

JDW Sugar Mills Limited

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

February 17, 2015

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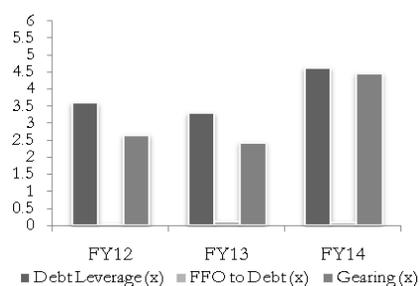
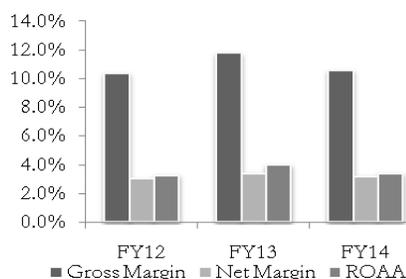
Category	Latest	Previous
Entity	A/A-1	A/A-1
	Feb 17, '15	Oct 07, '13
TFC-II	A+	-
Rs. 500m	Feb 17, '15	
Outlook	Positive	Stable
	Feb 17, '15	Oct 07, '13

Rating Rationale

JDW Sugar Mills Limited (JDWSML) is part of the JDW group, one of the renowned groups in the country. JDWSML is the largest sugar mill of the country. The company along with its subsidiary – Dehraki Sugar Mills (Pvt.) Limited (DSML) constitute around 17% market share in the country's sugar production. Currently, the three units of JDWSML have a combined crushing capacity of 42,000TCD while DSML has a crushing capacity of 12,000TCD.

Domestic sugar industry is characterized by price in-elasticity; demand over the long term is driven by changing consumption patterns and growth in population. Currently, the industry is under-going a down cycle and prices have remained depressed for an extended time. Despite a decline in forecasted sugar production in 2015 vis-à-vis previous year; prices are expected to remain range bound over the foreseeable horizon mainly due to continuity of surplus availability of sugar.

Key Financial Trends



During FY14, JDWSML managed to increase its net sales to Rs. 30.5b mainly on account of growth in sale of sugar in the local market, electricity and agriculture produce. Average sucrose recovery of the three units of JDWSML fell to 10.86% (2012-13: 11.35%) during crushing in FY14 on account of heavy frost attack on the crop. Resultantly, gross margin declined slightly to 10.6% (FY13: 11.8%) during the same period. However, net profit of the company improved mainly on account of sale of electricity and value addition of bagasse in the form of power generation.

Pursuing the policy of vertical integration, the two high-pressure cogeneration power plants with a combined capacity of approximately 53 MW have been commissioned in 2014. Power plants are fully operational and supplying renewable electricity to the national grid under long-term Energy Purchase Agreements executed with the Central Power Purchasing Agency of the National Transmission & Despatch Company Limited.

JDWSML holds strategic investments in power and wood pulp sectors. During FY14, the company liquidated its investment in an associated dairy concern due to some operational inefficiencies. JDWSML also converted its advances amounting Rs. 1.48b forwarded to Faruki Pulp Mills Limited (FPML) into investments during same period. FPML is presently non-earning as it is facing production related issues; proportion of non-earning assets remains modest in relation to total assets. During FY14, the company acquired sugarcane business of JK Farming Systems Limited by transferring assets and liabilities of the same on its books at fair value. The said acquisition is expected to ease working capital requirements during sugarcane procurement season.

Overall debt levels of the company increased to Rs. 20.8b (FY13: Rs. 13.4b) by end-FY14 owing to increase in both long-term and short-term financing. During the last few years, the company has been procuring long-term loans for the financing requirement of above mentioned initiatives. Long term borrowings (including current maturity) increased to Rs. 11.72b (FY13: Rs. 6.57b, FY12: Rs. 4.98b). Gearing and debt leverage increased by end-FY14. However, with higher funds from operations (FFO), FFO to total debt improved. Debt service coverage also showcased improvement to 1.33x (FY13: 1.02x, FY12: 0.82x). While magnitude of debt repayment is likely to be high in the short to medium-term, cash coverages are expected to remain adequate assuming healthy project related cash flows.

(Rs. billion)	FY12	FY13	FY14
Net Sales	22.8	27.2	30.5
Net Profit	0.69	0.93	0.98
Equity	4.9	5.5	6.0
Total Debt	13.1	13.4	20.8
Gearing (x)	2.66	2.44	3.48
Debt Leverage (x)	3.60	3.33	4.63
FFO	0.78	1.60	3.23
FFO/Total Debt (x)	0.06	0.12	0.16
ROAE	14.2%	17.8%	17.1%
ROAA	3.3%	4.0%	3.4%

Overview of the Institution

JDWSML was incorporated as a private limited company in May, 1990 under the Companies Ordinance 1984. Primary activities of JDWSML include production and sale of crystalline sugar, electricity and managing corporate farms. The company is listed on the Karachi and Lahore Stock Exchanges. Annual accounts of JDWSML for FY14 were audited by KPMG Taseer Hadi & Co., Chartered Accountants. [JCR-VIS](#)

JCR-VIS Credit Rating Company Limited

Affiliate of Japan Credit Rating Agency, Ltd.

Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
<u>RATING TYPE: Entity</u>				
17-Feb-15	A	Positive	A-1	Maintained
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
<u>RATING TYPE: TFC</u>				
17-Feb-15	A+	Positive		Initial