RATING REPORT

Shahmurad Sugar Mills Limited

REPORT DATE:
April 27, 2016

RATING ANALYSTS:
Maimoon Rasheed
maimoon@jcrvis.com.pk

Muniba Khan
muniba.khan@jcrvis.com.pk

RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	**Short-term**	**Long-term**	**Short-term**
Entity	A-	A-2	A-	A-2
Rating Date	*April 27, 2016*		*February 11, 2015*	
Rating Outlook	Stable		Stable	
Outlook Date	*April 27, 2016*		*February 11, 2015*	

COMPANY INFORMATION

Incorporated in 1979	**External auditors:** Kreston Hyder Bhimji & Co., Chartered Accountants
Public Limited Company	**Chairman of the Board:** Mr. Ismail H. Zakaria
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Yusuf Ayoob
Al-Noor Sugar Mills Limited – 15.6%	
CDC-Trustee National Investment Trust Fund – 8.5%	
Employees Old Age Benefits Institution – 5.5%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria *Industrial Corporates (October 2003)*
http://www.jcrvis.com.pk/images/IndustrialCorp.pdf

Shahmurad Sugar Mills Limited

OVERVIEW OF THE INSTITUTION

Incorporated in 1979, Shahmurad Sugar Mills Limited (SSML) is a public limited company and is listed on Pakistan Stock Exchange (PSX). The company operates under the umbrella of Al-Noor group, under which Al-Noor Sugar Mills Limited, Reliance Insurance Company Limited and Al-Noor Modaraba Management Company also operate.

RATING RATIONALE

Shahmurad Sugar Mills Limited (SSML) belongs to Al-Noor Group (ANG), a prominent group involved in the manufacturing of sugar, rice, power and board products along with limited presence in the financial sector. SSML is primarily engaged in the business of manufacturing and selling of sugar and ethanol. Production facilities of SSML include sugar and ethanol manufacturing units located at Jhok, District Sajawal in the province of Sindh.

Rating Drivers

- Sugar production is largely dependent on availability and quality of sugarcane. During the outgoing year, crop yield was lower than prior year on account of reduced cultivated area and flood damages in the province. Given lower availability of sugarcane crop during 2015, the quantity of sugarcane crushed during the season declined by almost 11% vis-à-vis the preceding year. Overall capacity utilization also declined to 71% (FY14: 79%, FY13: 67%) in FY15. However, timely crushing of sugarcane resulted in an improved recovery rate of 11.02% (FY14: 10.72%).
- Sugarcane prices are primarily regulated by the provincial governments and as such, have no relation with the sugar prices; until recently, sugar prices have remained depressed for an extended period of time on account of surplus availability of the commodity.
- Despite some increase in average price of sugar, net sales of sugar division declined marginally to Rs. 2.8b (FY14: 2.9b) largely on account of lower volume of sugar exported in FY15.Gross margins of the sugar division depicted improvement mainly on the back of higher sucrose recovery rate.
- Despite volumetric growth in sales, net sales of ethanol declined marginally to Rs. 2.4b (FY14: Rs. 2.5b) on account of lower product price. Prices of ethanol remained depressed mainly on account of substantial decline in crude oil prices. Moreover, higher costs of raw material translated into gross margins of 16.5% (FY14: 21.2%) in FY15.Given lower quantity of sugarcane was crushed during the season, volume for internally produced molasses also declined. As a result, the company procured molasses from other sugar mills in order to improve its ethanol production.
- Despite decline in bottom line, Funds from Operations (FFO) improved to Rs. 410.1m (FY14: Rs. 309.8m) largely on account of lower financial costs paid. In line with improved FFO, FFO to total debt improved to 0.16x (FY14: 0.12x) at end-FY15.
- Capital structure of the company has witnessed improvement on account of partial retention of profits. Subsequently, debt leverage and gearing were declined to 3.25x (FY14: 3.28x) and 2.44x (FY14: 2.76x) respectively, at end-FY15.

Outlook

Going forward, the performance of the company would primarily be dependent upon dynamics of sugar and ethanol industry. Level of sucrose recovery and direction of sugar and ethanol prices will largely determine the revenue and profitability of SSML. Meanwhile, level of borrowings may continue to vary with seasonal requirements

Shahmurad Sugar Mills Limited — Appendix I

FINANCIAL SUMMARY *(amounts in PKR millions)*			
BALANCE SHEET	**SEP 30, 2015**	**SEP 30, 2014**	**SEP 30, 2013**
Fixed Assets	2,424.3	2,425.6	2,142.0
Investments	3.8	5.1	4.3
Stock-in-Trade	1,839.0	1,756.0	1,022.0
Trade Debts	85.0	35.4	189.1
Cash & Bank Balances	306.6	32.9	30.0
Total Assets	5,130.4	4,667.8	3,802.1
Trade and Other Payables	781.7	420.0	300.1
Long Term Debt ***(*incl. current maturity)***	946.2	720.4	940.0
Short Term Debt	1,558.9	1,662.8	1,121.1
Total Equity	1,657.2	1,559.2	1,149.2
INCOME STATEMENT	**SEP 30, 2015**	**SEP 30, 2014**	**SEP 30, 2013**
Net Sales	5,199.2	5,354.0	5,642.4
Gross Profit	805.2	884.1	606.3
Operating Profit	541.6	616.9	395.7
Profit After Tax	184.7	226.7	91.6
RATIO ANALYSIS	**SEP 30, 2015**	**SEP 30, 2014**	**SEP 30, 2013**
Gross Margin (%)	15.5	16.5	10.7
Net Working Capital	54.8	(88.7)	(255.5)
FFO to Total Debt (x)	0.16	0.12	0.06
FFO to Long Term Debt (x)	0.39	0.33	0.13
Debt Servicing Coverage Ratio (x)	1.24	1.22	0.61
ROAA (%)	3.8	5.4	2.3
ROAE (%)	11.5	16.7	8.2

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

Rating Watch: JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.jcrvis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. www.jcrvis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES — Appendix III

Name of Rated Entity	Shahmurad Sugar Mills Limited
Sector	Sugar
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	see table below
Instrument Structure	N/A
Statement by the Rating Team	JCR-VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.
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Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
04/27/2016	A-	Stable	A-2	Reaffirmed
02/11/2015	A-	Stable	A-2	Upgrade
11/25/2013	BBB+	Stable	A-2	Reaffirmed
08/30/2012	BBB+	Stable	A-2	Reaffirmed
10/19/2011	BBB+	Stable	A-2	Reaffirmed