

RATING REPORT

Al-Noor Sugar Mills Limited

REPORT DATE:

April 27, 2016

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A-	A-2	A-	A-2
Rating Date	April 27, 2016		December 31, 2014	
Rating Outlook	Stable		Stable	
Outlook Date	April 27, 2016		December 31, 2014	

COMPANY INFORMATION

Incorporated in 1969	External auditors: Kreston Hyder Bhimji & Co., Chartered Accountants
Public Limited Company	Chairman of the Board: Mr. Yusuf Ayoob
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. Ismail H. Zakaria
<i>CDC-Trustee National Investment Trust Fund – 9.9%</i>	
<i>Noori Trading Corporation (Private) Limited – 9.2%</i>	
<i>Mr. Zaki Zakaria – 6.0%</i>	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria *Industrial Corporates (October 2003)*

<http://www.jcrvis.com.pk/images/IndustrialCorp.pdf>

Al-Noor Sugar Mills Limited

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 Pakistan Stock Exchange.

Financial statements for FY15 have been audited by Kreston Hyder Bhimji & Co.

RATING RATIONALE

In 1969, Al-Noor Sugar Mills Ltd. (ASML) was incorporated as a public limited company. ASML belongs to Al-Noor Group (ANG), a prominent group involved in the manufacturing of sugar, rice, power and board products along with limited presence in financial sector. ASML is primarily engaged in the business of manufacturing and selling of sugar and medium density fiber (MDF) board. In order to overcome electricity shortages, the company is also involved in power generation primarily for its internal use. ASML is listed on the Pakistan Stock Exchange (PSX).

Rating Drivers

- Sugar production is largely dependent on availability and quality of sugarcane. During the outgoing year, crop yield was lower than prior year on account of reduced cultivated area and flood damages in Northern zone. There was lower availability of sugarcane for crushing. Resultantly, capacity utilization stood lower though remaining over 100% (FY14: 121%, FY13: 154%) during FY15. ASML was able to achieve a higher sucrose recovery rate of 10.3% (FY14: 9.8%) for the period ending September 30, 2015.
- Sugarcane prices are primarily regulated by the provincial governments and as such, have no relation with the sugar prices; until recently, sugar prices have remained depressed for an extended period of time on account of surplus availability of the commodity.
- Business mix of the company comprises two-thirds of sugar while remaining proceeds are received from its board unit. Despite higher average price during FY15, proceeds of sugar division stood lower than last year while revenue base of board unit depicted an improvement.
- As a whole, net sales of the company amounted to Rs. 7.0b (FY14: Rs. 7.7b) during FY15 vis-à-vis projected sales of Rs. 7.4b. However, better sucrose recovery translated into improved gross margins of 14.8% (FY14: 11.0%) in FY15.
- Capital structure of the company has slightly strengthened during FY15. Total equity of the company stood higher at Rs. 2.6b (FY14: Rs. 2.5b) while debt levels of the company reduced to Rs. 2.76b (FY14: Rs. 2.83b), by end-FY15. Debt profile of ASML largely comprises short term facilities utilized for working capital requirements. Debt leverage and gearing were reported at 3.1x (FY14: 3.3x) and 1.9x (FY14: 2.3x) respectively, by end-FY15. No major CAPEX is planned over the foreseeable horizon, in view of which capital structure is expected to be maintained in FY15.
- With both better sucrose recovery in sugar segment and higher margins in the board division, bottom line of ASML augmented to Rs. 166.3m (FY14: Rs. 31.3m) in FY15. As per projections, sales of the company are expected to increase year on year on the back of price appreciation of both its products. Given the robust internal cash generation, FFO increased to Rs. 346.2m (FY14: Rs. 177.1m) during FY15. As a result, FFO to debt also stood higher at 0.13x (FY14: 0.06x). Debt servicing coverage ratio depicted a similar trend and was reported at 0.37x (FY14: 0.26x) in FY15.

Outlook

Going forward, the performance of the company would primarily be dependent upon dynamics of sugar and board industry. Level of sucrose recovery and direction of sugar prices will largely determine the revenue and profitability of ASML. Meanwhile, level of borrowings may continue to vary with seasonal requirements.

Al-Noor Sugar Mills Limited

Appendix I

FINANCIAL SUMMARY <i>(amounts in PKR millions)</i>			
BALANCE SHEET	SEP 30, 2015	SEP 30, 2014	SEP 30, 2013
Fixed Assets	3,639.6	3,707.0	3,479.9
Investments	260.2	246.9	182.2
Stock-in-Trade	2,496.0	1,794.9	1,809.2
Trade Debts	120.1	55.32	96.3
Cash & Bank Balances	98.2	148.5	98.1
Total Assets	7,149.4	6,565.1	6,109.7
Trade and Other Payables	1,067.5	457.2	902.5
Long Term Debt <i>(*incl. current maturity)</i>	1,052.4	1,519.1	1,270.3
Short Term Debt	1,173.1	1,306.3	670.2
Total Equity	2,622.1	2,464.3	2,394.8
INCOME STATEMENT	SEP 30, 2015	SEP 30, 2014	SEP 30, 2013
Net Sales	6,966.3	7,699.1	7,594.3
Gross Profit	1,027.7	848.9	837.8
Operating Profit	604.1	466.0	470.7
Profit After Tax	166.3	31.3	24.1
RATIO ANALYSIS	SEP 30, 2015	SEP 30, 2014	SEP 30, 2013
Gross Margin (%)	14.8	11.0	11.1
Net Working Capital	481.7	324.2	475.8
FFO to Total Debt (x)	0.20	0.06	0.12
FFO to Long Term Debt (x)	0.41	0.11	0.18
Debt Servicing Coverage Ratio (x)	0.96	0.69	0.88
ROAA (%)	2.43	0.49	0.40
ROAE (%)	6.54	1.29	1.17

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix II

Medium to Long-Term

AAA

Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-

High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-

Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-

Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-

Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-

Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC

Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC

A high default risk

C

A very high default risk

D

Defaulted obligations

Short-Term

A-1+

Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1

High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2

Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3

Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B

Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C

Capacity for timely payment of obligations is doubtful.

Rating Watch: JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.jcrvis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. www.jcrvis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities

and not on the basis of the credit quality of the issuing entity alone.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES		Appendix III				
Name of Rated Entity	Al-Noor Sugar Mills Limited					
Sector	Sugar					
Type of Relationship	Solicited					
Purpose of Rating	Entity Rating					
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action	
	<u>RATING TYPE: ENTITY</u>					
	04/27/2016	A-	Stable	A-2	Reaffirmed	
	12/31/2014	A-	Stable	A-2	Reaffirmed	
	11/25/2013	A-	Stable	A-2	Reaffirmed	
	8/27/2012	A-	Stable	A-2	Reaffirmed	
	2/10/2011	A-	Stable	A-2	Initial	
Instrument Structure	N/A					
Statement by the Rating Team	JCR-VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.					
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