The Pakistan Credit Rating Agency Limited

Rating Report

Sindh Abadgars Sugar Mills Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
16-Feb-2024	BBB	A2	Positive	Maintain	-
20-Feb-2023	BBB	A2	Stable	Maintain	-
21-Feb-2022	BBB	A2	Stable	Maintain	-
23-Aug-2021	BBB	A2	Stable	Maintain	-
04-Sep-2020	BBB	A2	Stable	Maintain	-
16-Sep-2019	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 ~ 80–90mln MT. The industry has overcome the raw material supply challenges, lately. However, support price of sugarcane, set by the Government considering the cost incurred by farmers, remains a constraint. During MY23, the support prices for sugar-cane in Punjab were fixed at PKR 300/maund and PKR 302/maund in Sindh. Actual realized sugarcane prices at the mill gate were even higher. During MY23, the overall sugar production decreased by ~15%, YoY, to 6.7mln MT (MY22: 7.9mln MT) due to decrease in sugarcane production and an decrease in area under cultivation. Subsequently, sugar prices witnessed ~27.4% increase during MY23 compared to the preceding year. For MY24, estimates show there is likely a reduction of sugarcane production by ~13.7% due to a decrease in sugarcane area by ~5.3% as well as a reduction in the crop yield by ~3.8% as scarcity of water is forecast on the backdrop of a lack of adequate rainfall. Sugar prices are expected to remain elevated for MY24.
The ratings reflect Sindh Abadgars Sugar Mills Ltd.'s ('Sindh Abadgars' or 'the Company') association with an established group in the agriculture and allied chain and demonstrated support from the Sponsors. Sindh Abadgars has a modest business profile and relatively lower margins. The Company generates revenue from the sale of refined sugar and ensuing by-products: molasses and bagasse. The mill, located in Sindh, has a relatively adequate capacity of 8,000 TCD. The company revenue has witnessed a surge in revenue of ~63% mainly due to higher sales volume and PKR devaluation compared to the last year. The networking capital days stood at 54 days (MY22: 89) represents efficient working capital management. The Company achieved a turnaround in MY23, with a gross margin of ~21% (up from 7.5% in MY22) and an operating margin of ~18% (up from 4.2% in MY22), driven by exposure to international landscape. Despite the challenging financial environment, the Company posted a net profit of PKR ~373mln, a substantial increase from the previous year’s loss of 41mln. The net profit margin also improved to 6.7% in MY23 (from -1.1% in MY22). The Company has improved its leverage structure significantly in MY23, reducing its total debt resulting in a lower leveraging ratio of 23%, indicating a stronger financial position. The operations of the Company are strengthened by a management team distinguished for their exceptional experience and skill in navigating the complexities of the sugar industry. The given rating is further supported by the extensive experience of its sponsors in the sugar and agriculture sectors.

The ratings are dependent upon improving margins and strict working capital discipline. The Company’s ability to improve profitability while further strengthening coverage ratios remains critical. Any significant deterioration in business performance and/or financial health will negatively impact ratings.

Disclosure

Name of Rated Entity	Sindh Abadgars 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	Muhammad Zain Ayaz | zain.ayaz@pacra.com | +92-42-35869504

Profile

Legal Structure Sindh Abadgars Sugar Mills Limited (referred to as "Sindh Abadgars" or "the Company") is a publicly listed entity on the Pakistan Stock Exchange.

Background The Company was founded in Karachi, Pakistan, on January 28, 1984, under the ownership of the Effendi Group. In 2005, the Essarani Family took over and has since been in charge of its operations and management.

Operations The Company manufactures and sells white refined crystal sugar, along with by-products like bagasse and molasses. The mill is located in Tando Mohammed Khan, Sindh, with a crushing capacity of 8,000 metric tons per day. Sales surged significantly during MY23, producing PKR 5,534mln of sugar constituting a surge of ~34% in comparison to the previous year (MY22: PKR 3,391mln). This surge is mainly due to PKR devaluation and export of sugar at good price despite slightly less sugar production attributed to decrease in recovery rate. The sugar recovery rate declined by ~0.45% from 11.08% to 10.63%, primarily due to lower moisture content in the sugar cane crop influenced by reduced rainfall.

Ownership

Ownership Structure The Essarani Family holds the majority ownership of Sindh Abadgars, owning ~79% of the total shares. Insurance Companies collectively hold around 2.4% of the ownership, while foreign investors, with the Islamic Development Bank being a prominent participant, hold about 9%. The general public holds the remaining ~10% of the Company's shares.

Stability The ownership structure has remained stable, mainly because of the significant stake held by the Essarani family. Although there is no formalized succession planning documenting the roles of family members within the company are clearly defined.

