The Pakistan Credit Rating Agency Limited

Rating Report

Noon Sugar Mills Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
05-Apr-2022	BBB+	A2	Stable	Maintain	-
30-Sep-2021	BBB+	A2	Stable	Maintain	-
30-Sep-2020	BBB+	A2	Stable	Upgrade	-
07-Nov-2019	BBB	A2	Stable	Maintain	-
08-May-2019	BBB	A2	Stable	Maintain	-
12-Nov-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 minimum PKR 72.22/kg instead of PKR 60/kg. 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 ~25-30% is expected in sugarcane production resulting in an increased total sugar production of ~7.5mln MT. This along with high sugar prices are expected to remain favorable for the millers.
The ratings reflect Noon Sugar Mills Limited's ('Noon Sugar' or 'the Company') diverse revenue stream, comprising the sale of sugar and ethanol exports. This provides a competitive advantage to the Company and mitigates volatility and industry specific risks. Despite higher cane costs, the Company benefited from inflated sugar prices in the local market and international ethanol prices leading to significant growth in revenue. However, the Company's margin witnessed dip owing to the increased procurement costs of sugarcane and operational costs of distillery division. Going forward, the Company aims to focus on improving efficiency through consistent BMR. The financial profile of Noon Sugar remains adequate, characterized by adequate working capital management, strong coverages and adequately leveraged capital structure. Sponsors' support and streamlined governance structure in place bodes well for the ratings.

The ratings are dependent on sustaining business margins, while maintaining stable financial risk profile. Any deterioration to revenue, margins, and/or cashflows will impact the ratings negatively. Meanwhile, improvement in capital structure will benefit the ratings.

Disclosure

Name of Rated Entity	Noon 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	Ahmad Faraz Arif | ahmad.faraz@pacra.com | +92-42-35869504

Profile

Legal Structure Noon Sugar Mills Limited ('Noon Sugar Mills' or 'the Company') is a public listed company.

Background The Company was incorporated in 1964 and started its production operations in 1966, initially having a crushing capacity of 1,500 TCD. Additionally, it operates a distillery, which commenced operations in 1986, with a production capacity of 50,000 litres/day.

Operations The Company has its head office located in Lahore, whereas, the mill is located in Bhalwal, Sargodha. The rated crushing capacity of the mill stands at 12,000 TCD and the distillery has an installed capacity of 130,000 liters. During MY21, the Company witnessed a significant increase of ~57% in sugar production, which stood at 82,710 MT. Growth in sugar production is attributable to efficient procurement of sugar-cane. Meanwhile, a slight decline in recovery rates was observed, standing at 9.6% in MY21 (MY20: 9.71%). During MY21, the Company has produced 24,582 MT (MY20: 17,104) of Ethanol, depicting growth in production of ~44%.

Ownership

Ownership Structure Majority of the shareholding lies with the Noon family, who holds a 62% stake in the Company. The family holds 57% directly through Ms. Tahia Noon and Mr. Salman Hayat Noon, whereas, 5% is held indirectly through Noon Industries limited, an associated company. Remaining shareholding is split between financial institutions and the general public.

Stability Ownership structure of the Company is seen as stable as no major ownership changes are expected.

Business Acumen The Company is a part of Noon Group which comprises a total of four companies. Other group companies are involved in trading services, with no significant asset base. The Group previously used to own and operate Noon Pakistan, most famous for its brand ‘nurpur’. However, major shareholding of the Company was sold off to Fauji Foundation Limited (FFL). The main sponsors now only hold an ~3% stake in FFL, whereas, Fauji Foods operates the brand ‘nurpur’.

Financial Strength With the exception of Noon Sugar Mills, majority of the companies are involved in trading which provide indenting services relating to the textile industry. Noon Sugar Mills is seen as the main company in the Group since other companies do not generate sufficient revenues and have an insignificant asset base.

Governance

Board Structure The Company’s Board comprises of seven members. It includes the Chairman, one Executive Director (CEO), three non-Executive Directors, and two Independent Directors.

Members’ Profile The Company’s Board represents a good skill mix which comprises members who have extensive experience in the sugar industry. It is further aided by the Independent Directors who specialize and provide insight on legal and financial matters. Mr. K Iqbal Talib, the Board's Chairman, has over 4 decades of experience in the sugar industry.

Board Effectiveness The Company has three Board Committees in place, namely, Human Resources and Remuneration Committee, Technical Committee, and Audit Committee. All committees comprise at least three members of the Board. Meetings are called when deemed fit, however, the Audit Committee meets at least once each quarter.

