RATING REPORT

Tariq Corporation Limited

REPORT DATE:
February 19, 2024

RATING ANALYST:

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RATING DETAILS		
Rating Category	**Initial Rating**	
	Long-term	**Short-term**
Entity	BBB	A-3
Rating Outlook	*Stable*	
Rating Action	*Initial*	
Rating Date	*February 19th, 2024*	

COMPANY INFORMATION	
Incorporated in 1966	**External auditors:** Kreston Hyder Bhimji & Co. Chartered Accountants
Public Limited Company	**Chairman of the Board:** Mrs. Sadia Ali Tariq
	Chief Executive Officer: Mr. Mian Mustafa Ali Tariq
Key Shareholders (with stake 10% or more):	
Ahmad Ali Tariq – 31.20%	
Mustafa Ali Tariq – 33.55%	
Danish Elahi – 10.26%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Corporates
https://docs.vis.com.pk/docs/CorporateMethodology.pdf

VIS Rating scale
https://docs.vis.com.pk/docs/VISRatingScales.pdf

Tariq Corporation Limited

OVERVIEW OF THE INSTITUTION

Tariq Corporation Limited is a public limited company incorporated on February 14, 1966. The Company commenced trial production on January 22, 1968 and went into commercial production on February 14, 1968. The shares of the Company are listed on Pakistan Stock Exchange Limited.

Profile of Chairman

Mrs. Sadia Ali Tariq is the Chairperson of Tariq Corporation Limited. Mrs. Sadia Ali Tariq is also a Director of Tariq Welfare Foundation. She has completed her Directors Training Program from the Lahore University of Management Sciences (LUMS).

Profile of CEO

Mr. Mian Mustafa Ali Tariq is the Chief Executive Officer of the Company. He completed his Bachelor of Arts degree in Economics at the University of California, Los Angeles. He has also been certified by the Lahore University of Management Sciences for successfully completing their course on Enhancing Board Effectiveness. He is a member of the HR&R Committee of the Board. He is also a Director of Tariq Welfare Foundation (TWF).

RATING RATIONALE

Tariq Corporation Limited (Formerly: Husein Sugar Mills Limited) ('TCOPR' or 'the Company') is a public limited company incorporated on February 14, 1966 in Karachi and received its Certificate for Commencement of Business on April 16, 1966. The shares of the Company are listed on Pakistan Stock Exchange Limited. The Company is principally engaged in the business of production and sale of sugar and its by-products.

Its registered office is situated at 28-C, Block E-1, Gulberg -III, Lahore, Lahore, whereas its mill / plant is located in Jaranwala. Approximately 80 km from Lahore and 40 km from Faisalabad.

Business Risk & Sector Update: Pakistan is the seventh-largest producer and the fifth-largest consumer of sugar. The sector has strategic importance due to linkages with national food security, rural economy, and agricultural growth. Sugar production contributes 0.8% to GDP and 3.7% to agriculture's value addition. According to the Economic Survey of Pakistan, sugar industry is the country's second largest agro-based business after the textile industry. In terms of sugarcane production, Punjab produces 67% of the sugarcane, followed by Sindh (25%), Khyber Pakhtunkhwa (KPK) (8%), and Baluchistan (less than 1%). The country has the capacity to raise production by 4.0 million tons and export USD 2.0b worth of sugar and USD 500m worth of ethanol by using the same land but raising yields by 40 to 50 percent. According to the data collected by Ministry of Food Security, through September 30, 2022, at least 5.3 million metric tons (MT) of sugar has been removed from inventories or has been consumed. More than 1.7m MT surplus sugar was available at the start of crushing season MY23. Additionally, exporting this surplus sugar would have generated USD 1.0b in foreign currency.

The inherent cyclicality in crop yields and raw material prices is believed to have a substantial impact on the business risk profile of the sugar sector. Furthermore, there is a noticeable difference in pricing mechanisms, with the price of the end product, granulated sugar, being set by market forces whereas sugarcane cost being regulated by the government. A typical sugarcane crop has a 3- to 5-year production cycle, with government assistance to farmers and crop productivity playing a major role. In 2022-23 season, the crushing season took off a bit late owing to disagreement between PSMA, which represents the sugar mill owners, and Government of Pakistan, to allow export of 2 million tons of sugar, to cover up for the higher costs associated with producing sugar and pulling the industry out of crisis. In addition, almost 33% of the 22 million hectares of total cultivable land were inundated by flood while damage to the sugarcane crops resulted in a loss of USD 273m in the outgoing year. On aggregate, direct losses from rice, cotton, and sugarcane were USD 1.30b (rice: USD 543m, cotton: USD 485m, and sugarcane: USD 273m).