Business Acumen The Essarani family, experienced in agriculture, operates under the conglomerate 'United Group.' The Group includes Sindh Abadgars and SGM Sugar Mills, United Ethanol Industries Limited in Distillery operations, and Agro Trade Private Limited and United Agro Chemicals in Commodity trading (Fertilizer and Coal).

Financial Strength The Company enjoys strong financial stability, supported by the collective strength of its Group and unwavering sponsor support.

Governance

Board Structure The Sindh Abadgars Board has ten members: 5 non-executive directors, 2 executive directors, and 3 independent directors. There are 9 male members and 1 female member. The board is predominantly controlled by the sponsoring family (7M).

Members' Profile Mr. Deoo Mal Esraani, Chairman of the Board, also chairs SGM Sugar Mills Limited and United Ethanol Industries Limited. The Board comprises three independent directors: Mr. Zafar Ahmed Ghori, Mr. M. Siddiq Khokhar, and Ms. Maheshwari Osha.

Board Effectiveness The Company's Board constitute two sub-committees for monitoring and oversight namely, Audit Committee and HR & Remuneration Committee.

Financial Transparency The Company's auditors, M/s Rahman Sarfaraz Rahim Iqbal Rafiq, issued an unqualified opinion on the financial statements for MY23. The firm come under category 'A' as designated by the SBP.

Management

Organizational Structure The organizational structure is divided in two segments: Mill operations overseen by the resident director and Head-Office administration managed by the Group CFO. Both heads report directly to the CEO. Specialized departments include Administration & Sales, Finance & Tax, Purchase, and Corporate Affairs, all reporting to the CFO, who reports directly to the CEO.

Management Team Dr. Tara Chand, the Chief Executive Officer, has more than 19 years of extensive experience in the sugar and allied industry. He is supported by Mr. Abdul Rahim Mallah (Resident Director Mills) and Mr. Saqib Ghaffar (Group CFO). The senior management team comprises seasoned professionals with significant expertise in the Sugar Industry.

Effectiveness The Company currently does not have formal management committees, but the management team conducts bi-weekly performance evaluations. Moreover, daily reporting of bank lines, inventory, and sales positions to the CEO enables efficient control and management oversight.

MIS The Company has implemented SARP-Cosmosoft ERP software.

Control Environment The internal audit department is shared at the Group level. Going forward, the Group plans to enhance its control environment by hiring more individuals.

Business Risk

Industry Dynamics Pakistan's sugar industry is the second-largest agro-based industry with around 90 mills and an annual crushing capacity of 80-90mln MT. Sugarcane support prices, set by the Government based on farmers' cost, remain a constraint. In MY23, sugar production decreased by ~15% to 6.70mln MT due to less crop availability amidst devasted flood, standing crop was damaged, consequently leading to low recovery rate. The Government allowed exports of 0.5 million MT to address surplus sugar production. In the current MY23 season, flash floods caused a 4.7% loss in cultivated area, impacting sugar production, estimated at around 7 million MT, but exports are expected to benefit millers.

Relative Position The Company contributed approximately 0.9% to the total production of sugar produced in Pakistan.

Revenues The Company generates revenue from the sale of refined sugar additionally sale of molasses and bagasse also contribute to the Company's turnover. The Company's revenue stood at PKR 5.5bln during MY23 (MY22: 3.4bln), witnessing a surge ~63% mainly due to higher sales volume and PKR devaluation compared to the last year.

Margins During MY23, the Company's gross margin surged to ~21% in MY23 (MY22: 7.5%) due to uptick in the topline viz exports and major decline in COGS in comparison to MY22. The operating margin showed similar trend and stood at ~18% in MY23 (MY22: 4.2%). Amidst higher finance cost and interest rates, the Company reported a net profit of PKR ~373mln which is ~1010% up as compare to preceding year where company reported a loss of 41mln, indicating improving financial performance compared MY22. Subsequently, the net profit margin increased to 6.7% in MY23 (MY22: -1.1%).

Sustainability The Company is projected to benefit from higher sugar prices and exports, leading to improved margins. Nevertheless, management should prioritize diversifying the Company's revenue sources.

Financial Risk

Working Capital In MY23 inventory days decreased and stood at 71 (MY22: 110). Trade receivable days also soared to 1 in MY23 (MY22: 6) respectively. Trade payable days stood at 19 days (MY22: 27 days). Net working capital days stretched during MY23 standing at 54 days (MY22: 89 days). Short-term trade leverage and short-term total leverage surged showing strong borrowing capacity (52% and 41%) in MY23 respectively, indicating sufficient room to borrow against trade assets.

