Analysts:
Saeb Muhammad Jafri
(saeb.jafri@vis.com.pk)

Subhan Zuberry
(subhan@vis.com.pk)

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)

JK SUGAR MILLS (PVT.) LIMITED

Chief Executive: Mr. Ali Khan Tareen

RATING DETAILS

RATINGS CATEGORY	LATEST RATING		PREVIOUS RATING	
	Long-term	Short-term	Long-term	Short-term
ENTITY	A-	A2	BBB+	A2
RATING OUTLOOK/ WATCH	Stable		Stable	
RATING ACTION	Upgrade		Upgrade	
RATING DATE	June 20, 2025		May 13, 2024	

RATING RATIONALE

The upgrade of the entity's medium to long-term ratings to 'A-/A2' with a 'Stable' outlook reflects signficant improvement in the Company's financial profile, underpinned by substantial decline in projected gearing, an outcome of early repayment of long-term debt amounting PKR 9.6 bln in 1HMY25, and resultant projected improvement in profitability and coverages. This deleveraging is anticipated to continue as the Company exits the seasonal working capital cycle by year-end, thereby reducing short-term borrowings. The recent increase in average sugar selling prices is likely to result in inventory gains on the carried-over sugar stock during 2HMY25. This is expected to support gross margins during the current fiscal period. Additionally, the downward revision in the State Bank of Pakistan's (SBP's) policy rate to 11.0% will ease interest expense burden and is expected to support earnings and enhance debt service capacity. The projected financial indicators of the Company are expected to exceed the median and benchmark for 'A-' rated peer companies. Meanwhile, the Company's business risk profile remains characterized by relatively stable demand dynamics; however, it continues to operate within an industry that is exposed to seasonality and competition, including price controls and restrictions on exports. These sectoral risks are considered in the assigned ratings and continue to constrain further upward rating potential.

Looking ahead, the ratings will remain sensitive to movement in sugar prices, changes in export policy, and further interest rate fluctuations. The trajectory of future ratings will depend on the Company's ability to maintain a prudent capital structure, sustain improvement in gross margins and profitability, and maintain a low leveraged capital structure. The ratings also factor in the continued willingness and ability of the sponsors to provide financial support, if required.

CORPORATE PROFILE

JK Sugar Mills (Private) Limited ('JKSML' or 'the Company') is a private limited entity incorporated in Pakistan in 2017. The Company is engaged in the production and sale of crystalline sugar, the distribution of beverages under the Pepsi portfolio, and the commercialization of sugar manufacturing by-products, including bagasse, molasses, and mud. JKSML operates from multiple locations, with its registered office situated on Main Tariq Road in Karachi. The Company's production footprint includes two manufacturing units: Unit I located in District Khanewal, Punjab and Unit II situated in District Ghotki, Sindh.

Amalgamation of JKSML and Shamim & Company (Private) Limited ('SCL') – An Associate Company:

On the recommendation of the Boards of Directors of both, JKSML and Shamim & Co. (Pvt.) Ltd. (''SCL''), a scheme of amalgamation was proposed for the merger of SCL into JKSML. The scheme received shareholder approval under the supervision of a court-appointed chairperson and was subsequently sanctioned by the Lahore High Court (LHC).

As per the scheme, the legal existence of SCL ceased with effect from 01 October 2023. Consequently, all assets, liabilities, rights, and obligations of SCL were transferred to and vested in JKSML. In accordance with the approved swap ratio of 88,860:1, JKSML issued 1,352,093,332 fully paid ordinary shares of PKR 10 each to the registered shareholders of SCL. The financial statements of JKSML for the year ended September 30, 2024 incorporate the operations and balances of the amalgamated entity.

Subsequent to the amalgamation, during the 1HMY25, JKSML divested its recently acquired beverage segment, the impact of which have been reflected in March 31, 2025 accounts. The business was sold to Naubahar Bottling Company (Pvt.) Limited (NBCL), a Gujranwala-based bottling unit for PepsiCo. The divestment was executed to realize a one-time capital gain, offset accumulated losses, and take advantage in taxation.

GOVERNANCE

JKSML is principally controlled by the Tareen family. Mr. Ali Khan Tareen holds the position of Chief Executive Officer (CEO) and is the single largest shareholder of the Company.

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. In line with IMF conditionalities, sugar industry has been de-regularized 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 Pakistan for the FY24 averaged PKR 143.92/kg, reflecting a 24% increase from PKR 115.97/kg in FY23. 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 lower sucrose recovery and adverse weather conditions.

Divestment of short-lived bottling segment

During MY24, JKSML entered the beverages segment through a merger with SCL, acquiring its bottling plant located in Multan. In connection with this, the Company signed a 10-year contract with PepsiCo for the production of bottled beverages and syrup. The vertical integration into beverages was expected to enable internal utilization of sugar inventory in syrup production, potentially reducing exposure to inventory holding costs and associated working capital financing requirements in periods of slower sugar sales.

However, in 1QMY25, JKSML exited the beverage segment by divesting its newly acquired plant to NBCL. The divestment was undertaken to realize a capital gain, avail tax benefits, and address accumulated losses. The proceeds were primarily utilized to retire long-term borrowings. Following the transaction, JKSML has reverted to operating solely as a sugar manufacturing entity.