According to the most recent USDA sugar report published on April 12, 2023, sugarcane production is expected at 83.5m MT during 2023-24, three percent above 2022-23 production, on account of expected recovery in yield in areas which were previously impacted by the floods. For the season 2023-24, the estimated harvesting area is also expected to increase to 1.25 million hectares (2022-23: 1.23 million hectares). Sugar output for the forthcoming season is expected to clock at 7.05 million MT, a marginal increase from that in 2022-23. Moreover, due to population growth and demand from the developing food processing industry, sugar consumption is projected to rise by around 3% to 6.3 million MT. In view of accumulating sugar stocks, the Govt. allowed 250,000 tons of sugar in MY23. Sugar prices remained relatively low throughout the 2022-23 crushing season. However, following the season's conclusion, sugar prices experienced a noticeable increase in line with inflationary pressures. While this upswing has boosted the gross profitability of most industry players, those operating with a highly leveraged capital structure have encountered difficulties due to the increased interest rates, which could potentially impact their bottom line

Production Update

The Company's capacity was regularized in January 2023, in accordance with section 11 of the Punjab Industries (Control on Establishment and Enlargement) (Amendment) Act, 2022, to a total approved capacity of 15,000 tpd. Currently, the Company production capacity stands at 8,000 tons per day (tpd). However, capital expenditure are underway, with plans to augment the mill's overall capacity by an additional 7,500 tpd, which is expected to be operational by the end of MY24.

In the MY23, crushing duration spanned 97 days (MY22: 138 days, MY21: 123 days). The reduction in days can be attributed to unavailability of sugarcane due to decline in the average yields per acre of planted sugarcane. The shortened period led to a 32.6% decrease in the amount of sugarcane crushed, with a reported figure of 616k MT (MY22: 914k MT; MY21: 822k MT) in MY23. Despite the substantial decrease in sugarcane crushing, sugar production experienced a relatively lower decline of 25.0% reaching 60,120 MT (MY22: 80,125 MT; MY21: 74,563 MT) in MY23 as it was partially offset by a higher average sucrose recovery rate of 9.76% (MY22: 8.76%; MY21: 9.06%). Simultaneously, molasses production also recorded a decrease, reaching 29,725 MT (MY22: 44,860 MT; MY21: 38,527 MT), with a slightly lower recovery rate of 4.82% (MY22: 4.90%; MY21: 4.68%). A snapshot of production related information of sugar segment is tabulated below:

Crushing Season	MY21	MY22	MY23
Capacity per day - M Tons	8,000	8,000	8,000
Cane Crushed – M Tons	822,621	914,573	616,377
Crushing Days	123	138	97
Capacity Utilization – %	84%	83%	80%
Sucrose Recovery – %	9.06	8.76	9.76
Sugar Produced – M Tons	74,563	80,125	60,120
Molasses Produced - M Tons	38,527	44,860	29,725
Molasses Recovery Rate	4.68	4.90	4.82

Long-Term Investments: TCORP has invested in Tariq Capital (Private) Limited (TCL) in 2022, a private unlisted company incorporated in Pakistan. As of Jun'23, the Company owns 60% (2022: 60%) shares of TCL comprising of 1,500,000 (2022: 1,500,000) issued, subscribed and paid up shares of Rs.10 each. Remaining shares are held by the company's directors. TCL is engaged in the dairy business and is in its second year of trial phase. TCL acquired imported cows and set up a diary production business on a 20 acre agriculture farm.

Revenue and Profitability

Sugar Division	MY21	MY22	MY23
Sugar Sold (MT)	70,592.27	71,058.44	80,196.44
Sugar Price (per MT)	75,223.14	74,141.81	86,964.75
Molasses (MT)	38,174.65	44,773.77	29,723.84
Molasses Price (per MT)	17,625.32	18,826.00	25,171.46

During MY23, there was a YoY growth of 24.6% in the topline, reaching Rs. 7.83b (MY22: 6.29b; MY21: 6.15b). Sugar contributed 89.0% in the sales mix, 9.3% was contributed by molasses and remaining 1.7% by bagasse and press mud. Despite reduction in sugar production in MY23, growth in net sales in MY23 was primarily propelled by a 17.3% increase in average sugar prices and a 12.9% rise in sugar quantity sold to 80,196MT (MY22: 71,058MT; MY21: 70,592MT). Owing to lower sugar prices prevailing in MY22, a sizeable stock of sugar was carried forward and sold in MY23. Sugar sold also included export of 2,608MT (MY22: 0 MT) of sugar in MY23. Resultantly, gross margins improved significantly, which stood at 12.4%, despite the procurement of sugarcane at an elevated average rate of Rs. 317.08 per 40-kg (MY22: Rs. 249.70; MY21: Rs. 263.07). Whilst the finance costs increased during MY23, the higher gross profits trickled down to boost the Company's net profit to Rs. 341.0m (MY22:

- Rs. 198.9m; MY21: Rs. 23.7m), translating to net margins of 4.4% (MY22: -3.2%; MY21: 0.4%).

