The Pakistan Credit Rating Agency Limited

Rating Report

Al-Abbas Sugar Mills Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
08-May-2019	A+	A1	Stable	Upgrade	-
06-Nov-2018	A	A1	Positive	Maintain	-
09-May-2018	A	A1	Stable	Maintain	-
30-Sep-2017	A	A1	Stable	Maintain	-
30-Mar-2017	A	A1	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The ratings reflect the Company's diversified revenue stream, emanating from sugar, ethanol and storage facilities, mitigating volatility risk associated with the sugar industry. Margins in the industry have been depressed lately due to a persistent supply glut and substantial carry over stock. Sugar prices have been improving recently, providing relief to a certain extent. However, despite volatile market conditions, the Company has been able to sustain healthy margins owing to efficient operations and diversification. Well thought investment in storage tank terminals provides an additional cushion to cashflows throughout the year. Ratings draw strength from the Company's robust governance framework and strong financial profile represented by a modestly leveraged capital structure, strong coverages and efficient management of working capital. The upgrade signifies the Company's consistent performance and resilience to adverse movements in the sugar industry.

The ratings are dependent on the Company's ability to sustain its margins and healthy coverages while maintaining necessary cushion and discipline in working capital management. Significant deterioration of relationship between shareholders leading to adverse impact on the Company's profile and/or excessive borrowings resulting in declining coverages will have a negative impact on ratings.

Disclosure

Name of Rated Entity	Al-Abbas Sugar Mills Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Ratings(Jun-18),Methodology | Criteria | Rating Modifier(Jun-18),Methodology | Correlation Between Long-Term And Short-Term Rating Scale(Jun-18)
Related Research	Sector Study | Sugar(Apr-19)
Rating Analysts	Adnan Dilawar | adnan@pacra.com | +92-42-35869504

Profile

Legal Structure Al-Abbas Sugar Mills Limited (the Company) is a public listed company.

Background The Company was incorporated in May, 1991 with its principle activity as the sale and manufacture of white refined sugar. Commercial operations commenced in December, 1993. Subsequently, the company set-up two distillery plants. Unit I was set-up in 2000 while Unit II was operational in 2004.

Operations The Company has its head office located in Karachi, with the mill and Unit II located in Mirpurkhas. Unit I is located in Mirwah Gorchani, which is not far off. Rated crushing capacity for the mill stands at 7,500 TCD and the distilleries have a combined capacity to produce 172,500 litres of Ethanol per day (Unit I: 85,000 Litres; Unit II: 87,500 Litres). During the current crushing season (MY19), the mill operated for 84 days crushing ~467,829 MT of sugarcane while producing 50,892 MT of sugar at a recovery rate of 10.88%. Combined ethanol production during March, 2019, stood at ~29mln Liters. Additionally, the Company has two captive power plants, with capacities of 7.5MW and 15MW, respectively. Moreover, 12 tank terminals are also operated by the company, which have a combined storage capacity of 22,850 MT per month.

Ownership

Ownership Structure Major shareholding of the Company lies with Haji Ghani Group (58%) followed by JS Group (27%). Remaining shareholding is split between the general public and financial institutions.

Stability The two major shareholders of the Company are involved in a long standing dispute since 2013. Legal proceedings in this regard are being carried out in Sindh High Court and outcome is pending.

Business Acumen The Company has strong acumen through Jahangir Siddique (JS) Group and Haji Ghani Group. Mr Haji Abdul Ghani, one of the main sponsors, holds experience of chairing the board of various brokerage firms. Moreover, he has served as the Vice Chairman of Pakistan Stock Exchange twice. Additionally, Haji Ghani Group was previously involved in the cement sector. The sponsors have divested their stake selling it off to Arif-Habib Limited. On the other hand, JS Group is a diversified and well-known conglomerate with interests in brokerage, asset management, commercial management, commercial banking, and insurance.

Financial Strength The Company is a flagship entity of Haji Ghani Group. The Company has maintained a stable profitability over the years and is supported by a sufficient equity base of ~PKR 4bln . Moreover, the Company maintains a well thought out investment book.

Governance

Board Structure Board of Directors comprises eight members with one executive member and seven non-executive members, including an independent director and Chairman.

Members' Profile The board members have strong profiles and specialize in financial services, in addition to sugar and ethanol. During the year Mr. Zakria Usman was appointed as the Chairman of the Board. Moreover, Mr. Muhmmad Iqbal Usman, Mr. Duraid Qureshi and Mr. Irfan Nasir Cheema resigned from the directorship of the Company. They were subsequently replaced by Mr. Shahid Hussain Jatoi, Mr. Muhammad Siddiq Khokar, Mr. Salman Hussain Chawla and Mr. Haroon Askari.

Board Effectiveness The Company has in place four committees, namely, Audit Committee, Human Resources and Remuneration Committee, Investment Committee and Board Evaluation Committee. During the year the Board met 4 times, with high attendance by members.

