The Pakistan Credit Rating Agency Limited

Rating Report

Jauharabad Sugar Mills Limited

Report Contents

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
05-Apr-2024	BBB+	A2	Stable	Maintain	-
05-Apr-2023	BBB+	A2	Stable	Maintain	-
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

The Pakistani sugar sector, recognized as the second most substantial agro-based industry within the nation, encompasses 91 mills with a collective processing capacity of roughly 80–90 million metric tons. The season ended with a sugar output of ~6.6 million tons, a ~16% decrease from the previous year's ~7.9 million tons due to severe floods that damaged the crop and shortened the harvesting period. Despite the lower crop, the country had sufficient sugar stocks to meet the annual demand, owing to the large carryover from the previous year. Anticipated water scarcity is projected to precipitate a significant ~13.7% contraction in the forthcoming sugarcane supply for MY24, ascribed to a decrement in cultivated area and yield.
The ratings reflect a sustained business profile of Jauharabad Sugar Mills Limited in line with the current dynamics of the sugar industry. The management pays continuous attention to enhance efficiencies through BMR. The Sponsors' business acumen and support (in the form of loan) remain beneficial for the Company. The company experienced a ~33% surge in revenue to PKR ~6.9 billion in MY23 (MY22: ~5.1 billion), comparatively lower than industry's upward trend and with an average recovery rate of ~9.86%. Rising sugarcane cost have resulted in increasing sugar prices in the domestic market during MY23. As a result, the Company attained sustainable profits from the sugar segment. The Company's gross profit stood at PKR ~1bln (MY22: ~829mln), resulting to a ~15.5% gross margin. Despite the escalation in finance costs associated with KIBOR, the net income showed a growth of ~65% and stood at PKR ~212mln (MY22: PKR ~128mln). Net margins remained at ~3.1% during MY23 (MY22: ~2.5%) which need to be improved in order to compete with industry peers with similar footing. The financial risk profile of Jauharabad stood adequate. During MY23, the Company's working capital stood at ~77 days (MY22: 55days) resulting from a significant amount of piled finished stock. The total leverage ratio of the company stood at ~43% in MY23, with regard to their pure equity i.e. PKR ~1.3bln (excluding revaluation of PKR ~6.3bln). Short-term borrowings constituting ~99% of the total debt. Currently, there is no long term borrowing recorded on the financials, but the Company is in the phase of expansion evident from their advances paid against the enhancement of capacity. The profitability of Jauharabad has been supported by elevated sugar prices, however struggling to maintain stable margins amidst market oscillations, indicating difficulties in preserving consistent profit margins when the market is fluctuating.

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

Disclosure

Name of Rated Entity	Jauharabad Sugar Mills Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Rating(Jul-23),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology | Rating Modifiers(Apr-23)
Related Research	Sector Study | Sugar(Aug-23)
Rating Analysts	Hina Harram | hina.harram@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 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.) Ltd. acquired major stakes (~64%) of Kohinoor Sugar Mills and rename it to Jauharabad Sugar.

Operations The Company has two sugarcane crushing units, named Line-I and Line-II, with an aggregate crushing capacity of 12,500MT/day (operational capacity of 9,500TCD). During MY23, the Company manufactured 64,197MT (MY22: 85,774 MT) of sugar, down by ~25.1%, due to increased cost of sugarcane (MY23: 302/maund, MY22: 225/maund) and low crushing days of 87 days (avg. recovery rate - MY23: 9.8%,). 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 (~64%) - and individuals of Latif family (~9%). NIT and ICP hold ~3% shares. The Company has a free float of ~35%. 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 enjoy strong business acumen and own two LPG businesses, named Synergy and Awami. The sponsors own another sugar unit, named 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. The sponsors have adequate financial standing to support the Company in case of distress.

Governance

Board Structure The Board of the Company comprises two Executive Director, three Independent Directors and two Non-executive Directors nominated by Cane Processing. The Board is chaired by an Independent Director and draws strength from its size and independence.

Members' Profile The Board's Chairman, Mr. M. Aamir Beg is associated with the Company for 7 years and has an over all experience of 36 years. Mr. Ghias-ul-Hasan, Non-executive Director/ CPL Nominee, has an experience of 43 years. The Board's experience and skillset is the key success factors for the Company

Board Effectiveness During MY23, the Board met four times, with majority attendance, maintaining well documented minutes. The Board has two subcommittees: Audit Committee (met 4 times during MY23) and HR & Remuneration Committee (met once during MY23).

Financial Transparency External auditors, UHY Hassan Naeem & Company, Chartered Accountants, have expressed an unqualified opinion on the financial statements of MY23. The firm has been QCR rated and is in Category 'A' 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 CEO. However, the Head of Internal Audit reports functionally to the Board Audit Committee and administratively to the Chief Executive of the Company.

