The Pakistan Credit Rating Agency Limited

Rating Report

Popular Sugar Mills Limited

Report Contents

Rating History					
Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
05-Apr-2023	BBB+	A2	Stable	Maintain	-
05-Apr-2022	BBB+	A2	Stable	Maintain	-
30-Sep-2021	BBB+	A2	Stable	Maintain	-
30-Sep-2020	BBB+	A2	Stable	Maintain	-
29-Oct-2019	BBB+	A2	Stable	Maintain	-
30-Apr-2019	BBB+	A2	Stable	Maintain	-
31-Oct-2018	BBB+	A2	Stable	Maintain	-
02-May-2018	BBB+	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Pakistan’s sugar industry is the country's 2nd largest agro-based industry, comprising of 90 mills with an annual crushing capacity estimated at~ 80–90mln MT. Despite overcoming the challenge of raw material supply, the industry is facing a constraint due to the government-set support price for sugarcane. During MY22, the support prices for sugarcane in Punjab were fixed at PKR 230/maund and PKR 250/maund in Sindh. Actual realized prices were even higher. During MY22, the overall sugar production increased by ~9%, YoY, to 7.1mln MT (MY21: 6.5mln MT) due to better crop availability and an increase in area under cultivation. Subsequently, sugar prices witnessed ~12% decrease. During the current crushing season (MY23), loss of area under cultivation of roughly 4.7% amidst flash floods; the forecast of sugar production is affected and is estimated to be ~7mln MT. However, the carryover stock from MY22 and the expected sugar production during MY23 are likely to result in a surplus of local sugar production. Therefore, the Government has allowed exports of 0.25mln MT on the basis of production during MY22. The support prices have been fixed at PKR 300/maund for Punjab and PKR 302/maund for Sindh. Although low sugar prices locally and increased sugarcane prices have prompted many sugar mills to close the crushing early in MY23, sugar exports are expected to be favorable, ensuring liquidity remains intact.
The ratings reflect Popular Sugar Mills Limited's ('Popular Sugar' or 'the Company') adequate business profile. The Company posted a positive trend in revenues along with improved margins. Relatively higher sugar production along with increased prices in the local market resulted in better profits. However, the cane procurement cost remain relatively high. Moreover, the Company’s profitability is supported through the sale of by-products (molasses and bagasse). Financial profile of the Company remains adequate with modestly leveraged capital structure and improved coverages. However, mismatch in the debt mix persisted as the Company increased its reliance on short-term borrowings to fund its working capital needs. The rating incorporates Group support for the Company, if needs be.

The ratings are dependent upon the Company’s ability to maintain its margins, improve coverage's and rationalize short-term borrowings to avoid asset-liability mismatch. Any significant deterioration in margins and/or cashflows will impact the ratings negatively. Meanwhile, strengthening governance framework and internal controls will have a favorable impact on ratings

Disclosure	
Name of Rated Entity	Popular Sugar Mills Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Rating(Jun-22),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology | Rating Modifiers(Jun-22)
Related Research	Sector Study | Sugar(Apr-22)
Rating Analysts	Faiqa Qamar | faiqa.qamar@pacra.com | +92-42-35869504

Profile

Legal Structure Popular Sugar Mills Limited ('Popular Sugar' or 'the Company) is an unlisted public limited company.

Background The Company, formerly known as National Sugar Industries Limited, was setup in 1989. In 2013, Popular Group of Industries acquired the sugar business from National Sugar Industries Limited. The Company was subsequently named to Popular Sugar Mills Limited.

Operations Popular Sugar is primarily engaged in the manufacturing and sale of sugar and its by-products (molasses and bagasse). The Company has a crushing capacity of crush 8,000 TCD. The Company also generates power for mill operations and has plans in place to enhance capacity to generate 8 MW. The Company's mill is located in Jan Muhammad Wala, near Sargodha. While, the registered office is situated on Hasrat Mohani Road, Karachi. During MY22, the Company's sugar production increased significantly and stood at 79,068 MT (MY21: 58.050MT). However, a slight dip in sucrose recovery rate was observed standing at 9.335% (MY21: 9.58%).