Financial Transparency Shinewing Hameed Chaudhri & Company, Chartered Accountants, are the external auditors of the Company. They gave an unqualified opinion on financial statements of the Company ending in September, 2021. The firm is QCR rated by ICAP and is classified in Category 'B' in the panel of auditors by SBP.

Management

Organizational Structure Noon Sugar Mills has a well-defined organizational structure that has various layers of management. All department heads are reportable to the Chief Executive Officer (CEO). However, the Head of Internal Audit and HR administratively report to the CEO and functionally report to the Audit Committee and HR & Remuneration Committee, respectively.

Management Team Lt. Col. (R) Abdul Khaliq Khan (CEO) served in the military for 25 years. He has been associated with the Group from last 18 years. He holds Master’s Degree in International Relations. Other members of management are also well qualified with ample experience.

Effectiveness Management accounts and many other technical matters, such as cane procurement vicinity and related costs, are discussed among the management on a frequent basis.

MIS The management has implemented ERP system, which integrates major disciplines like cane accounts, general accounts and HR for efficient management.

Control Environment The Company has developed its internal audit department which has basic internal controls required to ensure compliance and efficiency. However, the Company needs to further develop and strengthen its control mechanism.

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 Government increased the support price of sugarcane to PKR 225 per maund for mills operating in Punjab (previously, it was increased to PKR 200). 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 minimum PKR 72.22/kg instead of PKR 60/kg. 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 ~25-30% is expected in sugarcane production resulting in an increased total sugar production of ~7.5mln MT. This along with high sugar prices are expected to remain favorable for the millers.

Relative Position Owing to the high number of players in the industry, companies relatively have low market share. The Company had a market share of ~1.5% in terms of sugar production.

Revenues The Company has two reportable segments, which are, Sugar (~63%) and Distillery (~37%). During MY21, the Company posted net revenue worth ~PKR 9.2bln (MY20: ~PKR 6.1bln), reflecting an increase of ~60%. The increase in revenue emanated from higher sugar and ethanol sales, and increased prices compared to the corresponding period. Going forward, the management is optimistic to achieve revenue growth on the back of higher prices of sugar locally, and ethanol internationally.

Margins During MY21 gross margin stood at ~11% compared to ~16% in MY20. Decline in gross margin is primarily attributable to higher prices of sugar-cane and increased costs. Similarly, the operating margin deteriorated to ~7% (MY20: ~10%). The Company's net income slightly declined and stood at PKR 254mln (MY20: PKR 256mln) resulting in net margin of ~3% (MY20: ~4%). Going forward, the Company's margins are expected to increase as sugar-cane procurement costs will decrease on the back of increased sugar-cane production.

Sustainability High sugar price in the local market and robust demand of ethanol in the export market tends to bode well for the Company.

Financial Risk

Working Capital The Company finances its working capital through short-term borrowings and internally generated cash. In MY21, net working capital days witnessed improvement and stood at 61 days (MY20: 95 days) on the back of improved inventory held days (MY21: 49 days, MY20: 66 days), and receivable days (MY21: 20 days, MY20: 40 days). The Company’s payable days also witnessed improvement and stood at 8 days in MY21 (MY20: 12 days). The Company's short-term trade leverage remained negative indicating no room to borrow against trade assets.

Coverages In MY21, the free cash flows of the Company declined slightly to ~PKR 655mln (MY20: ~PKR 710mln). Meanwhile, the finance cost observed decrease as well and stood at ~PKR 266mln (MY20: ~PKR 335mln). As a result, the interest coverage ratio increased slightly to 2.6x (MY20: 2.2x). Furthermore, debt coverage ratio dipped slightly and stood at 1.6x (MY20: 2.0x) due to higher current maturity of long-term debt. The Company’s coverages are expected to remain adequate owing growth in profitability amidst favorable industry dynamics.

Capitalization The Company has a highly leveraged capital structure, represented by a leveraging ratio of ~65% as at MY21 (MY20: ~69%). Majority of debt is composed of short-term borrowings which are utilized for meeting working capital requirements, accounting for ~94% of total debt. Total borrowings stood at PKR 2,489mln as at MY21 (MY20: ~PKR 2,041mln), witnessing an increase of ~35% YoY.

