RATING REPORT

JK Sugar Mills (Pvt.) Limited

REPORT DATE:
May 13, 2024

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	BBB+	A-2	BBB	A-2
Rating Date	*13th May, 2024*		*April 27, 2023*	
Rating Outlook	Stable		Stable	
Rating Action	Upgrade		Initial	

COMPANY INFORMATION

Incorporated in 2017	**External auditors:** Riaz Ahmad, Saqib, Gohar & Co Chartered Accountants.
Private Limited Company	**CEO/Chairman:** Ms. Seher Tareen Khan
Key Shareholders (with stake 5% or more):	
Mr. Ali Khan Tareen – 49.75%	
JK Dairies (Pvt) Limited – 16.52%	
ATF Mango Farms (Pvt) Limited – 9.08%	
Mrs. Mariam Tareen Sethi – 8.05%	
Ms. Seher Khan Tareen – 7.70%	
Mrs. Meher Khan Tareen – 7.66%	

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

JK Sugar Mills (Pvt.) Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

***JK Sugar Mills (Pvt.) Limited** was incorporated as a private limited company on April 13, 2017 under the repealed Companies Ordinance 1984 (now the Companies Act, 2017). Registered office of the company is located at Bahria Town Tower, 172/2 PECHS, Main Tariq Road, Karachi.*

Corporate Profile

Established in April 2017, JK Sugar Mills (Pvt.) Limited ("JKSML" or "the Company") is a key player in the sugar industry, involved in the production and sale of sugar and allied products. The Company operates two sugar units located in District Khanewal, Punjab and District Ghotki, Sindh. The Company started its operations with acquisition of assets of Imperial Sugar Mills Limited, located at Vehari Road Kacha Khoo, Mian Channu, District Khanewal, Punjab (Unit-I). AKT Sugar Mills (Pvt.) Ltd. (AKSML), a wholly owned company of the same sponsors acquired the assets of Gulf Sugar Mills (Pvt.) Ltd (Unit II). Later in October 2019, AKSML was merged into JKSML. The acquisitions were financed through long-term loans of PKR 12.48 bn and equity contribution of PKR 2.12 bn.

Tareen family principally controls JKSML, with Ali Khan Tareen being the single largest shareholder and serving as the Chairperson of the Board of Directors. Additionally, Ms. Seher Khan Tareen holds the position of CEO.

Operational Performance:

Originally, Unit-I of JKSML had an installed capacity of 6,000 Tons of Cane crushing per Day (TCD), which has been significantly upgraded to 12,500 TCD through successive balance, modernization, and rehabilitation (BMR) projects. Despite these enhancements, it is notable that the Company holds approval from the Government of Punjab to further expand up to 16,000 TCD. Actual performance from MY22 to MY24 is as under:

Crushing Season	MY24	MY23	MY22
Crushing Period in days	109	106	136
Cane Crushed (MT)	2,977,639	2,762,646	3,234,844
Sugar Production (MT)	307,502	296,746	324,719
Sucrose Recovery	10.33%	10.74%	10.04%
Molasses Produced	130,447	45,198	153,332
Molasses Recovery	4.38%	1.64%	4.74%

Cane Crushed remained lower at 2,762,646 MT (MY22: 3,324,844 in MY23 due to lesser availability of sugarcane resulting from the floods and crop disease. This in turn resulted in lesser production of sugar at 296,746 MT (MY22: 324,719 MT) in MY23. Although the cane crushing decreased by 14.5% in MY23 vis-à-vis MY22, the sugar production decreased by only 8.61% owing to improvement in sucrose recovery to 10.74% (MY22:10.04%) in MY23.

However, given better procurement of sugarcane, cane crushing increased to 2,977,639 MT in recently closed crushing season of MY24. Sugar production also increased to 307,502 MT albeit at lower proportion since the sucrose recovery dropped marginally to 10.33% in MY24.

