Rating Scale:<https://docs.vis.com.pk/docs/VISRatingScales.pdf>

**OVERVIEW
OF THE
INSTITUTION**
RATING RATIONALE

Indus Sugar Mills Limited was incorporated as unlisted Public Limited Company on Dec 13, 1980 under the Companies Act 1913 and then under the repealed Companies Ordinance 1984 (now the Companies Act, 2017). Registered office of the company is located at 17-Tipu Block, new Garden Town, Lahore

Company Profile:

Indus Sugar Mills Limited ('ISML' or 'the Company') is primarily engaged in the production and sale of crystalline sugar and related by-products. Its manufacturing facilities are located at Kot Bahadur, Tehsil & District Rajanpur. The Company's sugar production season runs from November to April, with the majority of expenses and production activities concentrated in the first half of the financial year (Sept. to March). The Company also operates its own sugarcane cultivation farm near its mill which meets 3-5% of its sugarcane requirements.

Operational Performance:
Sugar Division:

The installed crushing capacity of the mill increased to 13,000 tons per day (TPD) during the MY24 crushing season (MY23: 9,500 TPD), attributed to the recent rationalization of nameplate capacities in the Punjab province. In 1HMY24 the sugar production decreased by 4.4% to 121,971 tons (MY23: 127,639 tons) due to the diseased crops that lowered the sucrose content in the cane and resulted in lower sucrose recovery of 9.86% (MY23: 10.39%) despite more sugarcane crushing of 1,237,572 M. Tons (MY23: 1,229,053 M. Tons) in 1HMY24.

Key Rating Divers:
The business risk profile of the sugar industry is considered moderate.

The business risk profile of the sugar sector in Pakistan is considered as moderate. The sector demonstrates low exposure to economic cyclicality but is significantly affected by seasonal variations and fluctuations in sugarcane production and quality. This sensitivity is compounded by the inherent cyclicality in crop yields and raw material prices, which substantially impacts the sector's risk profile.

The competitive risk within the sugar sector is considered medium to low. The industry is marked by high fragmentation, with approximately 90 sugar mills organized under the Pakistan Sugar Mills Association (PSMA). However, sugar is an essential commodity with no direct alternatives, making the threat of substitutes minimal, providing support to the business risk profile of the industry.

The demand for sugar remains inelastic, driven by population growth and government export policies. The sector, however, encounters several challenges, including increased finance costs due to a high discount rate, inventory accumulation, and shorter crushing seasons. Additionally, the difference between market-driven granulated sugar prices and government-regulated sugarcane prices contributes to the sector's financial complexity. The recent stagnation in sugar prices reflects ongoing difficulties, indicating a challenging outlook. Looking ahead, the continued rise in sugarcane prices, the elevated policy rate, and relatively stable sugar prices are expected to exert pressure on margins.

Weakened profitability profile with constrained margins.

In MY23, the Company's revenue increased by 107%, reaching PKR 16.4 billion (MY22: PKR 7.9 billion), mainly driven by higher volumetric sales. Gross margins were slightly lower at 13.59% (MY22: 14.01%) due to higher procurement cost of sugarcane. In 1HMY24 due to the diseased crop, lowering the quality of sucrose, gross margin further declined to 9.5%.

Strong liquidity profile

The Company has historically maintained strong liquidity, reflected in a four-year average current ratio of 1.61x. In MY23, the current ratio improved to 1.68x (MY22: 1.21x).

Conservative capitalization profile

The Company has historically maintained a conservative capitalization profile, with improvement in MY23 as gearing and leverage ratios reduced to 0.15x (MY22: 0.62x) and 0.68x (MY22: 1.31x), respectively. However, in 1HMY24, gearing and leverage ratios increased to 1.43x and 2.17x, respectively, on account of higher short-term debt drawdowns for financing seasonal inventory buildup.

Strong Coverage Profile

The Company also maintains a healthy coverage profile with a 5-year average debt service coverage ratio (DSCR) of 7.00x. In MY23 the DSCR, due to higher financial charges declined to a low of 2.61x (MY22: 5.11x), nevertheless remaining commensurate with assigned ratings. The DSCR however recovered to 7.79x in 1HMY24.

The Company has historically maintained a strong FFO/total debt and FFO/long-term debt ratios, supported by a low debt profile. In MY23, the FFO/total debt improved to 118.2% (MY22: 29.03%) due to reduced total debt as short-term debt drawdowns sharply declined in MY23. The FFO/long-term debt ratio was reported at 722.16% (MY22: 788.94%) though remaining healthy. For 1HFY24, the FFO/total debt was recorded at 12.64%, reflecting seasonal short-term borrowing, while the FFO/long-term debt remained strong at 742.7%.

REGULATORY DISCLOSURES					Appendix I
Name of Rated Entity	Indus Sugar Mills Limited				
Sector	Sugar				
Type of Relationship	Solicited				
Purpose of Rating	Entity Rating				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	<u>RATING TYPE: ENTITY</u>				
	16-Oct-24	A-	A-1	Stable	Reaffirmed
	07-Dec-23	A-	A-1	Stable	Reaffirmed
	08-Nov-2022	A-	A-1	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.				
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Due Diligence Meetings	Name	Designation		Date	
	Mr. Abdul Sattar Qureshi	Financial Advisor		24 th September	
	Mr. Muhammad Ali	GM Finance			
	Mr. Bahzad Bashir	Dy. GM Accounts			
	Mr. Usman Tariq	Finance Manager			