

Date

09-Apr-24

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Applicable Criteria

- Methodology | Corporate Rating | Jul-23
- Methodology | Correlation Between Long-term & Short-term Rating Scales | Jul-23
- Methodology | Rating Modifiers | Apr-23

Related Research

- Sector Study | Sugar | Aug-23

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PACRA Maintains Entity Ratings of Al-Abbas Sugar Mills Limited

| Rating Type | Entity | |
|--------------|---------------------|----------------------|
| | Current (09-Apr-24) | Previous (10-Apr-23) |
| Action | Maintain | Maintain |
| Long Term | A+ | A+ |
| Short Term | A1 | A1 |
| Outlook | Stable | Stable |
| Rating Watch | - | - |

The Pakistani sugar sector, recognized as the second most substantial agro-based industry within the nation, encompasses 91 mills with a collective processing capacity of roughly 80–90 million metric tons. The season ended with a sugar output of ~6.6 million tons, a ~16% decrease from the previous year's ~7.9 million tons due to severe floods that damaged the crop and shortened the harvesting period. Despite the lower crop, the country had sufficient sugar stocks to meet the annual demand, owing to the large carryover from the previous year. Anticipated water scarcity is projected to precipitate a significant ~13.7% contraction in the forthcoming sugarcane supply for MY24, ascribed to a decrement in cultivated area and yield.

The ratings reflect Al-Abbas Sugar Mills Ltd. ('Al-Abbas' or 'the Company') diversified revenue stream emanating from sugar, ethanol, and storage facilities. Storage tank terminals provide an additional cushion to cashflows. This provides a competitive advantage to the Company mitigating volatility and industry-specific risks. Moreover, strong governance framework bodes well for the Company. The company experienced a ~40% surge in revenue to PKR ~14.5bln in MY23 (MY22: PKR 10.3bln), which stood with industry's upward trend with an average recovery rate of ~10.52%. Rising cane cost have resulted in increasing sugar prices in the domestic market during MY23. As a result, the Company attained substantial profits from the sugar segment. Likewise, the Company also gained from the escalating ethanol prices, globally. Al-Abbas Sugar's revenue streams are propelled by sugar sales (~28%) and ethanol exports (~78%). The firm's gross profit is recorded at PKR ~4.9bln (MY22: PKR 2.3bln). Resultantly gross margin stood highest at ~34% as compared with industry peers. Despite the escalation in finance costs associated with KIBOR, the net income ascended to PKR ~3.6bln (MY22: PKR 1.9bln), reflecting a strong net margin of ~25.3% (MY22: ~18.5%). Amidst the economic tribulations and volatility of the sugar market in Pakistan, the company's export paradigm remains resilient. The Company's has shown improved working capital management, posted strong coverages and modestly leveraged capital structure which overall hovers strong financial risk profile. The leverage ratio of the company stood at ~28.5% in MY23, with short-term borrowings constituting 99% of the total debt. The profitability of Al-Abbas has been buoyed by elevated sugar and ethanol prices, ensuring the sustenance of strong and stable margins amidst market oscillations.

The ratings are dependent on the Company's ability to sustain margins with healthy coverages while maintaining necessary cushion and discipline in working capital management. Significant deterioration of relationship among shareholders leading to adverse impact on the Company's profile and/or excessive borrowings deteriorating the coverages will impact the ratings.

About the Entity

Al-Abbas Sugar Mills Limited was incorporated in May-91 and is listed on the Pakistan Stock Exchange. The Company has diversified businesses of sugar, ethanol and storage tank terminal. The installed capacities are a) Sugar - crushing at 8,500 TCD, b) Distillery to produce 170,000liters of ethanol per day, and c) Storage tank terminal with a capacity of 22,850 M.T per month. It operates in three different locations at Mirpurkhas, Dhabeji and Karachi in Sindh. Majority (~58%) of Al-Abbas Sugar's shareholding lies with Haji Ghani Group, which enjoys strong presence on the Board and has management control. Jahangir Siddiqui (JS) Group (~29%) is the other major shareholder. Mr. Zakaria Usman is the Chairman of the Board, whereas, Mr. Asim Ghani serves as the Company's Chief Executive

The primary function of PACRA is to evaluate the capacity and willingness of an entity to honor its obligations. Our ratings reflect an independent, professional and impartial assessment of the risks associated with a particular instrument or an entity. PACRA's comprehensive offerings include instrument and entity credit ratings, insurer financial strength ratings, fund ratings, asset manager ratings and real estate gradings. PACRA opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.