

JDW Sugar Mills Limited

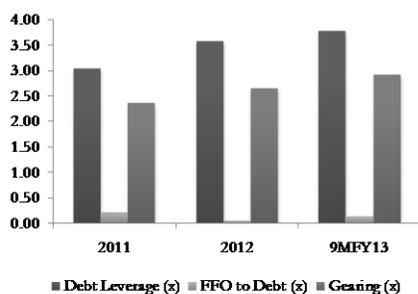
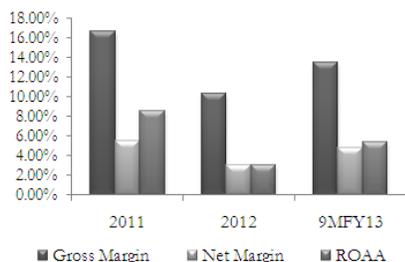
Chairman: Mr. Syed Ahmed Mahmud; Chief Executive: Mr. Jahangir Khan Tareen

November 08, 2013

Analysts: Maimoon Rasheed
Usman Ali Khan

Category	Latest	Previous
Entity	A/A-1	A/A-1
	Oct 07, '13	Sep 05, '12
TFC	A+	A+
Rs. 1.7b	Oct 07, '13	Sep 05, '12
Outlook	Stable	Stable
	Oct 07, '13	Sep 05, '12

Key Financial Trends



(Rs. billion)	FY11	FY12	9MFY13
Net Sales	24.7	22.7	21.7
Net Profit	1.37	0.69	1.06
Equity	4.8	4.9	5.6
Total Debt	11.3	13.1	16.5
Gearing (x)	2.37	2.66	2.93
Debt Leverage (x)	3.06	3.59	3.78
FFO	2.49	0.78	2.46*
FFO/Total Debt (x)	0.22	0.06	0.15*
ROAE	32.7%	13.7%	26.9%*
ROAA	8.6%	3.1%	5.4%*

*Annualized

Rating Rationale

JDW Sugar Mills Limited (JDWSML) is part of the JDW Group, which is one of the progressive industrial groups of the country. JDWSML has been able to enhance its market share over the years while maintaining its position as a leading manufacturer of crystalline sugar during FY13. The newly established wholly owned subsidiary of the company, Deharki Sugar Mills (Pvt) Limited (DSML), operated at full capacity during the recent crushing season. Three units of the company along with DSML contributed around 12% of the country's total sugar production.

In the local context, sugar is characterized by in-elastic demand. During crushing season of 2012-13, sugar production again surpassed local demand with a significant margin. The local sugar production increased vis-à-vis last year on account of both larger quantity of sugarcane crushed and higher recovery rate. This along with considerable amount of carryover stock of sugar is likely to keep sugar prices under pressure. However, the government increased the exports target to 1.2 million tons (Last year: 0.3 million tons), which may help in utilizing surplus quantities to a certain extent. Surplus production is expected in the next crushing season both at the local and international levels, thus sugar prices are likely to remain range bound.

The performance of the company's core business segment improved on a timeline basis during the ongoing year. JDWSML managed to increase its sales (on annualized basis) during 9M13 mainly on account of higher volumes sold despite muted sales price. Despite lower quantities of sugarcane crushed by JDWSML's three units, sugar production increased by around 6.79% to 538K, on account of considerable improvement in sucrose recovery to 11.35% (FY11-12 crushing season: 10.22%). This resulted in improved gross margins during 9M13 to 13.5% (FY12: 10.4%). At the same time, the company also managed to increase export volumes. In spite of considerable increase in distribution and marketing expenses, mainly an outcome of export related costs, overall profitability of the company benefited from reduction in financial charges which resulted in higher net profit of Rs. 1.06b (FY12: Rs. 687m) during 9M13.

In order to diversify its revenue stream, the company has made investments in Faruki Pulp Mills Limited (FPML), and JK Dairies (Private) Limited (JKDL) to the tune of Rs. 760.5m at end Sep'12. At present, FPML is a non-earning asset as it has encountered production related issues. However, the proportion of non-earning asset is nominal in relation to overall asset base of the company. The management plans no further investment in FPML for the time being. Meanwhile, operational restructuring has improved the earnings capacity of JKDL. Over the years, balance sheet of JDWSML has been leveraged to extend loans to associated companies and related parties. The exposure against same stood higher at Rs. 5.8b (FY11: Rs. 4.6b) at end Sep'12 that includes advances to JK Farming Systems Limited. The management plans to transfer long-term loan extended for setting up DSML to the books of subsidiary company. Overall debt levels of the company stood higher at Rs. 16.5b at end- June'13 partly due to enhanced utilization of short-term lines to finance unsold sugar stock. Short-term lines comprised around 71% of the total debt at end-June'13. There has been asset liability maturity mismatch on the company's balance sheet that is intended to be addressed by the management in due course of time. With higher cash flows generation during 9M13, FFO (annualized) to total debt improved to 15% (FY12: 6%). Cash flow coverage would largely remain a function of sugar prices.

In order to further diversify revenue stream, the management is setting up co-generation power plants, based on high pressure boilers, at unit II and unit III that will generate electricity through steam turbine, using bagasse as fuel. While sale of bagasse (FY13: ~Rs. 226m) will be curtailed, expected revenue from sale of electricity to national grid would more than compensate with revenues in the vicinity of Rs. 2.7b projected by the company. Around 80% cost of the project of Rs. 5.3b will be financed through long-term loans; the project is expected to start production before closing of the next crushing season.

Board of Directors mainly comprises key sponsoring individuals and representatives of the sponsoring family. Induction of experienced board members with diverse background in manufacturing and financial sector may strengthen the overall governance structure. Senior management team of the company is well versed with industry dynamics.

Overview of the Institution

JDWSML was incorporated in May 1990 as a private limited company under the Companies Ordinance, 1984 and was subsequently converted into a Public Limited Company in August 1991. The company is listed on the Karachi and Lahore Stock Exchanges. The principal activity of the company is production and sale of crystalline sugar and associated products. The annual accounts of JDWSML for FY12 were audited by KPMG Taseer Hadi & Co. The cost audit of the company was carried out by Uzair Hammad Faisal & Co. Jahangir Tareen family holds majority shares in the company. JCR-VIS

JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
<u>RATING TYPE: Entity</u>				
07-Oct-13	A	Stable	A-1	Reaffirmed
05-Sep-12	A	Stable	A-1	Reaffirmed
16-Aug-11	A	Stable	A-1	Upgrade
24-Aug -10	A-	Stable	A-2	Reaffirmed