Coverages The Company's interest coverage ratio enhanced to 3x in MY23 due to increasing free cash flows and finance cost (MY22: PKR 1,231mln) finance cost (MY22: PKR 384mln). The debt coverage ratio improved to 2.5x in MY23 (MY22: 1.1x). The debt payback period declined to 0.8 in MY23 (MY22: 6.6x).

Capitalization Great improvement is seen in the Company's leverage structure with a leveraging ratio standing at 23% in MY23.

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Sindh Abadgars Sugar Mills Limited	Sep-23	Sep-22	Sep-21	Sep-20
Sugar	12M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	3,018	3,099	3,246	2,397
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	1,372	1,827	1,504	919
a Inventories	*842*	*1,322*	*1,017*	*60*
b Trade Receivables	*0*	*37*	*94*	*435*
5 Total Assets	4,390	4,926	4,750	3,317
6 Current Liabilities	781	711	393	588
a Trade Payables	*290*	*275*	*302*	*248*
7 Borrowings	146	1,179	1,259	609
8 Related Party Exposure	480	480	480	260
9 Non-Current Liabilities	922	869	890	718
10 Net Assets	2,061	1,687	1,728	1,142
11 Shareholders' Equity	2,061	1,687	1,728	1,142
B INCOME STATEMENT				
1 Sales	5,535	3,873	2,679	3,381
a Cost of Good Sold	*(4,401)*	*(3,581)*	*(2,504)*	*(3,253)*
2 Gross Profit	1,133	292	175	128
a Operating Expenses	(151)	(129)	(121)	(133)
3 Operating Profit	982	163	54	(5)
a Non Operating Income or (Expense)	*11*	*103*	*3*	*4*
4 Profit or (Loss) before Interest and Tax	993	266	57	(1)
a Total Finance Cost	*(384)*	*(280)*	*(162)*	*(165)*
b Taxation	*(236)*	*(27)*	*25*	*1*
6 Net Income Or (Loss)	373	(41)	(80)	(165)
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*1,164*	*385*	*167*	*186*
b Net Cash from Operating Activities before Working Capital Changes	*742*	*141*	*14*	*11*
c Changes in Working Capital	*426*	*(7)*	*(782)*	*212*
1 Net Cash provided by Operating Activities	1,168	134	(767)	223
2 Net Cash (Used in) or Available From Investing Activities	(55)	(14)	(116)	(19)
3 Net Cash (Used in) or Available From Financing Activities	(655)	(80)	869	151
4 Net Cash generated or (Used) during the period	458	40	(14)	355
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	42.9%	44.6%	-20.7%	37.7%
b Gross Profit Margin	20.5%	7.5%	6.5%	3.8%
c Net Profit Margin	6.7%	-1.1%	-3.0%	-4.9%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	28.7%	9.7%	-22.9%	11.8%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shar*	19.9%	-2.4%	-5.6%	-13.4%
2 Working Capital Management				
a Gross Working Capital (Average Days)	73	116	109	52
b Net Working Capital (Average Days)	54	89	72	27
c Current Ratio (Current Assets / Current Liabilities)	1.8	2.6	3.8	1.6
3 Coverages				
a EBITDA / Finance Cost	3.2	1.5	1.4	1.4
b FCFO / Finance Cost+CMLTB+Excess STB	2.5	1.1	0.6	0.9
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.8	6.6	131.2	29.4
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	23.3%	49.6%	50.1%	43.2%
b Interest or Markup Payable (Days)	22.7	80.9	56.5	35.3
c Entity Average Borrowing Rate	17.3%	11.0%	7.8%	11.1%

Credit Rating

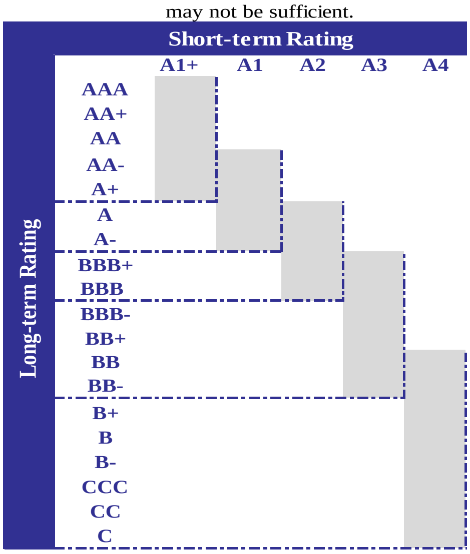
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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

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

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(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 | Clause 11-(A)(p).
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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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(19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)

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