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Financial Summary
PKR mln

Noon Sugar Mills Sugar	Sep-21 12M	Mar-21 6M	Sep-20 12M	Mar-20 6M	Sep-19 12M
A BALANCE SHEET					
1 Non-Current Assets	1,616	1,528	1,527	1,505	1,485
2 Investments	-	16	8	8	8
3 Related Party Exposure	-	-	-	-	-
4 Current Assets	2,810	6,459	2,739	5,188	2,719
a Inventories	*1,406*	*4,971*	*1,006*	*3,944*	*1,147*
b Trade Receivables	*338*	*467*	*677*	*475*	*680*
5 Total Assets	4,426	8,003	4,273	6,701	4,211
6 Current Liabilities	549	1,476	610	1,177	556
a Trade Payables	*222*	*293*	*173*	*688*	*226*
7 Borrowings	2,489	4,856	2,041	4,050	2,680
8 Related Party Exposure	-	434	434	450	-
9 Non-Current Liabilities	60	59	56	51	46
10 Net Assets	1,328	1,178	1,133	972	929
11 Shareholders' Equity	1,328	1,178	1,133	972	929
B INCOME STATEMENT					
1 Sales	9,190	4,236	6,138	2,354	5,671
a Cost of Good Sold	*(8,183)*	*(3,783)*	*(5,178)*	*(1,895)*	*(4,806)*
2 Gross Profit	1,006	453	960	459	865
a Operating Expenses	(395)	(208)	(329)	(162)	(267)
3 Operating Profit	612	245	631	297	598
a Non Operating Income or (Expense)	*32*	*37*	*27*	*(2)*	*15*
4 Profit or (Loss) before Interest and Tax	643	281	658	295	613
a Total Finance Cost	*(266)*	*(122)*	*(335)*	*(170)*	*(341)*
b Taxation	*(123)*	*(57)*	*(66)*	*(32)*	*(47)*
6 Net Income Or (Loss)	254	102	256	93	225
C CASH FLOW STATEMENT					
a Free Cash Flows from Operations (FCFO)	*655*	*304*	*710*	*338*	*728*
b Net Cash from Operating Activities before Working Capital Changes	*388*	*214*	*362*	*186*	*400*
c Changes in Working Capital	*59*	*(2,724)*	*83*	*(1,793)*	*(52)*
1 Net Cash provided by Operating Activities	447	(2,509)	445	(1,606)	348
2 Net Cash (Used in) or Available From Investing Activities	(229)	(83)	(198)	(99)	(281)
3 Net Cash (Used in) or Available From Financing Activities	(44)	2,758	(254)	1,772	(55)
4 Net Cash generated or (Used) during the period	173	166	(7)	66	13
D RATIO ANALYSIS					
1 Performance					
a Sales Growth (for the period)	49.7%	38.0%	8.2%	-17.0%	--
b Gross Profit Margin	11.0%	10.7%	15.6%	19.5%	15.3%
c Net Profit Margin	2.8%	2.4%	4.2%	3.9%	4.0%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	7.8%	-57.1%	12.9%	-61.8%	11.9%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	20.7%	17.7%	24.8%	19.5%	24.3%
2 Working Capital Management					
a Gross Working Capital (Average Days)	69	172	107	242	118
b Net Working Capital (Average Days)	61	162	95	207	103
c Current Ratio (Current Assets / Current Liabilities)	5.1	4.4	4.5	4.4	4.9
3 Coverages					
a EBITDA / Finance Cost	3.1	3.1	2.5	2.3	2.3
b FCFO / Finance Cost+CMLTB+Excess STB	1.6	1.9	2.0	1.5	1.1
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.6	1.7	1.6	2.0	1.3
4 Capital Structure					
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	65.2%	81.8%	68.6%	82.2%	74.3%
b Interest or Markup Payable (Days)	54.3	123.5	53.4	99.6	80.6
c Entity Average Borrowing Rate	6.9%	6.0%	9.7%	9.2%	12.4%

Credit Rating

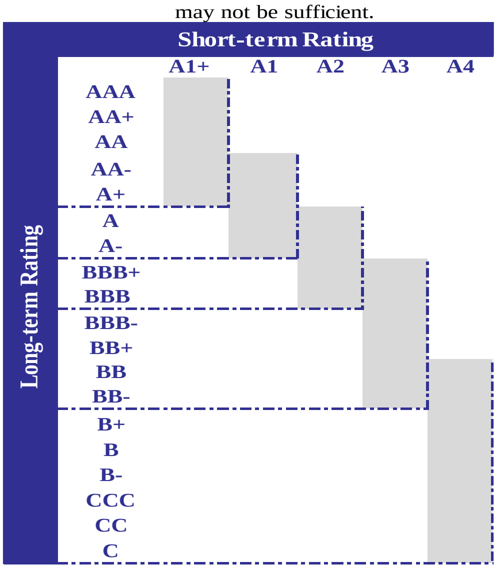
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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**
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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

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(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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(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
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(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)
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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)

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)
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