



The Pakistan Credit Rating Agency Limited

Rating Report

Popular Sugar Mills Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
31-Oct-2018	BBB+	A2	Stable	Maintain	-
02-May-2018	BBB+	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Pakistan is the 6th largest sugarcane producer, 9th largest sugar producer and 8th largest sugar consuming country in the world. Sugarcane is grown on approximately 1.2mln hectares. The industry witnessed surplus sugar production during FY17, which resulted in depressed prices and a significant pile up of sugar stocks at end Sept-17. Sugar production decreased to 6.5mln tons during FY18 in comparison to 7mln tons in FY17. The over supply situation persisted in FY18 and prices remained under pressure.

The ratings reflects the adequate business profile of Popular Sugar Mills Limited. During FY18, the Company has managed to maintain its margins accompanied by an increase in turnover despite depressed sugar prices. The Company intends to improve its debt mix, which remains skewed towards short-term borrowings, by obtaining long term loans. The Company's modest leveraging and improving core coverages provide comfort to it's financial risk profile.

The ratings are dependent upon the Company's ability to increase its revenue base while maintaing margins and strict financial discipline/coverages. Continued efforts to realign the debt mix are critical for ratings. Any material deterioration in coverages and/or margins will have negative rating implications.

Disclosure

Name of Rated Entity	Popular Sugar Mills Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Ratings(Jun-18),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-18)
Related Research	Sector Study Sugar(Mar-18)
Rating Analysts	Adnan Dilawar adnan@pacra.com +92-42-35869504

Profile

Legal Structure Popular Sugar Mills Limited is a Public Limited Company.

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

Operations Popular Sugar Mills is primarily engaged in the manufacturing and sale of sugar and its by-products molasses and bagasse. The Company has the capacity to crush 8,000 tons of sugarcane per day (TCD) with 24 rollers installed in 5 mills. The Company is utilizing around 90% of its capacity and manufactures 0.45mln tons of sugar. The average recovery rate is around 9-10%, depending upon the quality of sugarcane procured. Popular Sugar Mills also generates power, to run the sugar mill, from its own turbines. The Company plans to upgrade the capacity of these turbines to generate 8MW of power, by using internally produced Bagasse. The Company's mill is located in Jan Muhammad Wala, near Sargodha. While, the registered office is situated on 9th floor, Chappal Plaza, Hasrat Mohani Road, Karachi.

Ownership

Ownership Structure Popular Sugar Mills is a wholly owned venture of Popular Group of Industries ('Popular Group'). 87% of the Company's shares vests with other Group Companies. Remaining 13% stake resides with the individuals of the sponsoring families. Mr. Imran Ali Roshan, the Chairman's Nephew, owns 48% shares of the Company.

Stability Each member has a defined stake through ownership.

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 the manufacturing segment that includes fruit juices, sugar, match, packaging and textile. In the services sector, the Group is represented by a Modaraba Company (listed), security services and a trading company.

Financial Strength Popular Group has a consolidated turnover of around PKR 7.8bln and a post-tax profit of PKR 675mln. The Group has a footing of over PKR 10bln in total assets and strong equity base of over PKR 4bln in FY17.

Governance

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

Members' Profile The Board's Chairman, Mr. Imamuddin Shouqeen, has a long association with the Company. He has business experience of over 40 years. Mr. Imamuddin is member of Pakistan's Senate.

Board Effectiveness Keeping in view the size of the Board, absence of sub-committees may not impact Board's effectiveness. During FY18, four Board meetings, with majority attendance, were held to discuss pertinent matters and make strategic decisions regarding crushing season, determine per unit cost, sale targets.

Financial Transparency Popular Sugar Mills external auditors Reanda Haroon Zakaria & Company, Chartered Accountants, have expressed an unqualified opinion on the financial reports for FY17. The firm has been QCR rated by ICAP and are in Category 'B' of SBP panel.

Management

Organizational Structure Popular Sugar Mills is headed by the Managing Director (MD), 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 reports to the Group's Chairman.

Management Team Popular Sugar Mills management comprises experienced professionals. Mr. Shahbaz Ali Malik, the Company's MD, has worked with the Group for over 25 years.

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 Board's Chairman and/or the Company's MD.

MIS Popular Sugar Mills has implemented Cosmofit 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 engaged Baker Tilly Mehmood Idrees Qamar (MIQ), Chartered Accountants, for the internal audit. Popular Sugar Mills control environment gains support from budgetary control exercised at the BoD level, followed throughout the year.

Business Risk

Industry Dynamics Pakistan is the 6th largest sugarcane producer, 9th largest sugar producer and 8th largest sugar consuming country in the world. Sugarcane is grown on approximately 1.2mln hectares. The industry witnessed surplus sugar production during FY17, which resulted in depressed prices and a significant pile up of sugar stocks at end Sept-17. Sugar production decreased to 6.5mln tons during FY18 in comparison to 7mln tons in FY17. The over supply situation persisted in FY18 and prices remained under pressure.

Relative Position Popular Sugar Mills contributes approximately 1.5% to total sugar production in Pakistan, keeping line with other average producers. Whereas, large players supply approximately 6% of the total sugar produced.

Revenues Popular Sugar Mills generates revenue from refined sugar (89%), molasses (6%) and bagasse (2%). During FY18, refined sugar was sold 77% in the local market and 12% in the export market. The Company has received an export subsidy of PKR 101mln in FY18. Popular Sugar Mills revenue posted a growth of 6%, clocking in at PKR 3.2bln in FY18. This growth was due to increase in sales volumes.