Product Profile & Capacity:

In MY24, JKSML crushed 2,977,639 MT of sugarcane (MY23: 2,762,646 MT), supported by enhanced procurement and increased installed capacity of 12,500 TCD. Output rose to 307,502 MT (MY23: 206,746 MT), although a marginally lower sucrose recovery rate of 10.3% (MY23: 10.7%) partially offset gains. In MY25 crushing season, total crushing declined to 2,937,061 MT (MY24: 2,977,639 MT) due to limited cane availability, impacted by reduced water supply and pest infestation, which affected crop quality. Consequently, sugar production decreased to 298,653 MT (MY24: 307,502 MT), with sucrose recovery slightly dropping to 10.2% (MY24: 10.3%).

FINANCIAL RISK

The assigned ratings take into account the Company's financial risk profile. During MY24, the Company incurred a net loss primarily due to elevated finance costs driven by higher reliance on debt amid high average interest rates. Margins were affected by elevated production costs, driven by higher sugarcane procurement prices and an increase in overhead expenses. In the 1HMY25, profitability showed significant recovery, supported by a one-off capital gain realized from the sale of the bottling unit. Capitalization improved, aided by an expansion in the equity base following the merger and the reduction in financial leverage through the repayment of long-term obligations. Liquidity indicators improved during the review period, largely due to higher internal cash flow generation associated with the asset sale. Nevertheless, coverage metrics remained under pressure in 1HMY25 on account of elevated finance costs paid. Sponsor support provided to the Company by its sponsor and divestment of bottling plant helped JKSML bridge its coverage gap.

Profitability Profile

Profitability remained under pressure during MY24 despite a significant growth in gross sales, despite favorable sale of carryover stock from the sugar division. Elevated production costs, arising from higher sugarcane procurement prices and increased overhead expenses, adversely impacted margins. Depressed sugar prices, caused by surplus production and delayed export quotas, further constrained profitability, with a significant portion of stock remaining unsold. Elevated financial charges were on account of higher average policy rate by SBP during the year. Consequently, a substantial after-tax loss was recorded.

Lower average sugar prices continued to weigh on the Company's gross margins during 1HMY25, as the offloading of carryover stock from the previous period further contributed to a contraction in gross margin. However, an increase in other income, primarily from profit on bank deposits, gains on non-financial assets, and the sale of bottling unit, supported an improvement in the bottom line, resulting in a higher net margin for the period. Nevertheless, overall profitability profile in 1HMY25 is considered to be constrained because of limited gross margins.

Going forward, profitability is expected to receive some significant support from an upward trend in sugar prices, driven by a relatively lower sugarcane yield and reduced sucrose recovery rates. In recent months, sugar prices have hovered around PKR 160/kg - PKR 180/kg, compared to the previous year's industry average of PKR 134/kg, with a low of approximately PKR 120/kg. The government has also set the ex-mill sugar price at PKR 159/kg for the current year (MY24: PKR 140/kg). The ratings will remain sensitive to the Company’s ability to enhance its profitability profile in line with the benchmarks required for the assigned ratings.

Capital Structure

During MY24, the capitalization profile improved compared to MY23, primarily driven by an increase in paid-up capital following the merger with an associate company. The rise in paid-up capital partially offset the impact of continued accumulation of losses. Although total liabilities increased due to higher short-term borrowings undertaken to bridge the working capital gap arising from inventory buildup, the expansion in the equity base resulted in an improvement in gearing to 2.6x (MY23: 3.7x) and leverage to 4.0x (MY23: 6.1x).

Further improvement was recorded in 1HMY25, supported by the early repayment of long-term borrowings, which contributed to a reduction in total debt. With a stable equity base, gearing and leverage declined to 2.4x and 3.5x, respectively. Gearing is expected to decline significantly by end-MY25 as the company will sell most of its sugar inventory and settle short-term borrowings.

Coverage & Liquidity:

In MY24, amid incurring loss, JKSML's debt service coverage ratio (DSCR) remained under pressure, unchanged at 0.8x. Debt repayments and working capital requirements—primarily arising from unsold inventory—were supported through an interest-free sponsor loan. These inflows also contributed to an improvement in the current ratio to 0.9x (MY23: 0.7x).

In 1HMY25, the DSCR declined to 0.1x, driven by negative funds flow from operations (FFO) due to elevated financial charges during the period. This was supported by proceeds from the disposal of an operating asset. Liquidity indicators remained stable, with the current ratio maintained at 0.9x. With substantial reduction in financial charges and higher profitability from core operations, coverages and liquidity indicators are projected to improve, going forward.

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	

Rating Date	Medium to Long Term	Short Term	Rating Outlook/Rating Watch	Rating Action
RATING TYPE: ENTITY				
20-Jun-25	**A-**	**A2**	**Stable**	**Upgrade**
14-May-25	Under Review			
13-May-24	BBB+	A2	Stable	Upgrade
27-Apr-23	BBB	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.
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	

Name	Designation	Date
Mr Abid Ali	CFO	6th May, 2025
Mr Hamood Ilyas	Manager Accounts & Finance	