VIS
Credit Rating Company Limited

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)

Rs. Million	MY23A	MY24A	1QMY25M
Net Sales	9,476.1	8,821.0	2,289.2
Profit Before Tax	661.8	-63.8	35.6
Profit After Tax	405.5	32.1	6.8
Paid up Capital	120.1	120.1	120.1
Equity (excl. Revaluation Surplus)	1,485.1	1,378.8	1,385.6
Total Debt	2,322.4	4,372.2	4,641.7
Leverage (x)	2.0	3.8	4.1
Gearing (x)	1.6	3.2	3.3
Funds From Operations (FFO)	641.2	-39.0	-255.1
FFO/Total Debt (x)	0.3	0.0	-0.2
Net Margin (%)	0.0	0.0	0.0

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

SHAHTAJ SUGAR MILLS LIMITED

Chief Executive: Mr. Muneer Nawaz

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		Initial	
RATING DATE	June 05, 2025		June 14, 2024	

RATING RATIONALE

The entity ratings of A-/A2 with a Stable Outlook have been reaffirmed. Despite pressure on the financial risk profile during MY24, the decision reflects improvement observed in early MY25. While margins remain constrained due to subdued sugar prices and elevated costs, recovery in coverage metrics supported by declining interest rates and stable liquidity has provided rating comfort. The expected recovery in profitability, in line with increasing sugar prices during the ongoing period, further supports the assigned ratings. The Company's ongoing investment in a power project is expected to contribute to revenue diversification, enhancing future cash flow stability. Industry risk remains medium, shaped by seasonal production patterns and procurement dynamics, though easing regulatory pressures and stable demand trends provide partial risk mitigation.

CORPORATE PROFILE

Shahtaj Sugar Mills Limited ('SSML' or 'the Company') was incorporated in Pakistan in 1965 as a public limited company. Its registered office is situated at West Wharf, Karachi. The Company is listed on Pakistan Stock Exchange Limited (PSX) and is engaged in the manufacture and sale of sugar with molasses and bagasse as its by-products.

Group Structure:

The Company is a part of the Shahnawaz Group, a conglomerate comprising five distinct entities: Shahtaj Sugar Mills Ltd., Shezan International Ltd., Shahtaj Textiles Ltd., Shahnawaz Pvt. Ltd., and Information Systems Associates Ltd. These companies are engaged in diverse sectors including sugar production, food processing, textiles manufacturing, automobiles, distribution, and integrated systems development.

Installation Of Bagasse-Based Co-Generation Power Project

The Company is in the process of setting up a 32 MW bagasse-based co-generation power project, financed through a mix of debt and equity. Key regulatory milestones have been achieved, including a generation license and a 30-year upfront tariff from NEPRA, along with necessary NOCs and approvals under the LOI issued by AEDB. The revised Energy Purchase Agreement (EPA), vetted by NEPRA, and the implementation agreement with the Government of Pakistan were signed, the latter on April 4, 2023. A syndicated term finance facility has been finalized with MCB Bank Limited, and Financial Close has been achieved with AEDB. The project, originally expected to reach Commercial Operation Date (COD) by December 31, 2023, experienced delays due to incomplete interconnection facilities with GEPCO. Integration into the national grid, currently underway through CPPA-G, and the achievement of COD will remain a critical factor in determining the project's operational commencement and future cash flow generation. The Company is also under negotiations with NEPRA for an upwards revision of its true-up tariff. Currently the tariff has been adjusted tariff to approximately PKR 18/unit.

GOVERNANCE

SSML is a publicly listed entity with a concentrated ownership structure. Approximately 62.2% of the company's shareholding is held by its directors and associated companies, while the remaining shares are distributed among the general public. The Board is chaired by Mr. Toqueer Nawaz, with executive management led by Mr. Muneer Nawaz in the capacity of Chief Executive Officer (CEO). Strategic oversight and accountability mechanisms are facilitated through the functioning of established Board-level committees, including audit, and human resource committees.

PENDING LITIGATION

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 553.1 mln on SSML 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 and has accorded the opinion that chairperson has no right of casting vote in quasi-judicial proceedings and remanded the matter to the Competition Commission. Given uncertainty and materiality of the outcome, VIS will continue to monitor further developments in this matter.

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 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.

