

Shahmurad Sugar Mills Limited

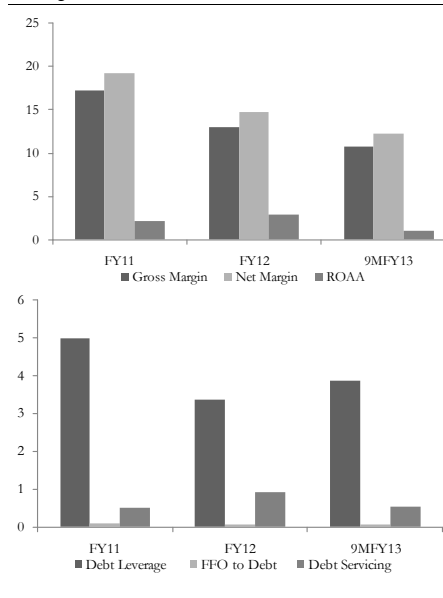
Chairman: Mr. Ismail H. Zakaria, Managing Director: Mr. Yusuf Ayoob

Nov 26, 2013

Analysts: Faryal Ahmad
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Category	Latest	Previous
Entity	BBB+/A-2 Nov 25, '13	BBB+/A-2 Aug 30, '12
Outlook	Stable Nov 25, '13	Stable Aug 30, '12

Key Financial Trends



(Rs. million)	2011	2012	9MFY13
Net Sales	4,392	5,362	4,483
Net Profit	90	145	37.3
Tier-1 Equity	510	654	675
Net Worth	1,191	1,316	1,321
Total Debt	2,101	2,029	2,793
Long Term Debt	854	991	868
FFO	162	116	106
FFO/Total Debt(x)	0.08	0.06	.05
ROAE(%)	19.3%	25.9%	7.4%
ROAA(%)	2.2%	2.9%	1.0%

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.

The principal activity of Shahmurad Sugar Mills Limited (SSML) is manufacturing and sale of refined sugar and ethanol through two operating divisions, Sugar and Distillery.

During 2012-13 crushing season, sugarcane crushed was lower at 561,083MT (2011-12: 566,077MT) while sugar produced was higher at 59,343MT (2011-12: 57,077MT) on account of increased recovery rate of 10.58% (2011-12: 10.09%). During this period, the company generated almost 32% of revenues through exports. Unsold stock as at end-June, 13, stood at 22,719MT (28.2% of available stock for sale). While average selling price of sugar continues to be low in the domestic market, company benefited from higher export sales as the export market offers slightly better price in the form of tax advantage. Gross margin of the sugar division, while remaining low, improved to 7.3% during 9MFY13 (FY12: 6.8%).

Performance of the ethanol division while improving during FY13 remained under pressure during the ongoing year on account of considerable decline in the international ethanol prices. During 9MFY13, average sales price of ethanol declined to US\$ 790.6/ton (FY12: US\$ 908/ton). Moreover, procurement prices of molasses have also been higher at Rs. 8,202/ton during 9MFY13 (FY12: Rs. 7,060/ton). Impact of decline in USD price was offset by devaluation of the rupee against USD to some extent; gross margin was recorded lower at 16.4% during 9MFY13 (FY12: 23.2%).

Overall sales of the company during 9MFY13 largely remained stagnant in comparison to the same period last year. Gross margin eroded to 10.7% (FY12: 13%) owing to continuing pressure on prices in both sugar and distillery division. Net profit was also lower at Rs. 37.3m during 9MFY13 (FY12: Rs. 145.3m).

While long term loan of the company reduced during the ongoing year, short term borrowings were higher on account of working capital requirements. Gearing was recorded at 3.1x as at end-June, 13 (June, 12: 2.3x). With stress on profitability margins, funds flow from operations (FFO) were lower during 9MFY13 as compared to the same period in the preceding year at Rs. 105.5m (9MFY12: Rs. 209m). Annualized FFO to total debt decreased to 0.05x as at end-June'13 (FY12: 0.06x). Debt servicing coverage ratio stood lower at 0.55x at end-June'13 (FY12: 0.91x) reflecting stressed liquidity position of the company. While short term debt is covered by stock in trade and trade debts on company's books, cash flows remains under pressure with respect to repayment of long term loans.

Overview of the Institution

Incorporated in 1980, Shahmurad Sugar Mills Limited (SSML) is a public limited company with its shares quoted on the Karachi and Lahore Stock Exchanges. The company operates under the umbrella of Al-Noor group, under which Al-Noor Sugar Mills Limited, Reliance Insurance Company Limited and Al-Noor Modaraba Management Company also operate JCR-VIS

JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
<u>RATING TYPE: Entity</u>				
25-Nov-13	BBB+	Stable	A-2	Reaffirmed
30-Aug-12	BBB+	Stable	A-2	Reaffirmed
19-Oct-11	BBB+	Stable	A-2	Reaffirmed
17-Aug-10	BBB+	Stable	A-2	Reaffirmed