Despite encountering obstacles such as a decrease in the sucrose content of sugarcane and unexpected pest infestations in previous years impacting recoveries, the Company has managed to sustain a higher level of gross profitability. To proactively address the decline in recoveries, TCORP's Research and Development Division provided financial support to farmers for essential inputs and facilitated loans from various financial institutions, leading to a reversal in the trajectory of sugarcane recoveries. In MY24, the management anticipate around 1% increase in sucrose recoveries, surpassing the previous levels.

The crushing season 2023-24 has commenced from November 25, 2023. Retail sugar prices, while remaining relatively elevated, exhibited some decrease due to government controls aimed at reducing smuggling across the borders. Meanwhile, given higher support prices (i.e., Rs. 425/maund for Sindh and Rs. 400/maund for Punjab) of sugarcane for the ongoing crushing season and lower available sugar stocks in the country, the sugar prices have shown resilience even during the crushing season and are expected to rise, going forward. In addition, the Company would also benefit from higher crushing capacity from ongoing CAPEX, which is expected to come on stream in MY25. However, availability of sugarcane in the required quantities will remain a concern amidst intense competition. Moreover, MY24 is anticipated to remain a challenging year due to the escalating socio-political instability and macroeconomic hurdles.

Liquidity Profile

Funds from operations (FFO) reached Rs. 455.0m in MY23, reflecting a significant improvement compared to Rs. -0.3m in MY22 and Rs. 77.0m in MY21. This positive performance was primarily driven by increased profitability. Additionally, due to significant decrease in the overall debt level led to improved cash flow coverages; FFO to total-debt ratio stood at 0.43x and FFO to long-term debt ratio at 0.48x vis-à-vis marginal coverages in previous years. Similarly, the debt service coverage ratio (DSCR) has also improved, reaching 1.14x in MY23, compared to 0.47x in MY22 and 0.90x in MY21.

Due to the lifting of major sugar stock in last quarter, the Company closing stock stood at 12,000MT which amounted to Rs. 495.6m (Sept'22: Rs. 1.8b; Sept'21: Rs. 1.3b) as of Sep'23. Trade debts as a percentage of net sales continues to decline to 2.4% as of Sept'23 (Sept'22: 2.9%; Sept'21: 4.4%) reflecting improving sales terms in favor of the Company. Loans and advances stood at Rs. 372.6m (Sept'22: Rs. 302.6m; Sept'21: Rs. 325.0m) as of Sept'23. These mainly included advances made to cane suppliers and sugarcane grower. At end Sept'23, cash and bank balances stood at Rs. 54.5m (MY22: Rs. 49.7m; MY21: Rs. 112.8m). Trade and other payables increased to Rs. 1.1b (MY22: Rs. 680.5m; MY21: Rs. 677.2m) due to taxes and duties payable amounting to Rs. 611.0m (Sept'22: Rs. 147.5m; Sept'21: Rs. 93.1m). In addition, contract liabilities amounting Rs. 316.7m (MY22: Rs. 768.1m; MY21: Rs. 211.5m) were primarily related to advance consideration received against sale of molasses and sugar.

As of Sept'23, the Company's current ratio has seen a slight decline, standing at 0.57x compared to 0.61x as of Sept'22 and 0.66x as of Sept'21. However, the coverage of short-term borrowings, supported by stock in trade and trade debts, has significantly improved to 6.76x as of Sept'23, up from 1.00x as of Jun'22 and 0.85x as of Sept'21. The improvement in cash flow coverages and the overall strengthening of working capital management are deemed crucial from a rating perspective.

Capitalization

As of Sept'23, Company's tier-1 equity increased to Rs. 1.2b (Sept'22: Rs. 804.1m; Sept'21: Rs. 995.3m) on account of profit retention. The Company's debt profile comprised a mix of log-term and short-term financing. The long term financing (including current portion) stood higher at Rs. 944.1m (Sept'22: Rs. 883.8m; Sept'21: Rs. 1.0b) as a result of re-profiling of short term loan into long term to the tune of Rs. 347.2m in the outgoing year. The short-term borrowing decreased significantly to Rs. 101.4m (Sept'22: Rs. 2.0b; Sept'21: Rs. 1.9b) by the year end in line working capital requirements. Resultantly, gearing and leverage have improved notably to 0.88x (Sept'22: 3.55x; Sept'21: 2.90x) and 2.76x (Sept'22: 6.11x; Sept'21: 4.16x), respectively as of Sept'23. Looking ahead, over the medium to long term, the management has no plans to raise any significant long-term loans. Additionally, the Company's Board has recently recommended to raise an additional capital amounting Rs. 140m through right shares issuance. Going forward, improvement in capitalization indicators while achieving sales and profitability targets will remain key rating sensitivities.