Financial Transparency M/s Reanda Haroon Zakria & Co., Chartered Accountants, classified in category 'B' by SBP and having a satisfactory QCR rating, are the external auditors of the Company. They have expressed an un-qualified opinion on the financial statements for the year ending in September, 2018.

Management

Organizational Structure The Company has a well-defined organizational structure, whereby department heads have direct reporting lines to the CEO. The five departments comprise: a) Finance, b) Administration / Human resource, c) Procurement / Purchase, d) Audit, and e) Plant Operations.

Management Team Mr Asim Ghani, the Chief Executive Officer, was appointed on December 5, 2017 in place of Mr Shunaid Qurieshi. Mr Ghani has been associated with the Company for a considerable amount of time and previously overlooked the operational aspects of the Company as an Executive Director. He is aided by Mr Samir Hajani, who has recently been appointed as Chief Financial Officer, whereas, Mr. Zuhair Abbas is continuing his role as Company Secretary.

Effectiveness Long association of the Company's management has ensured consistency in overall polices and strengthening of the management structure.

MIS The Company has deployed Oracle R-12 as its Enterprise Resource and Planning (ERP) system, enabling the Company to generate various reports for effective management and decision making.

Control Environment The Company's internal audit department ensures compliance and efficiency. The department performs quarterly evaluations and reports to the Audit Committee.

Business Risk

Industry Dynamics Pakistan is the 6th largest country in the world in terms of area under sugarcane cultivation. The sugar industry in Pakistan is the 2nd largest agro based industry comprising ~90 sugar mills with annual crushing capacity estimated between 65 – 70 million tons. During MY19, sugar production is estimated around 5.5mln MT, coming down from 6.5mln MTin the preceding year.

Relative Position Owing to high number of players in the industry, companies relatively have low market share. The Company had a market share of ~ 1% during MY18.

Revenues Revenue comprises sugar and ethanol sales with a slight inclination towards sugar sales during MY18. Revenues witnessed an increase of 40% during MY18, primarily owing to improved sugar sales, which were augmented by an announcement of a sugar export quota with attractive subsidies. Moreover, higher ethanol sales with improved international prices helped the Company achieve higher revenues. Turnover during 1QMY19 remained stagnant with a slight decline of 1%, YoY, owing to poor performance by the sugar division through absence of sugar export and a depressed local market. However, exceptional performance by the ethanol division helped enhance revenues. Total revenue during 1QMY19 stood at ~PKR 1,906mln (1QMY18: ~PKR 1,932mln).

Margins The Company registered robust improvement in profitability during the period under review. Overall, gross margin improved to ~28% during MY18 (MY17: ~10%) through a higher sucrose recovery rate, export subsidy on sugar, higher ethanol yield and improved international ethanol prices. Similarly, operating margin during MY18 improved to ~20% (MY17: ~5%). Combined with a ~43% reduction in finance costs, net profit during MY18 stood at ~PKR 1,294mln (MY17: ~PKR 330mln) translating into a margin of ~17% (MY17: ~3%). Strong profitability was maintained through 1QMY19. During the quarter, gross margin stood at 28% (1QMY18: 14%) supported entirely through distillery operations with operating margin being recorded at 22% during 1QFY19, an increase of 14ppts. Similarly, net profit improved to ~PKR 369mln (MY17: ~PKR 123mln) with a margin of 19% (MY17: 6%).

Sustainability The Company has no upcoming plans relating to expansion and is expected not to engage in long-term borrowings. Any additional debt utilized is expected to be short-term in nature and coverages are expected to remain stable with a modest leveraging. Performance is dependent on sugar industry dynamics.

Financial Risk

Working Capital The Company has been consistent in maintaining a strong working capital position over the years despite seasonality in the industry. Though net working capital days increased slightly to 72 days during MY18 (MY17: 67 days). The Company maintained a healthy cushion by financing working capital through internal cashflows, enhancing its overall position. During 1QMY19 the Company was able to lower net working capital days to 48 while maintaining a healthy cushion to borrow additional funds.

Coverages Significant improvement in profitability helped the Company more than double FCFO, standing at PKR 701mln in MY18 (MY17: PKR 342mln). Combined with a reduction in finance costs, the Company was able to post excellent coverages. During MY18, interest coverage and core coverage stood at 10.9x and 11.1x, respectively. Strong coverages were maintained through 1QMY19 owing to a nominal finance costs and healthy cashflows.

