The Pakistan Credit Rating Agency Limited

Rating Report

Jauharabad Sugar Mills Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
05-Apr-2022	BBB+	A2	Stable	Maintain	-
24-Sep-2021	BBB+	A2	Stable	Maintain	-
29-Jan-2021	BBB+	A2	Stable	Upgrade	-
07-Apr-2020	BBB	A2	Positive	Maintain	-
17-Oct-2019	BBB	A2	Stable	Maintain	-
30-Apr-2019	BBB	A2	Stable	Maintain	-
28-Dec-2018	BBB	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Pakistan's sugar industry is the country's 2nd largest agro-based industry, comprising 90 mills with an annual crushing capacity estimated ~ 65–70mln MT. The industry has overcome the raw material supply challenges. However, support price of sugarcane, set by considering the cost incurred by farmers, remains a constraint. The Government increased the support price of sugarcane to PKR 225 per maund for mills operating in Punjab (previously, it was increased to PKR 200). Actual realized sugarcane prices at the mill gate were even higher. During MY21, the overall sugar production increased by 15%, YoY, to 5.7mln MT (MY20: 4.9mln MT) due to better crop availability and an increase in area under cultivation. Moreover, in FY21's budget, the Government proposed to levy 17% GST on market retail price instead of PKR 60/kg, after Nov-21. This led to an increase in sugar prices in the local market. To curb this, the Government planned to import 0.8mln MT of sugar. Out of this, 0.3mln MT was imported till Jun-21, whereas, 0.3mln MT was imported till Nov-21. During the current crushing season (MY22), a surge of 10-15% is expected in sugarcane production resulting in an increased total sugar production of ~7mln MT. This along with high sugar prices are expected to remain favorable for the millers.
The ratings reflect an improved business profile of Jauharabad Sugar Mills Limited ('Jauharabad Sugar' or 'the Company) in line with the current dynamics of sugar industry. Relatively better sugarcane availability in MY21 resulted in higher sugar production. Despite high procurement costs, rising sugar prices has led to improved revenues. The Company has displayed improvement in margins on the back of relatively low conversion costs. Over the years, the Sponsors' business acumen and support (in the form of loan) have remained beneficial for the Company. The management pays continuous attention to enhance efficiencies through BMR. The financial profile of Jauharabad Sugar remains adequate, characterized by improved working capital management, adequate coverages and modestly leveraged capital structure.

The ratings are dependent upon the management's ability to sustain business margins, while improving the financial risk profile. Any significant deterioration in the Company's margins and/or coverages would have a negative impact.

Disclosure

Name of Rated Entity	Jauharabad Sugar Mills Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Rating(Jun-21),Criteria | Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria | Rating Modifiers(Jun-21)
Related Research	Sector Study | Sugar(Dec-21)
Rating Analysts	Faiqa Qamar | faiqa.qamar@pacra.com | +92-42-35869504

Profile

Legal Structure Jauharabad Sugar Mills Limited ('Jauharabad Sugar' or 'the Company') was incorporated as a public limited company and is listed on the Pakistan Stock Exchange since 1973.

Background The Company was initially established on build, operate and transfer (BOT) contract by Pakistan Industrial Development Corporation (PIDC) in collaboration with Thal Development Authority (TDA). In 1955, Saigol Group acquired the contract and named the Company Kohinoor Sugar Mills Limited. In Oct 2013, Cane Processing (Pvt.) Limited (CPL) acquired major stakes (64%) of Kohinoor Sugar Mills and changed its name to Jauharabad Sugar Mills Limited.

Operations The Company has two sugarcane crushing units, named Line-I and Line-II with an aggregate crushing capacity of 12,500MT/day. The Company manufactured 52,925 MT (MY20: 41,150 MT) of sugar due to increased crushing of sugarcane during MY21: 553,772 MT (MY20: 425,433 MT) at an average recovery rate of 9.9% (MY20: 9.7%). The mill is located in Jauhrabad, district Khushab, while the registered office is in Lahore.