Sound Corporate Governance Framework, with room for improvement: Currently, the Board consists of six members, which include a chairman, chief executive director, one executive director, one non-executive director, and two independent directors. This also includes two female representations on Board. There are three Board committees in place namely Audit Committee, Human Resource and Remuneration committee and Risk Management Committee. The Audit and HR &RC committee are both being chaired by independent directors, while the Risk Management Committee is chaired by the chief executive director. The BAC assists the Board in scrutinizing the financial and non-financial information and maintaining an independent check on the activities of the management. It also serves as a platform to evaluate, asses, and monitor internal controls, compliance, and manage risks. The HR & Remuneration Committee is involved in the selection, evaluation, compensation, and succession planning of key management personnel. It is also involved in endorsing improvements in Company's human resource policies and procedures and their periodic appraisal. Financial statements of MY23 were audited by Kreston Hyder Bhimjee & Co Chartered Accountants, which are classified in 'Category A' of SBP's Panel of Auditors and have been reappointed for MY24 as well.

Tariq Corporation Limited

Annexure I

Financial Summary					(amounts in PKR millions)
BALANCE SHEET	**MY20**	**MY21**	**MY22**	**MY23**	**1QMY24**
Fixed Assets	4,499.4	4,993.0	5,101.9	5,626.2	5,605.8
Other Non-Current Assets	35.1	55.9	93.3	153.9	187.1
Stock-in-Trade	1,017.8	1,326.5	1,798.7	495.6	1,866.1
Trade Debts	955.7	269.8	180.7	190.5	698.5
Cash & Bank Balances	41.8	112.8	49.7	54.5	263.8
Other Current Assets	342.2	377.6	384.3	410.0	428.9
Total Assets	**6,892.0**	**7,135.5**	**7,608.5**	**6,930.7**	**9,050.2**
Trade and Other Payables	893.1	677.2	680.5	1,115.0	1,562.9
Contract Liabilities	444.6	211.5	768.1	316.7	1,454.9
Long Term Debt (including current maturity)	829.5	1,015.0	883.8	944.7	843.8
Short Term Debt	1,408.0	1,871.7	1,972.8	101.4	732.0
Total Debt	2,237.5	2,886.7	2,856.6	1,046.1	1,575.9
Total Liabilities	3,924.9	4,138.0	4,910.2	3,281.5	5,370.1
Paid Up-Capital	385.2	385.2	529.7	529.7	529.7
Share Premium Account	115.9	115.9	224.2	224.2	224.2
Director's Loan - related parties	424.4	262.0	99.6	97.4	97.4
Total Equity (Excl. surplus revaluation)	**858.3**	**995.3**	**804.1**	**1,190.3**	**1,236.3**
INCOME STATEMENT	**MY20**	**MY21**	**MY22**	**MY23**	**1QMY24**
Net Sales	2,954.6	6,148.5	6,286.5	7,832.8	1,965.0
Gross Profit	292.1	476.0	480.2	973.2	196.5
Profit Before Tax	(208.9)	68.5	(119.8)	578.7	42.1
Profit After Tax	(286.2)	23.7	(198.9)	341.0	30.9
RATIO ANALYSIS	**MY20**	**MY21**	**MY22**	**MY23**	**1QMY24**
Gross Margin (%)	9.9%	7.7%	7.6%	12.4%	10.0%
Net Profit Margin (%)	-9.7%	0.4%	-3.2%	4.4%	1.6%
Current Ratio (x)	0.80	0.66	0.61	0.57	0.78
Net Working Capital	(593.4)	(1,090.8)	(1,536.7)	(867.3)	(930.4)
FFO	(44.4)	77.0	(0.3)	454.97	68.72
FFO to Total Debt (x)	(0.02)	0.03	(0.00)	0.43	0.17
FFO to Long Term Debt (x)	(0.05)	0.08	(0.00)	0.48	0.33
Debt Servicing Coverage Ratio (x)	-	0.90	0.47	1.14	0.92
ROAA (%)	0.00%	0.34%	-2.70%	4.69%	1.55%
ROAE (%)	0.0%	2.6%	-22.1%	34.20%	10.20%
Gearing (x)	2.6	2.9	3.6	0.88	1.27
Leverage (x)	4.6	4.2	6.1	2.76	4.34
(Stock in trade+debt)/Short term borrowing	1.40	0.85	1.00	6.76	3.50

REGULATORY DISCLOSURES	Appendix II				
Name of Rated Entity	Tariq Corporation 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**
	RATING TYPE: ENTITY				
	19/02/2024	BBB	A-3	Stable	Initial
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**		
	Mr. Tariq Manzoor	Senior Manager Accounts & Taxation	November 15, 2023		