



The Pakistan Credit Rating Agency Limited

# AL ABBAS SUGAR MILLS LIMITED (AASML)

## ENTITY RATINGS REPORT

|            | NEW<br>[MAR-16] | PREVIOUS<br>[JUN-15] |
|------------|-----------------|----------------------|
| Long-Term  | A               | A                    |
| Short-Term | A1              | A1                   |
| Outlook    | Stable          | Stable               |

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MARCH 2016

**PROFILE & OWNERSHIP**

- Al Abbas Sugar Mills limited, operational since 1991, is listed on Pakistan Stock Exchange
- The business include; a) Sugar capacity of 7,500 M.tons per day, b) Ethanol capacity of 172,500 litres per day and c) Storage Tank Terminal capacity of 22,850 M.tons per day
- Majority owned by Haji Ghani (HG) family and associates (~54%), followed by Jahangir Siddiqui (JS) group (28%)
- There are law suits between the two groups that are pending adjudication from the last 3 years

**GOVERNANCE**

- Board comprises nine members including CEO
- Board dominated by HG and associates having six nominees including one Executive Director (ED) and CEO; two representative of JS group and one independent director
- BoD comprises individuals with diversified background and relevant expertise

**MANAGEMENT**

- The CEO, Mr. Shunaid Qureshi, associated with AASML since inception, has reduced his role to strategic oversight
- Executive director, Mr. Asim Ghani – son of Mr. Ghani, is overseeing day-to-day affairs of the Company
- Long association of senior management with company

**PERFORMANCE**

- Revenue mix includes; Sugar: PKR 3,020 mln and Ethanol: PKR 2,847mln
- During FY15, improvement in sugar sales volume (14%) coupled with rise in sugar price, resulting into overall increase in revenue (14%)
- Better margins from sugar segment (FY15:10%, FY14: 6%), turned into profit PKR 232 mln
- Ethanol division margins reduced to 18% (FY14: 22%); led by decline in global oil prices
- Profits from storage tank terminal significantly improved (FY15: PKR 87mln, FY14: PKR 60mln) due to complete utilization of storage capacity
- Financial charges decreased to PKR 125mln in FY15 (FY14: PKR 247mln); short term and long term borrowings decreased

**BUSINESS STRATEGY**

- Envisages strengthening sugarcane procurement strategy; ensuring better availability of sugarcane, higher crushing days, and low cost
- Expects for consultancy on companys' farmers awareness programe for sugarcane cultivation
- Despite ethanol's thin prices due to low oil prices, the division would continue supporting bottomline because of high demand from AASML's target market; pharmaceuticals, perfumes, and others
- Storage tank terminal would operate at full storage capacity; rising demand from sole customer - HASCOL petroleum

**FINANCIAL RISK**

- Long term debt completely paid off
- High short term borrowings to meet working capital requirement in crushing season (Oct-Mar)
- Better cashflows from non-sugar segments reduced reliance on short term borrowing; however AAML borrowed a portion for dividend payout at end-Dec15
- Availability of short term financing facility (Dec15: PKR 3,810mln) in excess of seasonal requirement of sugarcane procurement (PKR 2,366mln); borrowing lines remained underutilized by 75% due to better internal generation of cash

**RATING RATIONALE**

The ratings reflect AASML's significant positioning in its core business segments – sugar and ethanol. While sugar is characterized by stable demand supported by fundamentals, ethanol takes benefit of the value addition that it signifies as a product. Although margins are thin in sugar due to structure of domestic industry, revenues of ethanol division support profitability. With full repayment of long term debt; the company's financial profile is in strength. The company's financial profile becomes stretched during crushing season, owing to working capital related sizable borrowings. Nevertheless, adequate cashflows and largely stable coverages provide relief to it. The ratings continue to take support from the company's seasoned management team, having sound understanding of the industry dynamics. In order to further diversify its revenue stream, AASML has built a storage terminal at port; this has added stable rental income. The company owns a small power plant for which it is negotiating power purchase agreement with K-Electric. This should add another stable revenue stream.

