



The Pakistan Credit Rating Agency Limited

Rating Report

Jauharabad Sugar Mills Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
30-Apr-2019	BBB	A2	Stable	Maintain	-
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 3MFY19, in anticipation of rising sugar prices in the retail segment of the industry, the Company decided to hold around 80% of its stock leading to a decline in the Company's revenue. Margins remain thin. 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 modestly 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 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 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 Oct13, 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 can crush 7,000 MT of sugarcane per day. Improvement was witnessed in capacity utilization (3MFY19: 64%, FY18: 48%), despite the Company's crushing days were less in comparison to its competitors. The Company manufactured 0.43 mln tons of sugar at an average recovery rate of 10.4%. 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 owned by extended members of Latif family. Going forward, the ownership of the Holding Company will be transferred to Latif family. While, 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. Apart from owning two LPG businesses, named Synergy and Awami; the Sponsoring family has recently acquired Pasrur Sugar Mills Limited, having an operational capacity of 3,500 TCD (installed capacity 12,000 TCD).

Financial Strength Jauharabad Sugar Mill is primarily owned by Cane Processing (Pvt.) Limited. In FY18, Cane Processing's total assets stood at PKR 513mln with an equity base of PKR 513mln. At present, Mrs. Ghazala Amjad owns 2% shares of Kohat Cement. Mr. Ahsan's father, Mr. Amjad Latif owns stake in Century Foods and Ravi Glass.

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. Mr. Amjad Bashir, an Independent Director, is also certificated from the Director Training Program and has an over all work experience of above 2 decades.

Board Effectiveness Jauharabad Sugar Mills' Board met once times during 3MFY19, 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. Both Committees comprises three Directors and met once during 3MFY19.

Financial Transparency Jauharabad Sugar Mills external auditors UHY Hassan Naem & Company, Chartered Accountants, have expressed an unqualified opinion on the financial reports for FY18. 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 Jamal Ahmad, the newly appointed CEO, has an overall work experience of above 40 years. He has been associated with the Company from 3 years. Mr. Ahsan Latif, COO, has an overall work experience of 21 years and has been associated with the Company since Oct13.

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 1.3mln hectares and provides the raw material for ~ 90% sugar mills. The industry witnessed surplus sugar production during FY18 (6.6 mln tons), which resulted in depressed prices and a significant pile up of sugar stocks. In the current crushing season, marginal increase was witnessed in price of sugar and molasses due to a dip of 15 - 20% in sugar production.

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 and export market (Afghanistan and Tajikistan), molasses and bagasse. In 3MFY19, the Company did not export sugar and its revenue posted a dip of 54% (3MFY19: 251mln, FY18: PKR 2.2bln). The dip was mainly registered by volumes as the Company decided to hold 79% of sugar stock, to sell it at higher prices in off-crushing season.

Margins In 3MFY19, the Company's gross margins improved (3MFY19: 16.1%, FY18: 2.2%) supported by improved refine sugar and molasses prices along with high recovery rates compared to previous years. However, the Company's reliance on a single product leaves little cushion to sustain volatility of the industry. By optimally utilizing the milling capacity, downtime has been reduced by 27%, leading to improved operating margins (3MFY19: 5.9%, FY18: -4%).

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 (3MFY19: 333 days, FY18: 119 days). The Company ensured discipline in its working capital management by significantly reducing the short-term borrowings leading to an improved borrowing buffer.

Coverages The Company's interest cover (3MFY19: 4.2x, FY18: 0.0x) is a function of significant reduction in its gross interest (3MFY19: PKR 10mln, FY18: PKR 138mln) and improved free cash flows. Significant improvement in the Company's total cash flow led to improved total interest coverage ratio (3MFY19: 1.2x, FY18: 0.0x).

Capitalization Jauharabad Sugar Mills is modestly leveraged ~ 24%. The Company's total debt stood at PKR 863mln in 3MFY19. Major portion of the debt comprises short term borrowings obtained to finance the working capital requirement. Long-term loan was obtained to set-up biomass power plant.



Jauharabad Sugar Mills Limited

Listed Public Limited

A BALANCE SHEET	Dec-18 3M	Sep-18 12M	Sep-17 12M	Sep-16 12M
1 Non-Current Assets	3,236	3,241	3,084	2,787
2 Investments	-	-	-	-
a Equity Instruments	-	-	-	-
b Debt Instruments	-	-	-	-
3 Current Assets	1,423	1,449	838	441
a Inventory	1,036	753	556	30
b Trade Receivables	38	327	1	-
c Others	350	368	280	411
4 Total Assets	4,659	4,689	3,922	3,227
5 Borrowings	1,473	2,052	1,022	1,162
a Short-Term	550	1,114	408	-
b Long-Term (Incl. CMLTB)	923	938	614	1,162
6 Other Short-Term Liabilities	805	261	413	209
7 Other Long-Term Liabilities	242	242	338	332
8 Shareholder's Equity	2,140	2,135	2,149	1,524
9 Total Liabilities & Equity	4,659	4,689	3,922	3,227

B INCOME STATEMENT

1 Sales	251	2,195	2,582	2,095
2 Gross Profit	40	46	300	206
3 Non Operating Income	0	267	5	19
4 Total Finance Cost	(10)	(138)	(124)	(54)
5 Net Income	5	5	32	106

C CASH FLOW STATEMENT

1 Free Cash Flow from Operations (FCFO)	41	(2)	233	192
2 Total Cashflows (TCF)	41	(2)	222	192
3 Net Cash changes in Working Capital	580	(652)	(226)	(83)
4 Net Cash from Operating Activities	563	(781)	(114)	42
5 Net Cash from Investing Activities	(14)	(245)	(396)	(106)
6 Net Cash from Financing Activities	(579)	1,045	518	50
7 Net Cash generated during the period	(31)	19	8	(14)

D RATIO ANALYSIS

1 Performance

a Sales Growth (for the period)	-54%	-15%	23%	44%
b Gross Profit Margin	16%	2%	12%	10%
c Net Profit Margin	2%	0.2%	1%	5%
d Return of Equity	1%	0.2%	2%	8%

2 Working Capital Management

a Gross Working Capital (Inventory Days + Receivable Days)	391	136	42	36
b Net Working Capital (Inventory Days + Receivable Days - Payable Days)	333	119	27	16

3 Coverages

a Debt Service Coverage (FCFO / Finance Cost+CMLTB+Excess STB)	1.2	-0.01	1.8	3.7
b Interest Coverage (FCFO / Finance Cost)	4.2	-0.02	2.0	4.1
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	7.4	-7.0	5.3	8.0

4 Capital Structure (Total Debt/Total Debt+Equity)

a Capital Structure (Current Borrowings / Total Borrowings)	44%	57%	41%	0%
b Capital Structure (Total Borrowings / Total Borrowings+Equity)	41%	49%	32%	43%

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.

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- 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

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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.
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- (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)
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- (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)
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- (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)

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- (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)

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