Ownership

Ownership Structure The Company is majorly owned by a Holding Company - Cane Processing (Pvt.) Limited (64%) - and individuals of Latif family (10%). NIT and ICP hold 3% shares. The Company has a free float of ~20%. The Holding Company is primarily owned by Mrs. Ghazala Amjad (99%).

Stability Presence of a Holding Company bodes well for stability. Transferring entire family stake to Holding Company would further strengthen the structure.

Business Acumen The sponsors have interests in other ventures and enjoys strong business acumen. Apart from owning two LPG businesses, named Synergy and Awami, the sponsors own Pasrur Sugar Mills Limited, having an operational capacity of 3,500 TCD (installed capacity 8,000 TCD).

Financial Strength The Company is primarily owned by Cane Processing (Pvt.) Limited. As at Sep-21, Cane Processing’s total assets stood at PKR 642mln, which are entirely financed by equity.

Governance

Board Structure Board of the Company comprises one Executive Director, three Independent Directors and three Non-executive Directors nominated by Cane Processing (Pvt.) Limited. The Board’s chairman is a Non-executive Director. The Company’s Board structure draws strength from its size and independent oversight.

Members’ Profile All BoD members have relevant expertise. The Board's Chairman, Mr. Muhammad Aamir Beg, is associated with the Company for 5 years, having over all experience of 5 decades. Mr. Farhan Ilyas, an Independent Director, is the Chairman of Audit Committee and has work experience of above 3 decades.

Board Effectiveness Jauharabad Sugar's Board met four times during MY21, with majority attendance, maintaining well documented minutes. The Board has two sub-committees: Audit Committee and HR & Remuneration Committee. The Audit Committee met four times, while HR Committee met once during MY21.

Financial Transparency The Company's external auditors, UHY Hassan Naeem & Company, Chartered Accountants, have expressed an unqualified opinion on the financial report of MY21. The firm has been QCR rated by ICAP and is in Category 'B' of SBP panel.

Management

Organizational Structure The Company operates through eight divisions: Mill, Operations, Power, Cane, Marketing, Human Resource, Internal Audit and Finance. All functional heads report to the COO, who reports to the Company’s CEO. However, Head of Internal Audit and Human Resource department report administratively to the CEO and functionally to the Board's Audit and Human Resource & Remuneration Committees, respectively.

Management Team The Board has appointed Mr. Syed Anwar Hussain Shahid as new CEO of the Company during the Board meeting held on 23-Sep-21. Mr. Ahsan Latif, the COO, has work experience of 22 years and is associated with the Company since 2013.

Effectiveness The Company’s management ensures effectiveness through a Management Committee. This committee comprises heads of all divisions. A co-ordination meeting is held on daily basis to review the progress of every department. Minutes of these meetings are documented and circulated for follow ups.

MIS The Company uses ERP system which is updated on real time basis. It generates 15 reports to assist the top management in monitoring and evaluating the performance of different departments.

Control Environment To ensure operational efficiency, the Company has setup an Internal Audit Function and it is co-sourced internal audit to KPMG. They provide support, guidance and monitoring of the internally placed SOPs. KPMG conduct Gap Analysis for evaluating the already placed policies and procedures.

Business Risk

Industry Dynamics Pakistan’s sugar industry is the country's 2nd largest agro-based industry, comprising 90 mills with an annual crushing capacity estimated ~ 65–70mln MT. The industry has overcome the raw material supply challenges. However, support price of sugarcane remains a constraint. The Government increased the support price of sugarcane to PKR 225 per maund in Punjab (previously its was PKR 200) respectively. Actual realized sugarcane prices at the mill gate were even higher. During MY21, the overall sugar production increased by 15%, YoY, to 5.7mln MT (MY20: 4.9mln MT) due to better crop availability and an increase in area under cultivation. Moreover, in FY21's budget, the Government proposed to levy 17% GST on market retail price instead of PKR 60/kg, after Nov-21. This led to an increase in sugar prices in the local market. To curb this, the Government planned to import 0.8mln MT of sugar. During the current crushing season (MY22), a surge of 10-15% is expected in sugarcane production resulting in an increased total sugar production of ~7mln MT. This along with high sugar prices are expected to remain favorable for the millers.