Key Rating Drivers

Medium business risk profile characterized by high cyclicality 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 cyclicality 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 due to surplus of carryover sugar stock 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.

Profitability contracted in MY23, however, 1QMY24 witnessed significant improvement

In MY23, the Company reported a 24.7% growth in revenue, driven primarily by rising sugar prices and gains from inventory valuation adjustments on existing stocks. Additionally, export sales, which constituted 3.1% of total sales, further bolstered the revenue stream. This substantial revenue growth translated into an improved gross margin, which increased to 14.2% in MY23 from 12.3% in the previous fiscal year.

Despite the upward trajectory in revenue, the Company did not experience a corresponding improvement in its net margin for MY23. This shortfall was largely due to its inability to fulfill a high-margin order at the year's end, which could have substantially enhanced both the top line and gross margin. This inability to capitalize on potential gains, combined with a marked increase in financing costs contracted the net margin to -0.1% (MY22: 0.4%) in MY23.

The 1QMY24, however, witnessed an improvement as the Company significantly benefited from the sales of the of the high margin order coupled with inventory gains on account of increase in the average selling price of sugar. Concurrently, the gross margin and net margin improved to 31.7% and 11.1%, respectively.

Coverage profile strengthened on account of higher profitability

In MY23, JKSML observed a slight decline in its financial coverage profile, as evidenced by a decrease in the debt service coverage ratio (DSCR) to 0.9 (MY22l 1.0x). This slight weakening is primarily attributed to reduced funds from operations (FFO) over the period. However, there was a notable improvement in 1QMY24, where the DSCR rebounded strongly to 1.9x, driven by enhanced profitability.

Gearing improved on account of timely debt repayments while leverage further elevated due to increasing advances from customers

The Company's debt profile showed improvement in MY23, with the gearing ratio improving to 3.7x (MY22: 4.8x), reflecting effective debt management through timely repayments. Despite these improvements, overall leverage remained high at 6.1x in MY23, driven by a substantial increase in contract liabilities. This trend persisted into the first quarter of MY24, where the gearing ratio further improved to 3.4x, although leverage increased to 7.8x, respectively owing to increase in contract liabilities.

Adequate liquidity profile

The liquidity position of JKSML has historically been strained, with the company maintaining a current ratio of 0.7x in both MY23 and MY22, reflecting ongoing pressures. Despite this, there was a notable improvement in short-term debt (STD) coverage, which increased to 2.8x (MY22: 1.3x) in FY23, largely due to an accumulation of sugar stocks. In 1QMY24, the liquidity situation showed signs of improvement with the current ratio rising to 0.9x. However, STD coverage declined to 2.1x, influenced by the sale of sugar stock.

Pending Litigations

The developments in relation to penalties imposed by Competition Commission of Pakistan (CCP) on selected sugar mills and the subsequent legal proceedings initiated by the subject company is still pending. The impact of the imposed penalty amounting PKR 615 mln on JKSML would be significant. However, The Company has filed an appeal before the Competition Appellate Tribunal against the order of CCP. The Appellate Tribunal has restrained the CCP from adopting any coercive measures against The Company for recovery of the fine. The Company also challenged the same order of CCP before the Lahore High Court (LHC) in a writ petition. The operation of the said order has been suspended and CCP has been restrained from recovering penalty imposed in terms of the order of the LHC dated Oct 18, 2021. The matter is pending adjudication before the LHC. Given uncertainty and materiality of the outcome, VIS will continue to monitor further developments in this matter

REGULATORY DISCLOSURES — Annexure I

Name of Rated Entity	JK Sugar Mills (Pvt.) 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.
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Due Diligence Meetings Conducted	

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
13-May-24	BBB+	A-2	Stable	Upgrade
27-Apr-23	BBB	A-2	Stable	Initial

Due Diligence Meetings Conducted

Name	Designation	Date
Mr Abid Ali	CFO	April 15, 2024
Mr Hamood Ilyas	Manager Accounts & Finance	