

## Al-Noor Sugar Mills Limited

Chairman & Managing Director: Mr. Ismail H. Zakaria

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| Category       | Latest                       | Previous                     |
|----------------|------------------------------|------------------------------|
| <b>Entity</b>  | <b>A-/A-2</b><br>Nov 25, '13 | <b>A-/A-2</b><br>Aug 27, '12 |
| <b>Outlook</b> | <b>Stable</b><br>Nov 25, '13 | <b>Stable</b><br>Aug 27, '12 |

### Rating Rationale

Sugar industry continues to face challenges as prices in the domestic and international market remained depressed on account of surplus sugar production. Prices of sugarcane in Pakistan remain regulated and continue to escalate, incentivizing growers and also positively impacting farm income. Meanwhile, market price of the processed commodity is determined by market demand/supply dynamics. Average retail price of refined sugar declined to Rs. 51/kg during FY13 as compared to Rs. 57/kg in the preceding year. Government of Pakistan (GoP), in order to support the industry, has enhanced the sugar export quota while also offering tax advantage to exporters.

Al-Noor Sugar Mills Limited (ASML) primarily produces white refined sugar and has also diversified its operations by engaging in the manufacturing of medium density fiber board (MDFB) i.e. laminated sheets in various sizes and colors.

During the 2012-13 season, the sugarcane crushed was higher at 959,302MT (2011-12: 885,101MT); while there was also an improvement in the sucrose recovery rate to 10.40% (2011-12: 9.95%). As a result, the overall production increased to 99,740MT (FY12: 88,058MT). Although unsold stock at end-Jun'13 is high, company plans to sell most of its stock by the end of FY13. ASML has managed to export around 21,000MT of sugar in 9MFY13 which generates higher margins vis-à-vis local market owing to tax incentive. The ability of the company to off-load unsold stock in a timely manner is considered important in context of the carrying costs and the depressed margins.

MDFB division has contributed 28% in total revenues generated in 9MFY13. The company continues to face power issues which hamper the production and adversely affect the efficiency of the division. Furthermore, the division faces stiff competition in the market owing to which margins have declined over the last few years.

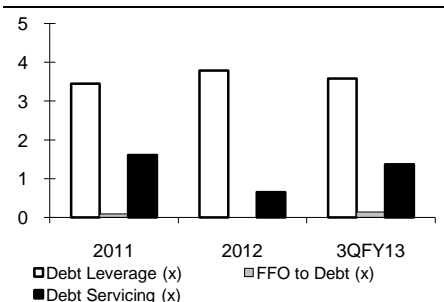
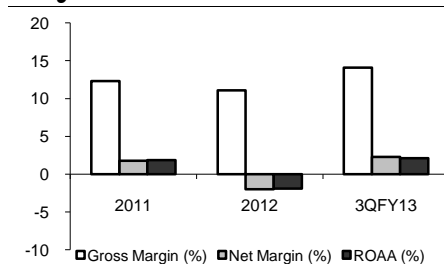
Overall sales of the company during 9MFY13 have exhibited growth of 32% relative to corresponding period last year. While gross margins declined moderately to 14.1% (9MFY12: 15%), net profit improved to Rs. 136.5m (9MFY12: Rs. 67.4m) on account of higher volumetric sales and lower financial charges. Moreover, net profit margin improved to 2.3% (9MFY12: 1.5%) during 9MFY13.

Long-term debt of the company continued to increase on a timeline basis while short term borrowing remains a function of unsold stock. Total borrowings amounted to Rs. 3.1b at end-June 2013 which is expected to rationalize by the end of FY13 as company pays off seasonal short-term debt. Nonetheless, gearing of the company is considered high at 2.4x. Given improved profitability, Funds from Operations (FFO) of the company strengthened during 9MFY13 and amounted to Rs. 316.7m (9MFY12: Rs. 192.9m). Moreover, debt service coverage also improved to 1.4x (FY12: 0.7x).

### Overview of the Institution

ASML was incorporated in 1969 as a part of the Al-Noor Group, which has presence in diverse industries. The company is principally engaged in production and sale of sugar and medium density fiber board. Its shares are quoted on the Karachi and Lahore Stock Exchanges. Financial statements for FY2012 have been audited by Hyder Bhimji & Co. JCR-VIS

### Key Financial Trends



| (Rs. million)            | 2011  | 2012  | 9M2013 |
|--------------------------|-------|-------|--------|
| <b>Net Sales</b>         | 5,983 | 6,129 | 5,985  |
| <b>Net Profit</b>        | 105   | -43   | 137    |
| <b>Tier-1 Equity</b>     | 1,174 | 1,120 | 1,265  |
| <b>Net Worth</b>         | 1,837 | 1,740 | 1,868  |
| <b>Total Debt</b>        | 2,517 | 2,331 | 3,108  |
| <b>Long Term Debt</b>    | 458   | 716   | 727    |
| <b>FFO</b>               | 223   | -9    | 317    |
| <b>FFO/Total Debt(x)</b> | 0.09  | 0.00  | 0.14   |
| <b>ROAE(%)</b>           | 8.7   | -3.7  | 11.5   |
| <b>ROAA(%)</b>           | 1.9   | -0.7  | 2.1    |