Relative Position The Company contributed approximately 0.9% to the total sugar production in Pakistan and can be categorized as a relatively small player.

Revenues The Company generates revenue by selling refined sugar and by-products. During MY21, the Company's revenue surged to PKR 5,370mln (MY20: PKR 4,065mln). The rise was attributable to rise in average selling price and in sales volume. Revenues are expected to increase, going forward, as the Company is expected to be benefited from relatively reduced sugarcane cost, stable sugar prices, and increased sugarcane crushing in FY22: 750,000MT (FY21: 553,000MT)

Margins During MY21, gross margin slipped to 12% (MY20: 17%) due to rise in sugarcane cost (support price set was PKR 225 per maund increased from PKR 200 per maund, while the mill procured sugarcane at a much higher rate). This along with low recovery rates reduced the margins. Similarly, operating margins posted a declining trend (MY21: 8%, MY20: 12%) due to trickle down impact despite reduced admin and selling expenses. Though finance cost was low due to reduced interest rates, net profit margin also posted a dip (MY21: 2%, MY20: 6%). Margins are expected to improve, going forward, on the basis of high sugar price and relatively low sugarcane cost.

Sustainability Going forward, the Company is planning to install a distillery. Initial feasibility has been carried out in this regard. The Company has also installed 15MW biomass co-generation power plant, with an exportable capacity of 10MW to FESCO, expected to be commercially operational by 2025.

Financial Risk

Working Capital In MY21, the Company's net working capital days posted significant improvement (MY21: 6 days, MY20: 38days). This was mainly due to improved inventory held days standing at 11days (MY20: 30days) as the Company off loaded the entire sugar stock by Jul-21. Moreover, receivables posted an improvement (MY21: nil, MY20: 14 days) as sugar was mainly sold on cash basis. Payable days posted a slight improvement (MY21: 5 day, MY20: 7 days) as the Company cleared farmer payments in timely manner. The Company has an adequate borrowing cushion. Going forward, working capital management is expected to remain stable.

Coverages In MY21, the Company's interest coverage ratio is a function of free cash flows and finance cost. Interest cover remains stable (MY21: 2.3x, MY20: 2.3x) on the back of largely stable free cash flows (MY21: PKR 495mln MY20: PKR 514mln) and decreased finance cost (MY21: PKR 212mln MY20: PKR 227mln). Similarly, core and total operating coverage ratios decreased slightly to 1.6x (MY20: 1.7x). Going forward, coverages is expected to improve.

Capitalization In MY21, The Company holds a total debt & equity of PKR 306mln & PKR 4,152mln (MY20: PKR 420mln & 4,084mln), respectively. Leverage ratio remains low (MY21: 20%, MY20: 22%) due to reduced borrowings and improved equity standing. The Company’s debt mix is inclined towards short-term borrowings (~80% of the total debt) obtained to finance working capital requirement. Long-term loan (MY21: PKR 21mln, MY20: PKR 148mln) was obtained to set-up the biomass power plant. Going forward, leverage ratio is expected to remain stable.

