The Pakistan Credit Rating Agency Limited

Al Abbas Sugar Mills Limited (AASML)

Rating Report

	New [Sep-17]	Previous [Mar-17]
Long-Term	A	A
Short-Term	A1	A1
Outlook	Stable	Stable

Report Contents

September 2017

Profile & Ownership

- Al-Abbas Sugar Mills Limited (AASML), listed on Pakistan Stock Exchange, was incorporated in May 1991
- The company has diversified businesses and operates in two different locations at Mirpurkhas and Dhabeji in Sindh
- Haji Ghani Group (HG) through family and associates own majority shareholding (58%) in AASML and exercise management control. Jahangir Siddiqui (JS) group (27%) is the other major shareholder; there are certain lawsuits between the two groups that are pending adjudication.
- Business include a) Sugar capacity of 7,500 M. tons per day, b) Ethanol-capacity 172,500 liters per day, and c) Storage tank terminal-capacity of 22,850 M. tons per month

Governance and Management

- Nine member board of directors including the CEO; six representative of HG, two of JS Group and one independent member
- Mr. Shunaid Qureshi, the CEO since inception, played critical role in development of company, however, he is gradually limiting himself to strategic decisions only
- Mr. Asim Ghani, an executive director and Ghani family member, has an increasing role in operational management

Performance

- With an increase in crushing activity (days increased from 118 to 93), sugar production presented an upward trend with 20% increase in Jun'17
- Despite this increase, dip in prices led to 27% decline in sales volume, hence reduced margins (3%); expected to stagnant in near future pertaining to the weak sugar prices unless export conditions improves
- Ethanol continued to provide support to topline with sustained margins ~22% and increased production activity; company has procured enough molasses to last throughout the year and is targeting growth in this segment
- Being utilized at its full capacity, storage tank terminal continues to generate profits (Jun'17: PKR 68mln, Jun'16: PKR 67mln), while power, alloy and chemical division remained in loss (Jun'17:PKR 35mln, Jun'16:PKR 37mln)
- Due to increased short term borrowings, finance cost consumed 24% of the operating profits; healthy cash flows provide comfortable coverage (4.3x)

Business Strategy

- Continue to exploit the better margins of its distillery operations, management is targeting growth industries to capture higher prices
- With Government finalizing the subsidy mechanism, management expects to clear the sugar glut currently being faced
- The terminal store would continue to supplement the profitability under its contract with HASCOL petroleum.

Financial Risk

- Surged inventory levels are on account of larger stock of molasses procured for ethanol production, along with sugar stock sold on advance; expected to be settled by year-end Sep'17
- These high inventory levels have increased the net cash cycle to 253 days, however, it is also expected to normalize by year-end
- Working capital needs are being met through better trade terms - increased customers advances (PKR 288mln) - and short term borrowings (PKR 2.6bln)
- Higher short term borrowings, subject to purchases of molasses, led to increased leveraging ratio for the period (45%)
- No expansion and no other capex is on the cards, thus the balance sheet is expected to remain deleveraged except the seasonal need for running finance

RATING RATIONALE

The ratings of Al-Abbas Sugar Mills Ltd (Al-Abbas) emanates from fortified position in its respective lines of business. The company drives its strength from diversified revenue streams – sugar, ethanol and storage terminals – enabling it to cope up with the sugar price volatility. While sugar is characterized by stable demand supported by fundamentals, ethanol takes benefit of the value addition that it signifies as a product. Until recently, sugar prices have remained depressed for an extended period of time on account of surplus availability of the commodity, thus the sugar margins remained thin. Meanwhile, better margins of ethanol division and stable income from storage terminals continues to boost the bottom-line. The de-leveraged balance sheet (from long term loans perspective) has kept the financial profile strong; hence, benefiting the ratings. Although extended working capital requirements keep's borrowings at high end, ample cash flows stabilizes the coverages. Going forward, the management would continue to exploit better margins from distillery operations, while sugar segment's profitability remains dependent upon local demand supply scenario and Government off-led action to avoid any glut in the local market. Herein, finalization of subsidy on export from Government would ease up the inventory levels.

KEY RATING DRIVER

The ratings are dependent on the business volumes and related margins. Strategic plan regarding asset build up (expansion and/or diversification) and related leveraging plan needs to be drawn. This may impact the ratings accordingly. Resolution of shareholders' dispute, though lately it has diluted significantly, remains integral to the growth of the company.