Ownership

Ownership Structure Popular Sugar is a wholly owned company of the Popular Group of Industries ('Popular Group'). Around 87% of the shares reside with other Group companies. While, remaining 13% of the stake vests with the individuals of Roshan and Malik family.

Stability Ownership reflects stability as no ownership changes are expected in near future.

Business Acumen Over the years, Popular Group has expanded into diversified businesses through organic growth and acquisition. Today, Popular Group has an inclined interest in fruit juices, sugar, match, packaging and textile segments. In the services sector, the Group is represented by a Modaraba Company (listed), security services and a trading company. Moreover, the Group is set to penetrate the cement industry.

Financial Strength The Company has adequate financial strength through the support of its group. During MY22, the Company has total assets of ~PKR 7bln, supported by an equity base of ~PKR 4bln.

Governance

Board Structure The Company's Board comprises two executive and two non-executive Directors. The Board is dominated by the sponsoring family and lacks independence, thus indicating room for improvement.

Members' Profile Mr. Imamuddin Shouqeen, Chairman of the Board, has over 41 years of experience in business and is Chairman of PGI. He is an elected member of provincial assembly.

Board Effectiveness Keeping in view the size of the board, absence of sub-committees may not impact it's effectiveness. During MY22, four Board meetings, with majority attendance, were held to discuss pertinent matters and future strategy

Financial Transparency The auditors of the Company are Reanda Haroon Zakaria & Company, Chartered Accountants, issued an unqualified opinion for MY22. The firm has been QCR rated by ICAP and are in Category 'B' of SBP panel.

Management

Organizational Structure Popular Sugar is headed by the Managing Director (MD) and supported by a team of General Managers for site, factory, finance and marketing. However, the support functions (HR, legal and administration) are shared at Group level and report to the Group's Chairman

Management Team Mr. Imamuddin Shouqeen also leads the management team as the CEO. He has been associated with the Group for the last 30 years and has played a key role in the success of the Company. The CEO is supported by an able and professional team.

Effectiveness The Company does not have management committees in place. However, to discuss management targets and aligned budgets, meetings are called on monthly and ad-hoc basis by the Chairman and/or the MD.

MIS Popular Sugar has implemented Cosmosoft system, which is fully integrated with the financial systems, except for the inventory module. The system also provides various detailed reports to monitor and control the performance of the Company.

Control Environment The Company has established internal audit department, which is an integral part of the management control system. Popular Sugar's control environment gains support from budgetary control exercised at the board level, followed throughout the year.

Business Risk

Industry Dynamics During MY22, the support prices for sugarcane in Punjab were fixed at PKR 230/maund and PKR 250/maund in Sindh. Actual realized sugarcane prices were even higher. During MY22, the overall sugar production increased by ~9%, YoY, to 7.1mln MT (MY21: 6.5mln MT). Subsequently, sugar prices witnessed ~12% decrease. During the current crushing season (MY23), loss of area under cultivation of roughly 4.7% amidst flash floods; the forecast of sugar production is affected and is estimated to be ~7mln MT. However, the carry-over stock from MY22 and the expected sugar production during MY23 are likely to result in a surplus of local sugar production. Therefore, the Government has allowed exports of 0.25mln MT on the basis of production during MY22. The support prices have been fixed at PKR 300/maund for Punjab and PKR 302/maund for Sindh. Although low sugar prices locally and increased sugarcane prices have prompted many sugar mills to close the crushing early in MY23, sugar exports are expected to be favorable for the industry, ensuring liquidity remains intact.

Relative Position Owing to high number of players in the industry, companies relatively have low market share. The Company had a market share of ~1% during MY22.

Revenues Popular Sugar generates most of its revenue (~80%) from the sale of sugar. However, sale of molasses (~15%) and bagasse (~5%) also contribute to the revenue. The Company posted revenue worth ~PKR 5.7bln in MY22 (MY21: ~PKR 5.2bln), reflecting a growth of ~10%. emanating from increased sugar prices and volumes. Going forward, export revenue will be beneficial for the Company.

