The Pakistan Credit Rating Agency Limited

Rating Report

Al-Abbas Sugar Mills Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
06-Nov-2018	A	A1	Positive	Maintain	-
09-May-2018	A	A1	Stable	Maintain	-
30-Sep-2017	A	A1	Stable	Maintain	-
30-Mar-2017	A	A1	Stable	Maintain	-
31-Mar-2016	A	A1	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The ratings reflect the Company's diversified revenue stream – sugar, ethanol and storage tanks– enabling it to cope up with the volatility in sugar prices. Margins in sugar have been depressed lately due to surplus sugar stock in the industry. However, despite volatile market conditions, the Company has been able to post solid margins owing to improved sucrose recovery and better ethanol margins. Well thought investment in storage terminal tank terminals provides an additional cushion to cashflows throughout the year. Ratings draw strength from the Company’s strong financial profile characterized by a modestly leveraged capital structure, strong coverages and efficient management of working capital. The positive outlook signifies the Company’s consistent performance and resilience to adverse movements in sugar industry.

The ratings are dependent on the Company to sustain its margins and healthy coverages while maintaining discipline in working capital management. Deterioration of relationship between shareholders leading to adverse impact on the Company's profile and/or performance would have a negative impact on ratings.

Disclosure	
Name of Rated Entity	Al-Abbas Sugar Mills Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Ratings(Jun-18),Methodology | Criteria | Rating Modifier(Jun-18),Methodology | Correlation Between Long-Term And Short-Term Rating Scale(Jun-18)
Related Research	Sector Study | Sugar(Mar-18)
Rating Analysts	Adnan Dilawar | adnan@pacra.com | +92-42-35869504

Profile

Legal Structure Al-Abbas Sugar Mills Limited (the Company) is a public listed company.

Background The Company was incorporated in May, 1991 with its principle activity as the sale and manufacture of white refined sugar. Commercial operations commenced in December 1993. Subsequently, the company set-up two distillery plants (Unit I & Unit II). Unit I was set-up in 2000 while Unit II started operations in 2004.

Operations Head office of the company is located in Karachi, with the mill and Unit II located in Mirpurkhas. Unit I is located in Mirwah Gorchani, which is not far off. Rated crushing capacity for the mill stands at 7,500 TCD and the distilleries have a combined capacity to produce 172,500 litres of Ethanol per day (Unit I: 85,000 Litres; Unit II: 87,500 Litres). At end Jun-18, the company produced 74,387 MT of sugar, with a sucrose recovery rate of 11.17%, achieving its all-time highest recovery rate. Combined Ethanol production for both the units totalled to 30,991 MT at end Jun-18. Moreover, the Company has two captive power plants, with capacities of 7.5MW and 15MW. Additionally, 12 tank terminals are also operated by the company, which have a combined storage capacity of 22,850 MT per month.

Ownership

Ownership Structure Major shareholding of the Company lies with Haji Ghani Group (58%) followed by JS Group (27%). Remaining shareholding is split between the general public and financial institutions.

Stability The two major shareholders of the Company are involved in a long standing dispute since 2013. Legal proceedings in this regard are being carried out in Sindh High Court and outcome is pending. Recent disputes among major shareholders of the Company indicates a vulnerable ownership structure.

Business Acumen Haji Ghani Group were previously involved in the cement sector. The sponsors divested their stake and the Company was sold off to Arif-Habib. Additionally, Mr Haji Abdul Ghani, one of the main sponsors, has chaired the board of various brokerage firms. On the other hand JS Group is a diversified conglomerate with its interests in brokerage, asset management, commercial management, commercial banking, and insurance.

Financial Strength Al-Abbas Sugar Mills Limited is a flagship entity of Haji Ghani Group. The Company has maintained a stable profitability over the years and is supported by a sufficient equity base of PKR 3bln . Moreover, the Company maintains a well thought out investment book.

Governance

Board Structure Board of Directors, including the Chief Executive Officer, comprises eight members. Five members represent Haji Ghani group and associates, two members represent Jahangir Siddiqui group and one is an independent director. Majority of the members have been associated with the Board for over three terms.

Members' Profile The board members have strong profiles and specialize in financial services, in addition to sugar and ethanol. During the period, Mr. Sayyed Rafay Akber Rashdi was replaced with Mr. Zakria Usman as an independent director.