Operational Profile

Product Profile and Capacity	Units	MY23	MY24	MY25
Crushing Period in days	Numbers	91	83	82
Cane Crushed	Tons	786,325	679,859	591,293
Sugar Production	Tons	77,600	67,793	53,681
Sucrose Recovery	%	9.87%	9.97%	9.08%
Molasses Produced	Tons	32,644	28,152	27,419
Molasses Recovery	%	4.2%	4.1%	4.6%

SSML operates a sugar manufacturing facility with an installed crushing capacity of 12,000 tons of cane per day (TCD). Operational performance in MY24 was impacted by constrained sugarcane availability, resulting in a shorter crushing period of 83 days (MY23: 91 days) and a decline in throughput and sugar production. The trend persisted in MY25, with cane crushed declining by 13% year-on-year due to continued supply-side constraints. Despite expectations of improved crop output, environmental factors including lower water availability, prolonged summer, and pest infestation reduced per acre yield and crop quality. As a result, sugar production remained under pressure, and sucrose recovery declined to 9.08% (MY24: 9.97%).

Going forward, an improvement in operational performance is anticipated, supported by extension of approximately PKR 120 mln in fertilizing loans to farmers by SSML. This initiative is expected to enhance both the availability and quality of sugarcane in the upcoming crushing season.

FINANCIAL RISK

The assigned ratings incorporate the financial risk profile of the Company for MY24 and 1QMY25. In MY24, the Company experienced a decline in profitability, primarily on account of operational and financial headwinds. These included elevated sugarcane procurement costs, subdued sugar prices, and increased finance costs associated with a high policy rate environment and expanded borrowing to fund the power project. The impact of these cost pressures was reflected in net margin compression, which continued into 1QMY25. Capital structure indicators weakened during the review period, with increased leverage resulting from higher bank borrowings utilized to finance the ongoing power project. Coverage metrics deteriorated in MY24 due to lower operating profits and a reported loss before tax. However, ratings are supported by an improvement observed in 1QMY25, supported by a decline in benchmark interest rates and, consequently, a reduction in finance cost. Liquidity position is now also adequate and commensurate with assigned ratings. Moreover, expected benefit from revenue diversification with the addition of a power segment also provides support to the financial risk profile going forward.

Profitability Profile

In MY24, SSML reported net sales of PKR 8.8 bln, reflecting a decline from PKR 9.5 bln in MY23. The reduction in revenue was primarily driven by lower domestic sugar prices, as regulatory actions—such as restrictions on smuggling and delays in export permissions—led to a supply glut in the local market. Elevated sugarcane procurement costs, coupled with unfavorable pricing dynamics, compressed gross margin to 10.5% (MY23: 16.8%) in MY24. Profitability also declined at the net level, with net margin falling to 0.4% (MY23: 4.3%), compounded by higher finance costs. The increase in finance costs was primarily attributable to higher reliance on bank borrowings amid elevated policy rates.

In 1QMY25, SSML's profitability profile continued to decline. The gross margin declined further to 8.1%, primarily due to continued pressure on average sugar selling prices. Although net margins also remained under pressure, the impact was partially mitigated by a downward adjustment in interest rates, easing finance cost burden.

Going forward, overall profitability is expected to improve supported by increasing ex-mill prices which are significantly higher than the previous year. Ex-mill prices have increased from an average PKR 120/kg in MY24 to approximately PKR

155/kg during the ongoing MY25. Official ex-mill price limit is set at PKR 159/kg by the government in MY25.

Capital Structure

In MY24, the Company's capitalization profile weakened, with gearing increasing to 3.2x (MY23: 1.6x) and leverage rising to 3.8x (MY23: 2.0x). The increase in capitalization metrics was primarily attributable to a reduction in the equity base following the cash dividend payment for MY23, recorded in MY24, along with an increase in long-term borrowings utilized for the financing of the power project.

The trend continued into 1QMY25, with gearing and leverage ratios further rising to 3.3x and 4.1x, respectively. The continued elevation in these metrics reflects a combination of higher short-term borrowings to meet seasonal working capital requirements and the sustained impact of long-term debt associated with the power project.

Coverage & Liquidity:

In MY24, the Company's coverage profile depicted pressure as reflected in a debt service coverage ratio (DSCR) of 0.6x (MY23: 2.4x). This deterioration is primarily attributed to constrained operational profitability coupled with elevated finance costs, which increased due to higher prevailing interest rates during the year. In 1QMY25, the DSCR improved to 1.0x. Although operational profitability remained under pressure, the improvement in coverage was supported by a material reduction in interest rates relative to the prior year.