Margins Popular Sugar has posted a gross profit of ~PKR 854mln in MY22 (MY21: ~PKR 716mln), reflecting a growth of ~19.2% YoY, translating into a gross margin of ~15% (MY21: ~14%). Similarly, the operating profit increased to ~PKR 719mln (MY21: ~PKR 603mln) due to the trickle-down effect. The operating margins improved to ~13% (MY21: ~12%). The finance cost of the Company rose and stood at ~PKR 312mln (MY21: ~PKR 170mln). In accumulation, the net margin remain stable at ~5% in MY22 (MY21: ~5%). Going forward, procurement cost is expected to further inflate. However, export sales may benefit the Company's overall performance.

Sustainability The Company stands to benefit from high sugar prices in the export market. Nonetheless, the Company remains exposed to inherent fluctuations in the sugar industry.

Financial Risk

Working Capital The Company faces an inherent stress in its working capital cycle due to seasonality of sugar industry. The Company manages its working capital cycle through excessive short term borrowings leading to a persistent debt mismatch. In MY22, the inventory days declined to 31 days (MY20: 2 days) due to high finished goods inventory. The Company may benefit from export sales. Moreover, receivable days (MY22: 12 days, MY21: 14 days) remained in control. However, payable days increased slightly increased due to delayed payments (MY22: 15 days, MY21: 12 days). Overall, the net working capital cycle saw a reduction (MY22: 29 days, MY21: 4 days). Going forward, borrowing is expected to remain stretched owing to increased borrowing to fund working capital requirements.

Coverages In MY22, the Company's free cashflows clocked in at ~PKR 1bln (MY21: ~PKR 707mln) supported by higher profitability. On the other hand, the finance cost increased to ~PKR 229mln (MY21: ~PKR 164mln). Consequently, the interest coverage ratio witnessed a decline (MY22: 3.5x, MY21: 4.4x). Meanwhile, the core and total operating coverage ratio observed a rise (my22: 1x, MY21: 0.8x) as the excess borrowings mitigated the positive impact of higher profitability. Going forward, coverages may remain stretched.

Capitalization Popular Sugar maintains a moderately leveraged capital structure. As at MY22, the leveraging stood at ~30.8% (MY21: ~23.1%). Majority of debt (~70%) is composed of short term borrowings, obtained to meet working capital requirements. In MY22, the Company's total borrowing amounted to ~PKR 2.3bln, posting an increase of ~ 92% (MY21: ~PKR 999bln). Going forward, leveraging may deteriorate owing to increased short term borrowings to fund the working capital requirements.