**KEY RATING DRIVERS**

The ratings are dependent on the sustained risk profile of the company. Herein, business volumes and related margins are important. Deleveraging and addition of stable revenue streams are likely to positively impact the ratings.

**INDUSTRY**

Sugar availability continued to remain in net surplus during FY15 because of higher carried over inventory. International price of sugar remained depressed (~PKR 35-40/kg) and lower than the local price (~PKR 59/kg). The government provided protection to industry through raising regulatory duty on imports to 40% in Jun15 (previously 20%). Moreover, allowing sugar export (0.65mln tonnes) in Dec14 till May15, kept the surplus in check. This helped in slight recovery of local sugar price by 7% in FY15, after remaining in prolonged depression; margins of industry improved. However, lower international sugar price rendered the export unfeasible; industry could export 70% of the quota allocated. Going forward in FY16, though sugar production is expected to remain in limelight due to lower sugarcane crops, carried forward inventory from FY15 shall keep the supply in continued surplus. Slight recovery in sugar prices is being observed, thereby keeping the margins afloat.



## Al-Abbas Sugar Mills Limited

| BALANCE SHEET                                | 31-Dec-15    | 30-Sep-15    | 30-Sep-14    | 30-Sep-13       |
|--|--------------|--------------|--------------|-----------------|
|  | IQ           | Annual       | Annual       | Annual          |
| <b>Non Current Assets</b>                    | <b>1,778</b> | <b>1,806</b> | <b>1,924</b> | <b>2,051</b>    |
| <b>Investments</b>                           | <b>395</b>   | <b>362</b>   | <b>445</b>   | <b>309</b>      |
| Long term                                    | 149          | 134          | 213          | 184             |
| Short Term                                   | 245          | 228          | 232          | 126             |
| <b>Current Assets</b>                        | <b>2,404</b> | <b>1,358</b> | <b>2,028</b> | <b>1,850</b>    |
| Inventory                                    | 1,424        | 849          | 1,436        | 990             |
| Trade Recieveables                           | 19           | 189          | 42           | 20              |
| Others                                       | 961          | 321          | 550          | 839             |
| <b>Total Assets</b>                          | <b>4,577</b> | <b>3,526</b> | <b>4,397</b> | <b>4,210</b>    |
| <b>Debt</b>                                  | <b>1,300</b> | <b>457</b>   | <b>1,180</b> | <b>1,490</b>    |
| ShortTerm                                    | 1,300        | 457          | 1,143        | 1,343           |
| LongTerm(Incl current maturity of long term) | -            | -            | 36           | 147             |
| Other Short term liabilities                 | 948          | 773          | 929          | 700             |
| Other Long term liabilities                  | 71           | 69           | 63           | 57              |
| <b>Shahreholder's Equity</b>                 | <b>2,258</b> | <b>2,228</b> | <b>2,226</b> | <b>1,962</b>    |
| <b>Total Liabilities &amp; Equities</b>      | <b>4,577</b> | <b>3,526</b> | <b>4,397</b> | <b>4,210.00</b> |

## Income Statement

|                   |              |              |              |              |
|-------------------|--------------|--------------|--------------|--------------|
| Turnover          | <b>1,138</b> | <b>5,867</b> | <b>5,521</b> | <b>5,850</b> |
| Gross Profit      | 175          | 825          | 781          | 828          |
| Financial Charges | (7)          | (125)        | (247)        | (224)        |
| Net Inocme        | <b>128</b>   | <b>495</b>   | <b>298</b>   | <b>287</b>   |