Margins In FY18, the Company's gross margins have marginally declined (FY18: 8%, FY17: 9%) due to lower market prices and recovery rates in comparison with the previous years. However, the margins remained in line with industry. The Company was able maintain its operating costs resulting in stable operating margins (FY18: 6%, FY17: 6%). Net profits margins remains stable (FY18: 3%).

Sustainability Going forward, the Company is eyeing on increasing its revenue base, keeping it in line with the enhanced production capacity. However, the increase will be dependent on the sugar industry dynamics in the coming year. Meanwhile, BMR activities carried out are expected to increase bagasse savings in the coming year.

Financial Risk

Working Capital Stability in inventory levels and receivable days reduced the net working capital days to 41 days in FY18 (FY17: 47 days). During FY18, the Company has partially improved its debt mix; however, further improvement is required.

Coverages Popular Sugar Mills interest coverage has shown slight improvement (FY18: 2.4x, FY17: 2.3x) in response to reduced short term borrowings and improved free cash flows. As a result, the Company's total coverages have improved to 1.4x in FY18 (FY17: 0.7x).

Capitalization Popular Sugar Mills is characterized by modest leveraging of 35%. The Company's total debt stood at PKR 1.2bln at end of FY18. Major portion of the debt (68%) comprises short term borrowings (PKR 804mln). Further loan of PKR 200mln was taken during the year to improve the mismatch in the Company's debt mix. Long-term loans amounts to PKR 378mln at the end of Sept '18.



Popular Sugar Mills Limited

BALANCE SHEET		30-Sep-18	30-Sep-17	30-Sep-16	30-Sep-15
		Annual*	Annual	Annual	Annual
1	Non-Current Assets	3,270	3,070	2,202	2,166
1.1	Investments (Incl. Associates)	3	3	-	-
1.1.1	Equity	-	-	-	-
1.1.2	Debt Securities	-	-	-	-
1.1.3	Other Investments	3	3	-	-
1.2	Current Assets	1,328	1,441	452	492
1.2.1	Inventory	588	608	74	260
1.2.2	Trade Receivables	77	68	54	15
1.2.3	Others	662	765	324	216
1.3	Total Assets	4,601	4,514	2,654	2,658
2	Debt	1,179	1,135	531	765
2.1.1	Short-Term (STB)	804	547	121	138
	Long-term (Incl. Current Maturity of Long-Term				
2.2.2	Debt - CMLTD)	376	588	410	627
2.1	Other Short-Term Liabilities	790	871	271	315
2.2	Other Long-Term Liabilities	409	372	217	173
3	Shareholder's Equity	2,223	2,137	1,635	1,405
4	Total Liabilities & Equity	4,601	4,514	2,654	2,658

INCOME STATEMENT

1	Turnover	3,239	3,043	2,969	2,257
2	Gross Profit	271	269	479	214
3	Other Income/(Expense)	19	16	16	20
4	Financial Charges	(112)	(102)	(82)	(119)
5	Net Income	86	97	231	196

Cashflow Statement

1	EBITDA	322	317	493	256
2	Free Cashflow from Operations (FCFO)	265	235	451	208
3	Net Cash changes in Working Capital	265	235	451	208
4	Net Cash from Operating Activities	173	(178)	372	(85)
5	Net Cash from Investing Activities	(200)	(281)	(127)	(43)
6	Net Cash from Financing Activities	84	458	(233)	107
7	Net Cash Generated during the period	56	(2)	12	(21)

Ratio Analysis

1	Performance				
1.1	Turnover Growth (same period last year)				
1.2	Gross Margin	8.4%	8.8%	16.1%	9.5%
1.3	Net Margin	2.7%	3.2%	7.8%	8.7%
1.4	ROE	3.9%	4.6%	14.1%	14.0%
2	Coverages				
	Debt Service Coverage (x) (FCFO/Gross				
2.1	Interest+CMLTD+Uncovered STB)	-0.8	3.3	3.5	3.0
2.2	Interest Coverage (x) (FCFO/Gross Interest)	2.4	2.3	5.5	1.8
	Debt Payback (Years) (Total Lt.Debt (excluding				
2.3	Covered Short Term Borrowings) / FCFO)	1.0	1.7	0.8	1.9
3	Liquidity				
	Net Cash Cycle (Inventory Days + Receivable				
3.1	Days - Payable Days)	41	56	3	33
3.2	Short-term Trade Leverage (1- (STB)/ Net Trade				
	Assets OR (Liabilities))	-24%	-69%	-17%	14%
3.3	Short-term Total Leverage (Net Current Assets -				
	STB) / Current Assets	-20%	-19%	13%	8%
4	Capital Structure				
4.1	Capital Structure (Total Debt/Total Debt+Equity)	35%	35%	25%	35%

* Unaudited

Credit Rating Scale & Definitions

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 Ratings		Short Term Ratings	
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	A1+	The highest capacity for timely repayment.
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.	A1	A strong capacity for timely repayment.
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.	A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial 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.	A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
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	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
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.	C	An inadequate capacity to ensure timely repayment.
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.		



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, a) some material identifiable event and/or b) deviation from expected trend. 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 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) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults, or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

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

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(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

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- 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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- (5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

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- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
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- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
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- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA’s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers’ associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst’s area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
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Monitoring and review

- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
- (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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