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Financial Summary
PKR mln

Popular Sugar Mills Limited Sugar	Sep-22 12M	Jun-22 9M	Sep-21 12M	Sep-20 12M	Sep-19 12M
A BALANCE SHEET					
1 Non-Current Assets	5,544	4,277	4,474	4,645	3,336
2 Investments	69	69	69	69	69
3 Related Party Exposure	2,440	1,249	1,161	698	148
4 Current Assets	1,572	3,145	682	562	1,542
a Inventories	*766*	*2,161*	*25*	*40*	*878*
b Trade Receivables	*103*	*515*	*289*	*106*	*217*
5 Total Assets	9,625	8,741	6,386	5,975	5,094
6 Current Liabilities	1,277	1,015	679	678	621
a Trade Payables	*196*	*274*	*174*	*176*	*183*
7 Borrowings	2,268	2,738	999	935	1,701
8 Related Party Exposure	181	158	181	184	221
9 Non-Current Liabilities	907	591	591	494	295
10 Net Assets	5,172	4,239	3,936	3,684	2,256
11 Shareholders' Equity	5,172	4,239	3,936	3,684	2,256
B INCOME STATEMENT					
1 Sales	5,706	4,609	5,184	4,516	2,373
a Cost of Good Sold	*(4,852)*	*(3,863)*	*(4,468)*	*(3,827)*	*(2,004)*
2 Gross Profit	854	746	716	688	369
a Operating Expenses	(135)	(117)	(113)	(101)	(81)
3 Operating Profit	719	629	603	588	288
a Non Operating Income or (Expense)	*100*	*(21)*	*(17)*	*(108)*	*27*
4 Profit or (Loss) before Interest and Tax	820	607	587	479	314
a Total Finance Cost	*(312)*	*(180)*	*(170)*	*(256)*	*(271)*
b Taxation	*(220)*	*(124)*	*(165)*	*(42)*	*18*
6 Net Income Or (Loss)	288	303	251	181	62
C CASH FLOW STATEMENT					
a Free Cash Flows from Operations (FCFO)	*795*	*785*	*707*	*602*	*390*
b Net Cash from Operating Activities before Working Capital (	*566*	*608*	*544*	*288*	*194*
c Changes in Working Capital	*(1,150)*	*(2,065)*	*(144)*	*543*	*(675)*
1 Net Cash provided by Operating Activities	(584)	(1,456)	400	832	(481)
2 Net Cash (Used in) or Available From Investing Activities	(510)	(16)	(512)	(15)	(246)
3 Net Cash (Used in) or Available From Financing Activities	1,088	1,562	61	(803)	720
4 Net Cash generated or (Used) during the period	(5)	90	(52)	14	(7)
D RATIO ANALYSIS					
1 Performance					
a Sales Growth (for the period)	10.1%	18.5%	14.8%	90.3%	--
b Gross Profit Margin	15.0%	16.2%	13.8%	15.2%	15.5%
c Net Profit Margin	5.0%	6.6%	4.8%	4.0%	2.6%
d Cash Conversion Efficiency (FCFO adjusted for Working Ca	-6.2%	-27.8%	10.9%	25.4%	-12.0%
*e Return on Equity [Net Profit Margin * Asset Turnover * (To*	6.3%	9.9%	6.6%	6.1%	2.7%
2 Working Capital Management					
a Gross Working Capital (Average Days)	38	89	16	50	168
b Net Working Capital (Average Days)	23	75	4	36	140
c Current Ratio (Current Assets / Current Liabilities)	1.3	3.1	1.0	0.8	2.5
3 Coverages					
a EBITDA / Finance Cost	2.9	4.8	4.8	2.5	1.7
b FCFO / Finance Cost+CMLTB+Excess STB	0.4	2.2	0.8	0.7	0.6
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Fin	4.0	0.9	2.0	3.3	7.0
4 Capital Structure					
a Total Borrowings / (Total Borrowings+Shareholders' Equity	32.1%	40.6%	23.1%	23.3%	46.0%
b Interest or Markup Payable (Days)	162.7	135.1	171.6	102.5	181.7
c Entity Average Borrowing Rate	12.1%	9.9%	9.6%	12.5%	13.4%

Credit Rating

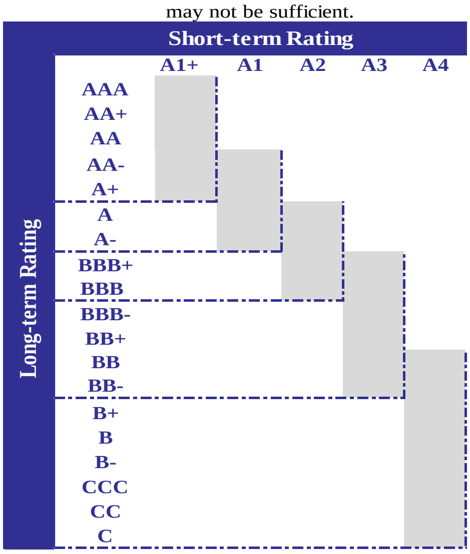
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+ AA AA-	**Very high credit quality.** 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.
A+ A A-	**High credit quality.** 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.
BBB+ BBB BBB-	**Good credit quality.** Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BB+ BB BB-	**Moderate risk.** 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.
B+ B B-	**High credit risk.** 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.
CCC CC C	**Very high credit risk.** Substantial credit risk "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.
D	Obligations are currently in default.

Short-term Rating

Scale	Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



**The correlation shown is indicative and, in certain cases, may not hold.*

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'.

Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

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, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveill the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

a) Broker Entity Rating
b) Corporate Rating
c) Debt Instrument Rating
d) Financial Institution Rating
e) Holding Company Rating
f) Independent Power Producer Rating
g) Microfinance Institution Rating
h) Non-Banking Finance Companies Rating

Rating Team Statements
(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) **Conflict of Interest**
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iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term “family members” shall include only those family members who are dependent on the analyst and members of the rating committee

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(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)
Probability of Default
(22) PACRA´s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA´s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA´s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(f-VII)
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