Board Effectiveness The Company has in place four committees, namely, Audit Committee, Human Resources and Remuneration Committee, Investment Committee and Board Evaluation Committee. During the year the Board met 8 times, with high attendance.

Financial Transparency M/s Reanda Haroon Zakria & Co., Chartered Accountants, classified in category 'B' by SBP and having a satisfactory QCR rating, are the external auditors of the Company. They have expressed an un-qualified opinion on the financial statements.

Management

Organizational Structure Al- Abbas Sugar has a well-defined organizational structure, whereby department heads have direct reporting lines to the CEO. The five departments comprise: a) Finance, b) Administration / Human resource, c) Procurement / Purchase, d) Audit, and e) Plant Operations.

Management Team Mr Asim Ghani, the Chief Executive Officer, was appointed on December 5, 2017 in place of Mr Shunaid Qurieshi. Mr Ghani previously overlooked the operational aspects of the Company as an Executive Director. He is aided by Mr Samir Hajani, who has recently been appointed as Chief Financial Officer, whereas, Mr. Zuhair Abbas is continuing his role as Company Secretary.

Effectiveness Long association of the Company's management has ensured consistency in overall polices and strengthening of the management structure.

MIS The Company has deployed Oracle R-12 as its Enterprise Resource and Planning (ERP) system, enabling the Company to generate various reports for effective management and decision making.

Control Environment The company's internal audit department ensures compliance and efficiency. The department performs quarterly evaluations and reports to the Audit Committee.

Business Risk

Industry Dynamics Pakistan is the 6th largest sugarcane producer, 9th largest by sugar production and 8th largest sugar consuming country in the world. Sugarcane is grown on approximately 1.2 million hectares and provides the raw material for ~90 sugar mills. The industry witnessed surplus sugar production during FY17 which resulted in depressed prices and a significant pile up of sugar stocks at end Sept-17. Sugar production decreased to 6.5mln Tons during FY18 in comparison to 7mln tons in FY17.

Relative Position Due to the high number of players in the industry, companies have relatively have low market share. At end Jun-18, Al-Abbas Sugar Mills had a market share of ~ 1%.

Revenues Revenue comprises sugar and ethanol sales, with it being more inclined towards sugar. During 9MFY18, the Company posted revenues worth PKR 5,903mln, an increase of ~46% over the corresponding period, out of which 56% (PKR 3,339mln) was attributable to sugar sales. Growth in revenue is primarily on the back of sugar sales which grew by ~59% in 9MFY18, as a result of higher volumes sold. Similarly, Ethanol sales also witnessed growth and stood at PKR 2,564mln in 9MFY18, increasing by ~34%. Growth in Ethanol sales can be seen as an effect of increased production and a higher price fetched.

Margins During 9MFY19, the Company saw its gross profit margin improve to 24% as compared to 12% in the corresponding period. Margins witnessed growth on the back of improved sucrose recovery and higher Ethanol prices. During the period the Company was able to cut down on administrative expenses which helped improve operating margins, bringing it up to 18% in 9MFY18, as compared to 8% in the same period last year. Moreover, bottom line is supported by supplementary income from its bulk storage terminal, bringing the figure to PKR 833mln in 9MFY18 (9MFY17: PKR 216mln).

Sustainability The company has no upcoming plans relating to expansion and is expected not to engage in long-term borrowings. Similarly, coverages are expected to remain stable with a modest leveraging ratio. Performance is dependent on sugar industry dynamics while distillery operations would support stable profitability.

Financial Risk

Working Capital The Company has been able to maintain strong working capital management over the years, through low net working capital days, owing to efficient operations. Net working capital days increased to 100 days in 9MFY18 as can be explained by a surge in inventory levels which stood at PKR 2.6bln in 9MFY18 (9MFY17: PKR 2.9bln) due to sugar stock and molasses stored for operations. The Company has engaged in short-term borrowings strictly to meet working capital requirements while maintaining a healthy cushion to borrow additional funds.

Coverages During 9MFY18, the company saw a stable FCFO that was able to register a significant improvement in coverages due to lower debt levels. Moreover, absence of long-term debt further impacts coverage ratios positively. Interest coverage ratio stood at 6.9x in 9MFY18, improving from 3.0x in 9MFY17.

Capitalization The company has a modestly leveraged capital structure. Debt taken up by the company is entirely short-term in nature for working capital requirements. During 9MFY18, leveraging for the company went down to 34%, as compared to 42% in FY17.

