



The Pakistan Credit Rating Agency Limited

Rating Report

Jauharabad Sugar Mills Limited

Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
28-Dec-2018	BBB	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Ratings reflects adequate business profile of Jauharabad Sugar Mills Limited in line with the current dynamics of sugar industry. During FY18, volatility in the sugar industry and depressed prices led to a decline in the Company's revenue and low margins. Over the years, sponsors' business acumen and support (in the form of loan) have remained beneficial for the Company. The management's consistent attention to improve efficiency is expected to supplement growth maxims. Going forward, the management plans to diversify the Company's revenue base by setting up a power plant and a distillery. Jauharabad Sugar Mills financial profile remains stretched and is characterized by moderately leveraged capital structure, largely emanating from working capital needs. The Company's cash flows are under pressure, depressing the coverage ratios.

Ratings are dependent upon the management's ability to improve its revenue while improving the margins and, in turn profitability. Meanwhile, close monitoring of working capital requirements remains critical for the ratings. Any deterioration in the Company's cashflows and coverages would have a negative impact on the ratings. Streaming the ownership structure remains imperative.

Disclosure

Name of Rated Entity	Jauharabad 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(Mar-18)
Rating Analysts	Adnan Dilawar adnan@pacra.com +92-42-35869504

Profile

Legal Structure Jauharabad Sugar Mills Limited was incorporated as a public limited company. The Company is listed on 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 as Kohinoor Sugar Mills Limited. In Oct-13, Cane Processing (Pvt.) Limited (CPL) acquired major stake (64%) of Kohinoor Sugar Mills and changed its name to Jauharabad Sugar Mills Limited.

Operations Jauharabad Sugar Mills has two sugarcane crushing units, named Line-I and Line-II. Line-I can crush 5,500 MT of sugarcane per day. However, it's currently not operational. While, Line-II is the only operational unit and can crush 7,000 MT of sugarcane per day. In FY18, the Company had an approximate capacity utilization of 48% and manufactured 0.44mln tons of sugar. The average recovery rate ~ 9.7%. The Company's mill is located in Jauharabad, district Khushab, while the registered office is situated in Cavalry Ground, Lahore Cantonment.

Ownership

Ownership Structure Jauharabad Sugar Mills Limited is majorly owned by a Holding Company - Cane Processing (Pvt.) Limited (64%) and individual's of Latif family (23%). NIT and ICP holds 3% shares in the Company. The Company has a free float of 10%. The Holding Company is equally (32%) owned by extended members of Latif family. Going forward, the ownership of the Holding Company will be transferred to the immediate members of the family. Mr. Ahsan Latif remains the driving force behind the Company. Clear ownership structure in holding will improve transparency.

Stability A Holding Company - Cane Processing Limited holds major ownership of the Company and only 23% of the stake resides with the individuals of sponsoring family.

Business Acumen The sponsoring family has interests in other ventures and enjoys strong business acumen. Sponsoring family also owns two LPG businesses – named Synergy and Awami.

Financial Strength Jauharabad Sugar Mills Limited is the only investment made by the the Holding Company - Cane Processing (Pvt.) Limited. In FY17, Cane Processing's total assets stood at PKR 500mln which is equity financed.

Governance

Board Structure Jauharabad Sugar Mill's Board comprises two Executive Directors, one Independent Director and four Non-executive Directors nominated by Cane Processing (Pvt.) Limited. Board's Chairman is a Non-executive Director nominated by the Holding Company - Cane Processing (Pvt.) Limited. The Company's Board structure draws strength from its size and independent oversight.

Members' Profile All the BoD have relevant expertise. The Board's Chairman, Mr. Muhammad Aamir Beg, is certificated from the Director Training Program and has an over all work experience of 50 years.

Board Effectiveness Jauharabad Sugar Mills' Board met four times during FY18, with majority attendance to discuss pertinent matters and maintains well documented minutes. The Board has two sub-committees; naming Audit Committee and Human Resource and Remuneration Committee. Audit Committee comprises three Directors and met four times during the year. Human Resource and Remuneration Committee comprises three Directors and met once during the year.

Financial Transparency Jauharabad Sugar Mills external auditors UHY Hassan Naem & Company, Chartered Accountants, have expressed an unqualified opinion on the financial reports for FY17. The firm has been QCR rated by ICAP and are in Category 'B' of SBP panel. The firm has been the Company's auditors since 2009.

Management

Organizational Structure Jauharabad Sugar Mills operates through eight divisions: Mill, Operations, Power, Cane, Marketing, Human Resource, Internal Audit and Finance. All functional Heads report to the Company's Chief Operating Officer (COO), who reports to the Company's CEO. However, Head of Internal Audit and Human Resource reports administratively to the CEO and functionally to the Board Audit and Human Resource and Remuneration Committee, respectively.

Management Team The Company's management comprise veteran professionals. Mr Ghias ul Hassan, CEO, has an overall work experience of above 40 years. He has been associated with the Company from 5 years. Mr. Ahsan Latif, COO, has an overall work experience of 21 years and has been associated with the Company since Oct-13.

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 Jauharabad Sugar Mills Limited initially placed COSMOSOFT system to control cane procurement. Now, an ERP system is in place at the Company, 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. To monitor this function, the Company has co-sourced internal audit to KPMG or RSM. They provide support, guidance and monitoring of the internally placed SOPs. KPMG or RSM conduct Gap Analysis for evaluating the already placed policies and procedures.

Business Risk

Industry Dynamics Pakistan is the 6th largest sugarcane producer, 9th largest sugar producer and 8th largest sugar consuming country in the world. Sugarcane is grown on approximately 1.2mln hectares and provides the raw material for ~ 90% sugar mills. The industry witnessed surplus sugar production during FY17, which resulted in depressed prices and a significant pile up of sugar stocks at end Sept-17. Sugar production decreased to 6.5mln tons during FY18 in comparison to 7mln tons in FY17. The over supply situation persisted in FY18 and prices remained under pressure.