## Cashflow Statement

|   |       |         |       |       |
|---|-------|---------|-------|-------|
| Free cashflow from operations               | 154   | 733     | 634   | 640   |
| Net cash changes in working capital         | (893) | 458     | (8)   | 428   |
| Net cash from operating activities          | (744) | 1,051   | 367   | 835   |
| Net cash from investing activities          | 2     | 116     | (31)  | (245) |
| Net cash from financing activities          | 721   | (1,143) | (497) | (419) |
| Net cash generated during period            | (21)  | 24      | (162) | 172   |
| Closing balance of Cash and Cash Equivalent | 21    | 42      | 17    | 179   |

## Ratio Analysis

|  |      |     |     |     |
|--|------|-----|-----|-----|
| <b>Profitability</b>   |      |     |     |     |
| Turnover Growth  | -21% | 6%  | -6% | -2% |
| Gross Margin   | 15%  | 14% | 14% | 14% |
| Net Profit Margin  | 11%  | 8%  | 5%  | 5%  |
| Return on Equity (ROE)   | 6%   | 20% | 14% | 14% |
| <b>Coverages</b>   |      |     |     |     |
| Debt Service Coverage-times (FCFO*/Gross Interest+CMLTD+Uncovered Short Term Borrowin; | 0.3  | 1.5 | 0.8 | 1.4 |
| Interest Coverage-times (FCFO/Gross Interest)  | 21.1 | 5.9 | 2.6 | 2.9 |
| Debt Payback (years) (Total Debt (excluding Covered Short Term Borrowings) / FCFO)     | -    | -   | 0.1 | 0.4 |
| <b>Liquidity</b>   |      |     |     |     |
| Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)                       | 215  | 75  | 53  | 56  |
| <b>Capital Structure</b> (Total debt/ total debt + total equity)                       | 37%  | 17% | 35% | 45% |

\*FCFO: Free Cashflow from operations



## STANDARD RATING SCALES & 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   |   | SHORT TERM RATINGS  |
|---|---|---|
| <b>AAA</b><br><br><b>AA+</b><br><b>AA</b><br><b>AA-</b><br><br><b>A+</b><br><b>A</b><br><b>A-</b> | <p><b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments.</p> <p><b>Very high credit quality.</b> 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.</p> <p><b>High credit quality.</b> 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.</p> | <p><b>A1+:</b> The highest capacity for timely repayment.</p> <p><b>A1:</b> A strong capacity for timely repayment.</p> <p><b>A2:</b> A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.</p> <p><b>A3:</b> An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.</p> <p><b>B:</b> The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.</p> <p><b>C:</b> An inadequate capacity to ensure timely repayment.</p> |
| <b>BBB+</b><br><b>BBB</b><br><b>BBB-</b>  | <p><b>Good credit quality.</b> Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances or economic conditions are more likely to impair this capacity.</p>  |   |
| <b>BB+</b><br><b>BB</b><br><b>BB-</b>   | <p><b>Moderate risk.</b> 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.</p>  |   |
| <b>B+</b><br><b>B</b><br><b>B-</b>  | <p><b>High credit risk.</b> 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.</p>  |   |
| <b>CCC</b><br><b>CC</b><br><b>C</b>   | <p><b>Very high credit risk.</b> "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.</p>  |   |
| <b>D</b>  | <p>Obligations are currently in default.</p>  |   |

### 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. Rating Watch may carry designation – Positive (rating may be raised, negative (lowered), or developing (direction is unclear). A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled.

### 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'.

### 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, a suspended 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, or e) the entity/issuer defaults.

**Disclaimer:** PACRA's rating is an assessment of the credit standing of an entity/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's 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.



**Name of Issuer**  
**Sector**  
**Type of Relationship**

Al-Abbas Sugar Mills Limited  
 Sugar  
 Solicited

**Purpose of the Rating**

Independent Risk Assessment

**Rating History**

| Date      | Long Term | Short Term | Outlook | Action   |
|-----------|-----------|------------|---------|----------|
| 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  
 Sector Research

Corporate Rating Methodology  
 Sugar Sector - View Point | Mar 16

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[Rating Team Statement](#)

**Rating Procedure**

Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.

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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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[Probability of Default \(PD\)](#)

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