Management Team Mr. Syed Anwar Hussain Shahid, the CEO, holds a work experience of 35 years and is associated with the Company since 2021. Mr. Ahsan Latif, the COO, has work experience of 23 years and is associated with the Company since 2013. The management team has substantial experience in the relevant domain.

Effectiveness The Company's management ensures effectiveness through a Management Committee, comprising heads of all divisions. Co-ordination meetings are held on daily basis. Minutes of these meetings are documented and circulated for follow ups.

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

Control Environment Internal Audit Function is co-sourced with KPMG. The function provides support, guidance and monitoring of the internally placed SOPs. KPMG conducts gap analysis of already deployed systems and policies.

Business Risk

Industry Dynamics Pakistan sugar industry comprises of 91 sugar mills with annual capacity of 89-90mln MT. The average area under sugar cultivation is around ~1.2mln hectares (MY20-MY23) while the average production level of sugarcane crop has widely ranged from ~65mln MT – 90mln MT depending upon the area cultivation and crop yield. The share of sugarcane in the GDP of Pakistan is 0.9% during MY23. Production of sugarcane during MY23 is 91.1mln MT. Production of sugarcane is expected to be decreased in MY24 by ~13.7% due to decrease in sugarcane area by ~5.3% as well as reduction of crop yield by ~3.8% as scarcity of water is forecasted by on the backdrop of lack of adequate rainfall. The minimum support price of sugarcane is expected PKR 400/maund in Punjab, PKR 425/maund in Sindh and PKR 400/maund in KPK during MY24. The average global prices of ethanol recorded USD ~749 /MT during CY19-CY23. While USDA estimates exports of sugar around ~0.25mln MT in MY24, it appears highly unlikely, considering the expected reduction in sugar productivity by 6% in MY24.

Relative Position The Company is a relatively small player as it contributes ~1.2% to the total sugar production in Pakistan.

Revenues The Company generates revenue by selling refined sugar, in the local markets (~85%), followed by the sale of molasses (~12.3%), bagasse (~2.2%), and mud (~0.13%). The Company's topline posted growth of ~33.3%, reporting at ~PKR 6.9bln during MY23 (MY22: ~PKR 5.1bln), mainly due to increased sugar prices. During 3MMY24, topline grew by ~25.3% to ~PKR 2,456mln from 1,959mln in 3MMY23, due to the price increase of sugar. Going forward, the export of sugar is anticipated to improve the Company's financial performance.

Margins Company's gross margins to post a slight decrease (MY23: ~15.5%, MY22: ~16%) as the Company was not able to pass the high input cost of sugar cane to the consumers. Operating margin posted a increasing trend (MY23: ~12%, MY22: ~11.8%) due to trickledown effect of gross margin. In 3MMY24 gross margin increased and stood at ~8.5% (3MMY23: ~7%) due to the rise in prices of sugar cane and passing on to the consumers leading to high sugar prices. Similarly operating margin increased to ~6.1% (3MMY23: ~4.4%). Net Margins stood at 2.3% from ~1.8% due to trickle down effect. Going forward, due to inflationary trend and export quota, margins are expected to remain stable, if not falling.

Sustainability Going forward, the Company is eyeing on reaping benefits from the recently installed bagasse based power plant of 21MW.

Financial Risk

Working Capital Cash cycle stood at 77 days for MY23 (MY22: 55 days). Inventory days stood at 82 days (MY22: 59 days) due to piled up finished stock. No receivable recorded for MY23, as sugar was sold on cash basis mostly. Due to timely payments made to the sugar cane suppliers, payable days remain low (MY23: 5 days, MY22: 4 days). In 3MMY24 Cash cycle stood at 58 days (3MMY23: 76 days). Inventory days stood at 62 days (3MMY23: 78 days). Receivable days stood at 1 days in 3MMY24 as sugar was sold on cash basis mostly. Due to timely payments made to the sugar cane suppliers, payable days remain low (3MMY24: 5 days)

Coverages Interest coverage ratio dropped to 1.9x (MY22: 2.2x), on the back of high finance cost which rose significantly due to hike in interest rates (MY23: PKR 548mln, MY22: PKR 323mln). Free cash flows improved on the basis of better profits (MY23: PKR 1,039mln, MY22: PKR 701mln). Core and Total operating coverage ratios decreased and stood to 1.9x in MY23. In 3MMY24 interest coverage ratio decreased to 3.5x (3MMY23: 5.0x), on the back of free cash flows (3MMY24: PKR 182mln, 3MMY23: PKR 157mln). Finance cost rose significantly 3MMY24: PKR 52mln. Core and Total operating coverage ratios posted a decline to 3.5x.