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

Jauharabad Sugar Mills Ltd	Dec-21	Sep-21	Sep-20	Sep-19
Sugar	3M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	5,169	5,125	5,128	3,276
2 Investments	18	18	17	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	1,555	590	731	1,085
a Inventories	*999*	*93*	*194*	*390*
b Trade Receivables	*1*	*1*	*1*	*270*
5 Total Assets	6,742	5,733	5,876	4,361
6 Current Liabilities	470	189	293	563
a Trade Payables	-	*47*	*84*	*50*
7 Borrowings	1,125	306	420	637
8 Related Party Exposure	610	722	724	611
9 Non-Current Liabilities	360	365	354	261
10 Net Assets	4,177	4,151	4,085	2,289
11 Shareholders' Equity	4,177	4,152	4,084	2,289
B INCOME STATEMENT				
1 Sales	750	4,924	3,503	3,441
a Cost of Good Sold	*(658)*	*(4,346)*	*(2,899)*	*(2,788)*
2 Gross Profit	92	579	604	654
a Operating Expenses	(47)	(191)	(171)	(186)
3 Operating Profit	45	387	433	468
a Non Operating Income or (Expense)	*(0)*	*1*	*(5)*	*(5)*
4 Profit or (Loss) before Interest and Tax	45	388	428	463
a Total Finance Cost	*(13)*	*(220)*	*(231)*	*(206)*
b Taxation	*(7)*	*(67)*	*17*	*(75)*
6 Net Income Or (Loss)	25	102	213	183
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*78*	*495*	*514*	*565*
b Net Cash from Operating Activities before Working Capital	*70*	*283*	*242*	*291*
c Changes in Working Capital	*(697)*	*(157)*	*244*	*667*
1 Net Cash provided by Operating Activities	(627)	126	486	958
2 Net Cash (Used in) or Available From Investing Activities	(70)	(135)	75	(112)
3 Net Cash (Used in) or Available From Financing Activities	811	(147)	(38)	(833)
4 Net Cash generated or (Used) during the period	113	(156)	523	12
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	-39.1%	40.6%	1.8%	56.8%
b Gross Profit Margin	12.3%	11.7%	17.2%	19.0%
c Net Profit Margin	3.4%	2.1%	6.1%	5.3%
d Cash Conversion Efficiency (FCFO adjusted for Working C	-82.5%	6.9%	21.7%	35.8%
*e Return on Equity [Net Profit Margin * Asset Turnover * (T*	2.4%	2.5%	6.7%	8.3%
2 Working Capital Management				
a Gross Working Capital (Average Days)	67	11	45	92
b Net Working Capital (Average Days)	61	6	38	86
c Current Ratio (Current Assets / Current Liabilities)	3.3	3.1	2.5	1.9
3 Coverages				
a EBITDA / Finance Cost	6.1	2.5	2.4	2.9
b FCFO / Finance Cost+CMLTB+Excess STB	2.1	1.6	1.7	1.8
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Fi	2.7	3.0	3.3	2.3
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equit	29.3%	19.8%	21.9%	35.3%
b Interest or Markup Payable (Days)	57.6	6.3	4.9	34.9
c Entity Average Borrowing Rate	1.9%	8.2%	10.0%	9.2%

Credit Rating

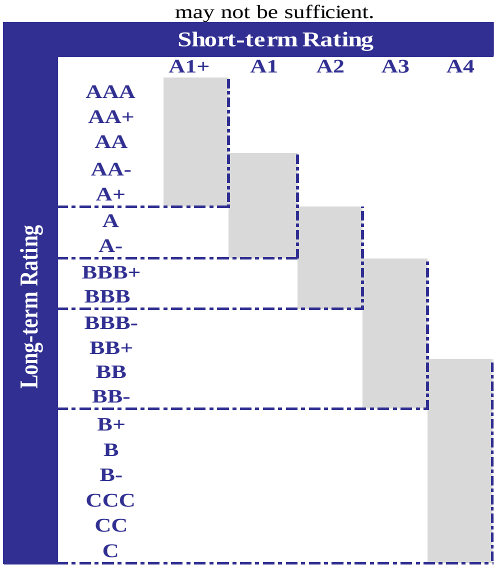
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
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 Rating

Scale	Definition
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
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



**The correlation shown is indicative and, in certain cases, may not hold.*

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 some material identifiable event with indeterminable rating implications. 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 rating 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) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) 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.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

Entities

a) Broker Entity Rating
b) Corporate Rating
c) Financial Institution Rating
d) Holding Company Rating
e) Independent Power Producer Rating
f) Microfinance Institution Rating
g) Non-Banking Finance Companies (NBFCs) Rating

Instruments

a) Basel III Compliant Debt Instrument Rating
b) Debt Instrument Rating
c) Sukuk Rating

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