INDUSTRY

Pakistan produced record sugarcane in FY17, amounting to 73.6mln tons exceeding the target of 67.4mln tons for the year. Better profitability and resistance made sugarcane cultivation preferable over cotton crop, hence, sugarcane area grew by 7.6%. Similar trend was followed by the yield (~4.5%). The high production of sugarcane resulted in to sugar reserves of more than 5 mln tons. However, despite excess stock in hand, the sugar industry could not exploit export opportunities. Though the government has enhanced sugar export quantity from 0.25 million tons to 0.5 million tons, aimed at stabilizing the market and ensuring payments to the growers, lack of subsidy mechanism kept the sugar exports subdued.

PKR mln

Al-Abbas Sugar Mills Limited

BALANCE SHEET	30-Jun-17	30-Sep-16	30-Sep-15	30-Sep-14
	9M	*Annual*	*Annual*	*Annual*
Non Current Assets	**1,628**	**1,695**	**1,806**	**1,924**
Investments	**844**	**436**	**362**	**445**
Long term	843	201	134	213
Short Trem	1	236	228	232
Current Assets	**3,699**	**1,181**	**1,358**	**2,028**
Inventory	2,962	707	849	1,436
Trade Recieveables	274	41	189	42
Others	463	434	321	550
Total Assets	**6,171**	**3,312**	**3,526**	**4,397**
Debt	**2,623**	**16**	**457**	**1,180**
ShortTerm	2,623	16	457	1,143
LongTerm(Incl current maturity of long term)	-	-	-	36
Other Short term liabilities	739	887	773	929
Other Long term liabilities	81	74	69	63
Shahreholder's Equity	**2,729**	**2,335**	**2,228**	**2,226**
Total Liabilities & Equities	**6,171**	**3,312**	**3,526**	**4,397**
Income Statement				
Turnover	**4,027**	**5,794**	**5,867**	**5,521**
Gross Profit	494	764	825	781
Financial Charges	(6)	(85)	(125)	(247)
Net Inocme	**216**	**458**	**495**	**298**
Cashflow Statement				
Free cashflow from operations	355	693	733	634
Net cash changes in working capital	(2,690)	293	458	(8)
Net cash from operating activities	(2,383)	899	1,051	367
Net cash from investing activities	(88)	(0)	116	(31)
Net cash from financing activities	2,453	(883)	(1,143)	(497)
Net cash generated during period	(17)	17	24	(162)
Closing balance of Cash and Cash Equivalent	41	58	42	17
Ratio Analysis				
Profitability				
Turnover Growth	-12%	-1%	6%	-6%
Gross Margin	12%	13%	14%	14%
Net Profit Margin	5%	8%	8%	5%
Return on Equity (ROE)	9%	19%	20%	14%
Coverages				
Debt Service Coverage-times (FCFO*/Gross	0.3	0.9	1.5	0.8
Interest Coverage-times (FCFO/Gross	4.3	8.1	5.9	2.6
Debt Payback (years) (Total Debt (excluding	-	-	-	0.1
Liquidity				
Net Cash Cycle (Inventory Days +	213	48	75	116
Capital Structure (Total debt/ total debt + total equity)	49%	1%	17%	35%

FCFO: Free Cashflow from operations

CREDIT RATING
SCALE & DEFINITIONS

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 Ratings

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 Ratings

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 conditions.

B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.

C: An inadequate capacity to ensure timely repayment.

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, a) some material identifiable event and/or b) deviation from expected trend. 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 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) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults., or/and f) PACRA finds it impractical to surveill the opinion due to lack of requisite information

Name of Issuer	Al-Abbas Sugar Mills Limited
Sector	Sugar
Type of Relationship	Solicited
Purpose of the Rating	Independent Risk Assessment

Rating History

Date	Long Term	Short Term	Outlook	Action
2-Oct-17	A	A1	Stable	Maintain
30-Mar-17	A	A1	Stable	Maintain
31-Mar-16	A	A1	Stable	Maintain
10-Jun-15	A	A1	Stable	Maintain
25-Jun-14	A	A1	Stable	Maintain
13-Aug-13	A	A1	Stable	Maintain
20-Dec-11	A	A1	Stable	Maintain

Related Criteria and Research

Rating Methodology	Corporate Rating Methodology
Sector Research	Sugar Sector - View Point | Mar 17

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Rating Team Statement

Rating Procedure
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PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the rated entity/ issuer, the security arrangement, the industry etc, is disseminated to the market, in a timely and effective manner, after appropriate consultation with the entity/issuer
PACRA reviews all the outstanding ratings on annual basis or as and when required by any stakeholder (including creditor) or upon the occurrence of such an event which requires to do so
PACRA initiates immediate review of the outstanding rating(s) upon becoming aware of any information that may be reasonable be expected to result in any change (including downgrade) in the rating

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