PKR mln

Al-Abbas Sugar Mills Limited

BALANCE SHEET	30-Jun-18	30-Sep-17	30-Sep-16	30-Sep-15
	9MFY18 *Unaudited*	*FY* *Audited*	*FY* *Audited*	*FY* *Audited*
Non Current Assets	**1,526**	**1,599**	**1,695**	**1,806**
Investments	**681**	**710**	**436**	**362**
Long term	0	0	201	134
Short Trem	680	710	236	228
Current Assets	**4,211**	**2,863**	**1,181**	**1,358**
Inventory	2,635	1,963	707	849
Trade Recieveables	441	28	41	189
Others	1,135	872	434	321
Total Assets	**6,418**	**5,171**	**3,312**	**3,526**
Debt	**1,669**	**1,789**	**16**	**457**
ShortTerm	1,669	1,789	16	457
LongTerm(Incl current maturity of long term)	-	-	-	-
Other Short term liabilities	1,458	749	887	773
Other Long term liabilities	118	103	74	69
Shahreholder's Equity	**3,173**	**2,508**	**2,335**	**2,228**
Total Liabilities & Equities	**6,418**	**5,149**	**3,312**	**3,526**
Income Statement				
Turnover	**5,903**	**5,327**	**5,794**	**5,867**
Gross Profit	1,426	511	764	825
Financial Charges	(51)	(112)	(85)	(125)
Net Inocme	**833**	**143**	**458**	**495**
Cashflow Statement				
Free cashflow from operations	348	342	693	733
Net cash changes in working capital	132	(1,817)	293	458
Net cash from operating activities	438	(1,566)	899	1,051
Net cash from investing activities	(7)	(87)	(0)	116
Net cash from financing activities	(257)	1,618	(883)	(1,143)
Net cash generated during period	174	(35)	17	24
Closing balance of Cash and Cash Equivalent	201	24	58	42
Ratio Analysis				
Profitability				
Turnover Growth	47%	-8%	-1%	6%
Gross Margin	24%	10%	13%	14%
Net Profit Margin	14%	3%	8%	8%
Return on Equity (ROE)	26%	7%	19%	20%
Coverages				
Debt Service Coverage-times (FCFO*/Gross Interest+CMLTD+Uncovered Short Term Borrowings)	6.9	3.0	8.1	5.9
Interest Coverage-times (FCFO/Gross Interest)	6.9	3.0	8.1	5.9
Debt Payback (years) (Total Debt (excluding Covered Short Term Borrowings) / FCFO)	-	-	-	-
Liquidity				
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	100	55	18	75
Short-term Trade Leverage (1- (STB)/ Net Trade Assets OR (Liabilities))	20%	7%	75%	10%
Short-term Total Leverage (Net Current Assets - STB) / Current Assets	44%	41%	44%	22%
Capital Structure (Total debt/ total debt + total equity)	34%	42%	1%	17%

FCFO: Free Cashflow from operations

Rating Scale

Credit Rating Scale & Definitions

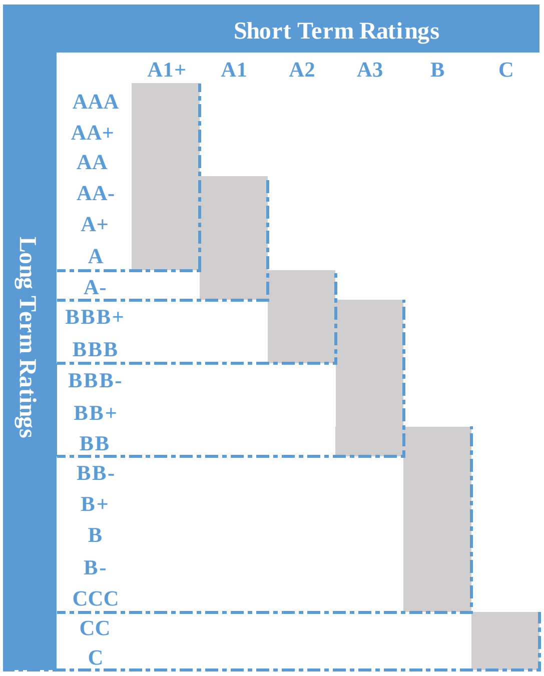
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

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

Restrictions
(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
(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.
(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
(9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
(11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest
(12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA´s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
(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)
(14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
(15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
(16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
(17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review
(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
(19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(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 | 18-(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 | 18-(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-(f-VII)
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