Capitalization The Company maintained a minimally leveraged capital structure represented by a nominal debt-to-equity ratio of 16% during 1QMY19. Borrowings comprise entirely of short-term debt and are utilized for working capital requirements. During MY18, total debt registered a decrease of ~61%, standing at ~PKR 702mln (MY17: ~PKR 1,789mln)

Financials (Summary) in PKR mln
PKR mln

Al-Abbas Sugar Mills Limited
Listed Public Limited

BALANCE SHEET	Dec-18	Sep-18	Sep-17	Sep-16
	MY 3M Management	MY 12M Audited	MY 12M Audited	MY 12M Audited
a Non-Current Assets	**1,515**	**1,525**	**1,599**	**1,695**
b Investments (Incl. Associates)	**923**	**655**	**710**	**436**
Equity Instruments	-	0	0	0
Debt Instruments	923	655	710	436
c Current Assets	**3,684**	**3,426**	**2,863**	**1,181**
Inventory	1,457	1,905	1,963	707
Trade Receivables	230	244	28	41
Others	1,997	1,277	872	434
d Total Assets	**6,122**	**5,607**	**5,171**	**3,312**
e Debt/Borrowings	**709**	**702**	**1,789**	**16**
Short-Term	709	702	1,789	16
Long-Term (Incl. Current Maturity of Long-Term Debt)	-	-	-	-
Other Short-Term Liabilities	1,549	1,201	771	887
Other Long-Term Liabilities	111	110	103	74
f Shareholder's Equity	**3,752**	**3,594**	**2,508**	**2,335**
g Total Liabilities & Equity	**6,122**	**5,607**	**5,171**	**3,312**
INCOME STATEMENT				
a Turnover	**1,906**	**7,494**	**5,327**	**5,794**
b Gross Profit	534	2,073	511	764
c Net Other Income	(15)	(45)	49	55
d Financial Charges	(6)	(64)	(112)	(85)
e Net Income	**369**	**1,294**	**143**	**458**
CASH FLOW STATEMENT				
a Free Cash Flow from Operations (FCFO)	416	701	342	693
b Total Cashflows (TCF)	429	712	345	702
c Net Cash changes in Working Capital	101	710	(1,817)	293
d Net Cash from Operating Activities	524	1,339	(1,563)	909
e Net Cash from InvestingActivities	(493)	(28)	(90)	(9)
f Net Cash from Financing Activities	7	(1,223)	1,618	(883)
g Net Cash generated during the period	38	88	(35)	17
RATIO ANALYSIS				
a Performance				
Turnover Growth	2%	41%	-8%	-1%
Gross Margin	28%	28%	10%	13%
Net Margin	19%	17%	3%	8%
ROE	40%	42%	6%	20%
b Coverages				
Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD+Uncovered STB)	75.1	10.9	3.0	8.1
Interest Coverage (X) (FCFO/Gross Interest)	75.1	10.9	3.0	8.1
Debt Payback (Years) (Total Debt (excluding Covered Short Term Borrowings) / FCFO)	0.0	0.0	0.0	0.0
c Working Capital Management				
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	44	72	67	69
d Capital Structure (Total Debt/Total Debt+Equity)	16%	16%	42%	1%

Rating Scale

Credit Rating Scale & Definitions

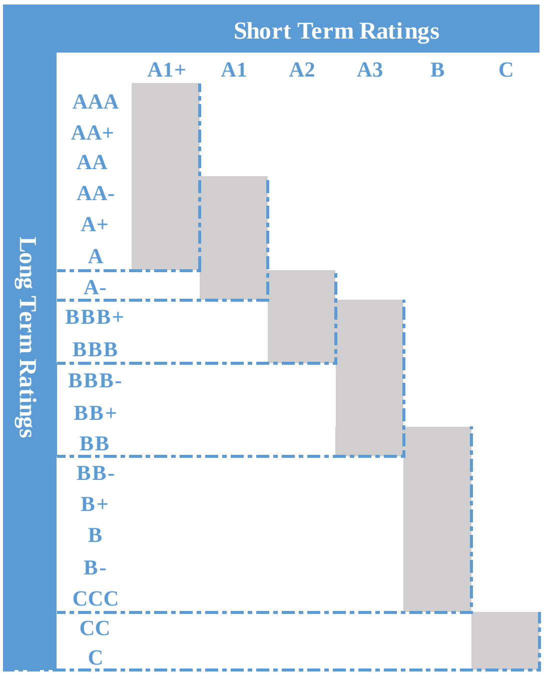
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long Term Ratings

AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+ AA AA-	**Very high credit quality.** Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A+ A A-	**High credit quality.** Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
BBB+ BBB BBB-	**Good credit quality.** Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BB+ BB BB-	**Moderate risk.** Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
B+ B B-	**High credit risk.** A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
CCC CC C	**Very high credit risk.** Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
D	Obligations are currently in default.

Short Term Ratings

A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
B	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
C	An inadequate capacity to ensure timely repayment.



Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

Rating Watch Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating Watch may accompany Outlook of the respective opinion.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults., or/and f) PACRA finds it impractical to surveill the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Regulatory and Supplementary Disclosure
(Credit Rating Companies Regulations,2016)

Rating Team Statements
(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) **Conflict of Interest**
i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

Restrictions
(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
(4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
(5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business
(6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
(7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
(9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
(11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest
(12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA´s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
(13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
(14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
(15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
(16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
(17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review
(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
(19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)
Probability of Default
(22) PACRA´s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA´s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA´s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(f-VII)
Proprietary Information