Capitalization The Company's has total debt of PKR 1.2bln (MY22: PKR 1.1bln) with a leverage ratio of ~43% in MY23, with regard to their pure equity i.e. PKR ~1.3bln (excluding revaluation of PKR ~6.3bln). The Company's debt mix is inclined towards short term borrowings during and after the crushing season. In 3MMY24 the total debt including short term (~PKR 2.1bln) and long term (~PKR 2mln) stood at ~PKR 2.1bln. The pure equity base stood ~PKR 1.8bln resulted in the leverage ratio of ~57%.

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

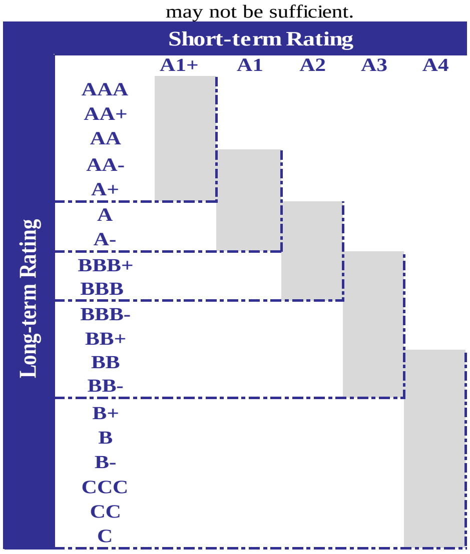
Jauharabad Sugar Mills Ltd	Dec-23	Sep-23	Sep-22	Sep-21
Sugar	3M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	9,888	9,818	9,517	5,125
2 Investments	15	15	19	18
3 Related Party Exposure	-	-	-	-
4 Current Assets	3,306	2,404	2,264	590
a Inventories	*1,807*	*1,525*	*1,573*	*93*
b Trade Receivables	*63*	*6*	*6*	*1*
5 Total Assets	13,209	12,237	11,801	5,733
6 Current Liabilities	1,105	1,075	855	188
a Trade Payables	*131*	*122*	*75*	*47*
7 Borrowings	2,161	1,279	1,170	306
8 Related Party Exposure	875	875	909	722
9 Non-Current Liabilities	1,022	1,018	1,054	365
10 Net Assets	8,047	7,990	7,812	4,152
11 Shareholders' Equity	8,047	7,990	7,812	4,152
B INCOME STATEMENT				
1 Sales	2,456	6,926	5,180	4,924
a Cost of Good Sold	*(2,248)*	*(5,852)*	*(4,352)*	*(4,346)*
2 Gross Profit	208	1,074	829	579
a Operating Expenses	*(59)*	*(241)*	*(220)*	*(191)*
3 Operating Profit	149	833	609	387
a Non Operating Income or (Expense)	*(3)*	*(6)*	*(4)*	*1*
4 Profit or (Loss) before Interest and Tax	146	826	605	388
a Total Finance Cost	*(53)*	*(560)*	*(334)*	*(220)*
b Taxation	*(36)*	*(54)*	*(143)*	*(67)*
6 Net Income Or (Loss)	56	212	128	102
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*182*	*1,039*	*701*	*495*
b Net Cash from Operating Activities before Working Capital Changes	*61*	*520*	*424*	*283*
c Changes in Working Capital	*(324)*	*88*	*(1,036)*	*(157)*
1 Net Cash provided by Operating Activities	(263)	608	(612)	126
2 Net Cash (Used in) or Available From Investing Activities	(148)	(603)	(344)	(135)
3 Net Cash (Used in) or Available From Financing Activities	(0)	(83)	(44)	(147)
4 Net Cash generated or (Used) during the period	(411)	(78)	(999)	(156)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	41.8%	33.7%	5.2%	40.6%
b Gross Profit Margin	8.5%	15.5%	16.0%	11.7%
c Net Profit Margin	2.3%	3.1%	2.5%	2.1%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	-5.8%	16.3%	-6.5%	6.9%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	2.8%	2.7%	2.1%	2.5%
2 Working Capital Management				
a Gross Working Capital (Average Days)	63	82	59	11
b Net Working Capital (Average Days)	58	77	55	6
c Current Ratio (Current Assets / Current Liabilities)	3.0	2.2	2.6	3.1
3 Coverages				
a EBITDA / Finance Cost	4.4	2.1	2.4	2.5
b FCFO / Finance Cost+CMLTB+Excess STB	3.5	1.9	2.1	1.6
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	1.7	1.8	2.4	3.0
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	27.4%	21.2%	21.0%	19.8%
b Interest or Markup Payable (Days)	54.7	66.4	67.5	6.3
c Entity Average Borrowing Rate	5.8%	16.0%	11.7%	8.2%

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):

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

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(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 | 14-3(f)(vii)
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