Going forward, the coverage profile is expected to continue to improve, supported by an increase in DSCR driven by higher FFO. The improvement in FFO is anticipated due to improved operational profitability coupled with reduced finance cost pressure, on account of an easing interest rate environment.

Over the past seven years, the Company has maintained an average current ratio of approximately 0.9x. In MY24 and 1QMY25, the current ratio remained stable at 1.0x, consistent with the level recorded in MY23.

Financial Summary

Appendix I

Balance Sheet (PKR Millions)	MY23A	MY24A	1QMY25M
Property, plant and equipment	4,576.7	5,636.7	5,837.3
Long-term Investments	191.7	215.5	214.4
Stock-in-trade	1,081.6	1,590.0	2,042.2
Trade debts	65.9	39.4	40.3
Cash & Bank Balances	89.3	268.5	94.5
Other Assets	416.1	777.1	765.3
Total Assets	6,421.3	8,527.2	8,993.9
Creditors	23.9	41.9	211.3
Long-term Debt (incl. current portion)	1,342.9	2,537.9	2,738.6
Short-Term Borrowings	979.5	1,834.2	1,903.1
Total Debt	2,322.4	4,372.2	4,641.7
Other Liabilities	661.5	805.9	826.9
Total Liabilities	3,007.7	5,219.9	5,679.8
Paid up Capital	120.1	120.1	120.1
Revenue Reserve	1,187.4	1,081.1	1,088.0
Other Equity (excl. Revaluation Surplus)	177.5	177.5	177.5
Sponsor Loan	150.0	150.0	150.0
Equity (excl. Revaluation Surplus)	1,485.1	1,378.8	1,385.6

Income Statement (PKR Millions)	MY23A	MY24A	1QMY25M
Net Sales	9,476.1	8,821.0	2,289.2
Gross Profit	1,591.0	927.4	186.0
Operating Profit	1,164.9	580.9	97.4
Finance Costs	503.1	644.7	61.8
Profit Before Tax	661.8	-63.8	35.6
Profit After Tax	405.5	32.1	6.8

Ratio Analysis	MY23A	MY24A	1QMY25M
Gross Margin (%)	16.8%	10.5%	8.1%
Operating Margin (%)	12.3%	6.6%	4.3%
Net Margin (%)	4.3%	0.4%	0.3%
Funds from Operation (FFO) (PKR Millions)	641.2	-39.0	-255.1
FFO to Total Debt* (%)	27.6%	-0.9%	-22.0%
FFO to Long Term Debt* (%)	47.7%	-1.5%	-37.3%
Gearing (x)	1.6	3.2	3.3
Leverage (x)	2.0	3.8	4.1
Debt Servicing Coverage Ratio* (x)	2.4	0.6	1.0
Current Ratio (x)	1.0	1.0	1.0
(Stock in trade + trade debts) / STD (x)	1.4	1.0	1.3
Return on Average Assets* (%)	5.9%	0.4%	0.3%
Return on Average Equity* (%)	31.7%	2.2%	2.0%
Cash Conversion Cycle (days)	76.7	62.4	74.9

**Annualized, if required*

A - Actual Accounts

P - Projected Accounts

M - Management Accounts

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<tr><td>Name of Rated Entity</td><td>Shahtaj Sugar Mills Limited</td></tr>
<tr><td>Sector</td><td>Sugar</td></tr>
<tr><td>Type of Relationship</td><td>Solicited</td></tr>
<tr><td>Purpose of Rating</td><td>Entity Ratings</td></tr>
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<tr><td>05-Jun-25</td><td>A-</td><td>A2</td><td>Stable</td><td>Reaffirmed</td></tr>
<tr><td>14-Jun-24</td><td>A-</td><td>A2</td><td>Stable</td><td>Initial</td></tr>
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<tr><td>Instrument Structure</td><td>N/A</td></tr>
<tr><td>Statement by the Rating Team</td><td>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.</td></tr>
<tr><td>Probability of Default</td><td>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.</td></tr>
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<tr><td>Due Diligence Meetings Conducted</td><td>
<table>
<tr><th>Name</th><th>Designation</th><th>Date</th></tr>
<tr><td>Mr. Waqar Ahmad</td><td>Chief Financial Officer (CFO)</td><td rowspan="2">23rd May 2025</td></tr>
<tr><td>Mr. AG Saqib</td><td>Deputy Manager (DM)</td></tr>
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