Relative Position Jauharabad Sugar Mills contributes approximately 0.6% to total sugar production in Pakistan, relatively a small capacity.

Revenues Jauharabad Sugar Mills generates revenue by selling refined sugar in the local (90%) and export (8%) market, molasses (7%) and bagasse (7%). The Company exports sugar to Afghanistan and Tajikistan. In FY18, Jauharabad Sugar Mills revenue posted a dip of 15% and amounted to PKR 2.2bln. This dip was mainly due to volumes. Moreover, depressed prices and lower utilization of capacity (48%) registered to the revenue decline. The Company's crushing days are less in comparison to its competitors.

Margins In FY18, the Company's gross margins deteriorated (FY18: 2.2%, FY17: 12%) due to lower market prices and recovery rates in comparison to previous years. Currently, the Company's over-reliance on a single product is limiting its margins and leaves little cushion for it to sustain volatility in the sugar industry. The Company was not able maintain its operating costs resulting in negative operating margins (FY18: -4%, FY17: 7%).

Sustainability Going forward, the Company is planning to install 14MW biomass mass based co-generation power plant, under captive regime with an upfront tariff (PKR 7.82) determined to sell 8-10 MW of electricity to FESCO. The Company also intends to set up a distillery, having a capacity of 60,000 liters of ethanol per day. Timely materialization of these incentives is critical.

Financial Risk

Working Capital Increased inventory levels kept the net working capital days on the higher side (FY18: 95 days, FY17: 8 days). Significant increase in short-term borrowings to support working capital requirement left little cushion to borrow against trade assets. Discipline in working capital management is required to improve the short term borrowing buffer.

Coverages The Company's interest coverage (FY18: 0.1x, FY17: 1.9) is a function of an increase of 11% in the Company's gross interest (FY18: PKR 138mln, FY17: PKR 124mln) and stressed free cash flows. Moreover, significant dip in the Company's total cash flow led to decline in the total interest coverage ratio.

Capitalization Jauharabad Sugar Mills is modestly leveraged ~ 40%. The Company's total debt stood at PKR 1.4bln at the end of FY18. Major portion of the debt comprises short term borrowings (PKR 1.1bln). The Company's short term borrowings increased to finance the working capital requirement. Long-term loan amount to PKR 328mln (including current maturity) as at Sept '18, was obtained to set-up biomass power plant.



The Pakistan Credit Rating Agency Limited

Jauharabad Sugar Mill Limited

PKR mln

Balance Sheet	30-Sep-18	30-Sep-17	30-Sep-16	30-Sep-15
	FY *	FY	FY	FY
Non-Current Assets	3,243	3,083	2,786	2,198
Investments (Incl. associates)	-	-	-	15
Equity	-	-	-	-
Debt	-	-	-	-
Investment property	-	-	-	15
Current Assets	1,436	838	442	537
Inventory	751	556	30	59
Trade Receivables	327	1	-	117
Others	358	280	411	361
Total Assets	4,679	3,921	3,228	2,750
Debt	1,442	577	37	224
Short-term	1,114	408	-	197
Long-term (Incl. Current Maturity of long-term debt)	328	169	37	26
Other shortterm liabilities	261	413	210	275
Other Longterm Liabilities	231	363	333	273
Shareholder's Equity	2,745	2,568	2,648	1,978
Total Liabilities & Equity	4,679	3,921	3,228	2,750
Income Statement				
Turnover	2,195	2,582	2,095	1,455
Gross Profit	49	300	206	105
Net Other Income	267	5	19	29
Financial Charges	(138)	(124)	(54)	(51)
Net Income	5	32	106	5
Cashflow Statement				
Free Cashflow from Operations (FCFO)	19	233	191	42
Net Cash changes in Working Capital	(649)	(226)	(83)	(74)
Net Cash from Operating Activities	(757)	(114)	42	(73)
Net Cash from Investing Activities	(269)	(396)	(106)	(92)
Net Cash from Financing Activities	1,045	518	50	192
Ratio Analysis				
Performance				
Turnover Growth	-15.0%	23.3%	44.0%	-16.6%
Gross Margin	2.2%	11.6%	9.9%	7.2%
Net Margin	0.3%	1.2%	5.1%	0.3%
ROE	0.2%	1.4%	4.3%	0.5%
Coverages				
Interest Coverage (FCFO/Gross Interest)	0.1	1.9	3.6	0.8
Core: (FCFO/Gross Interest+CMLTD+Uncovered Total STB)	0.1	1.7	3.3	0.7
Total: (TCF) / (Gross Interest+CMLTD+Uncovered Total STB)	0.0	1.7	3.3	0.7
Debt Payback (Total LT Debt Including UnCovered Total STBs) / (FCFO- Gross Interest)	-2.8	1.6	0.3	-2.9
Liquidity				
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	95.4	8.5	-9.9	-29.6
Capital Structure				
Total Debt/Total Debt+Equity	40%	21%	2%	12%

*Management Accounts

Jauharabad Sugar Mills Limited

Dec-18

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		Short Term Ratings	
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	A1+	The highest capacity for timely repayment.
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.	A1	A strong capacity for timely repayment.
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.	A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial 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.	A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
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	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
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.	C	An inadequate capacity to ensure timely repayment.
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.		



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 surveil the opinion due to lack of requisite information.

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

Disclaimer: PACRA's ratings are an assessment of the credit standing of entities/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

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

(23) All information contained herein is considered proprietary by PACRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA's prior written consent