

Shahmurad Sugar Mills Limited

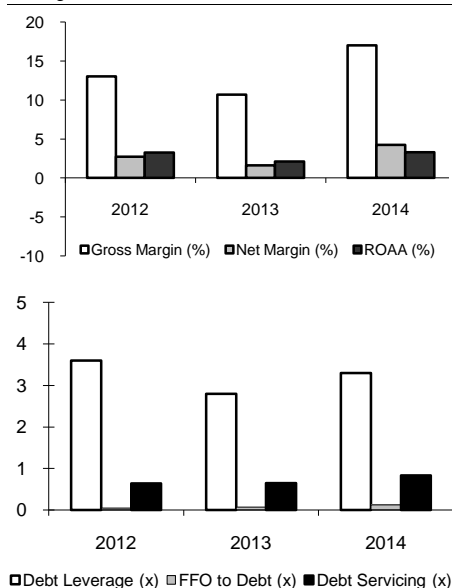
Chairman: Mr. Ismail H. Zakaria, Managing Director: Mr. Yusuf Ayoob

February 17, 2015

Analysts: Amir Shafique
Faiq Sattar

Category	Latest	Previous
Entity	A- /A-2 Feb 11, '15	BBB+ /A-2 Nov 25, '13
Outlook	Stable Feb 11, '15	Stable Nov 25, '13

Key Financial Trends



(Rs. million)	2012	2013	2014
Net Sales	5362	5642	5354
Net Profit	145	92	227
Tier-1 Equity*	884	964	1178
Net Worth	1316	11380	1790
Total Debt*	2330	2186	2503
Long Term Debt (LTD)	991	945	720
FFO	119	148	310
FFO/Total Debt	0.05	0.07	0.12
LTD/Equity	1.1	1.0	0.6
Total Debt/Tier-1	3.6	2.8	3.3

*Adjusted for sponsor loan

Rating Rationale

Sugar commodity is characterized by in-elastic demand; currently, the industry is under-going a down cycle and prices have remained depressed for an extended time. Despite a decline in forecasted sugar production in 2015 vis-à-vis previous year; prices are expected to remain range bound over the foreseeable horizon mainly due to continuity of surplus situation in sugar country wide.

The assigned ratings incorporate overall balance sheet strength built over the years with concurrent improvement in debt repayment capacity. The same has been achieved on the back of diversification in revenue streams through the distillery division, which has provided significant support to profitability. The company has made continued efforts for advancement in ethanol processing and expansion of fermentation plant. These initiatives have notably improved gross margins of the ethanol division amidst depressed international prices. The ethanol division is likely to depict reduced gross margins due to continued decline in international prices; however, the impact may be marginalized on account of lower input cost and ongoing improvement in internal efficiency. The company plans to enhance ethanol production that will provide impetus to profitability of the division.

Sugar sales remained depressed over the year; gross margins depicted improvement on the back of higher sucrose recovery rate and prolonged crushing season during FY14. Average sugar prices have remained relatively lower in comparison to the preceding year Contribution to the bottom line from sugar is likely to remain subdued; performance in ethanol division will be important for overall profitability of the company.

Total debt (excluding sponsor loan) amounted to Rs. 2.5b (FY13: Rs. 2.2b) at end FY14. The increase is largely a function of short term borrowings acquired to finance working capital needs. Inventory levels at year end FY14 were higher in comparison to the preceding year. The company is gradually retiring long term debt having adequate cash flow coverage at end FY14. Given the trend in profitability, Fund Flow from Operations (FFO) has depicted notable increase during the year. The company's debt repayment capacity is considered manageable. Debt leverage of the company has improved to 3.3x; (FY13: 2.8x; FY12: 3.6x) on the back of strong capitalization.

Overview of the Institution

Incorporated in 1980, Shahmurad Sugar Mills Limited (SSML) is a public limited company with its shares quoted on 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

Credit Rating History

Rating Type	Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
Entity	2/11/2015	A-	Stable	A-2	Upgrade
Entity	11/25/2013	BBB+	Stable	A-2	Reaffirmed
Entity	8/30/2012	BBB+	Stable	A-2	Reaffirmed
Entity	10/19/2011	BBB+	Stable	A-2	Reaffirmed
Entity	8/17/2010	BBB+	Stable	A-2	Reaffirmed