



The Pakistan Credit Rating Agency Limited

Rating Report

Unicol Limited

Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
17-Mar-2023	A	A1	Stable	Maintain	-
18-Mar-2022	A	A1	Stable	Maintain	-
19-Mar-2021	A	A1	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Pakistan's ethanol industry is largely export based owing to meager domestic consumption. The Country's ethanol exports witnessed ~10% during MY22 from 353,937MT during MY21 due to higher molasses production and better recovery. Prices in the global market have been high, on the back of spike in ethanol demand, despite unsteady economic conditions worldwide. Impact of high international ethanol prices was supplemented by devaluation of the Pakistani Rupee. Sugarcane production in Pakistan during MY22 improved, as domestic distilleries posted stable profits. Going forward, the ethanol industry's margins are expected to remain stable owing to increased ethanol prices, though raw material cost has also increased in the current sugar crushing season (MY23).

The ratings reflect Unicol Limited's strong business profile emanating from strong and stable margins, and the export-oriented nature of the ethanol industry. Additionally, the ratings draw strength from the Company's association with three strong business Groups: Ghulam Faruque Group, Amin Bawany Group, and Hasham Group. Robust clientele provides an edge in the export market. Unicol has been able to enhance its efficiency through consistently investing in BMR. This has yielded positive results while augmenting the turnover, posting a growth of 6.4% during MY22. This, along with substantial increase in the profitability braces the Company's overall financial performance. The Company has an adequately leveraged capital structure supplemented by strong coverages and healthy working capital cycle. This kept the financial risk moderate. Strong governance framework and management practices bodes well for the Company's ratings.

The ratings are dependent on the Company's ability to sustain its margins and healthy coverages while maintaining the necessary cushion and discipline in working capital management. Amicably sustaining the relationship among shareholders remains crucial for the ratings. Significant deterioration in coverages will have a negative impact on ratings.

Disclosure

Name of Rated Entity	Unicol 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 Unicol Limited ('Unicol' or 'the Company') is a public unlisted company, incorporated in 2003

Background Unicol began its commercial operations in 2007. The distillery was setup as a joint venture among three sugar mills, namely, Faran Sugar Mills Ltd., Mehran Sugar Mills Ltd. and Mirpurkhas Sugar Mills Ltd. Later in 2014, Unicol also installed a Liquid Carbon Dioxide (LCo2) production plant. All the companies in JV agreement are listed on Pakistan Stock Exchange.

Operations Primary business activity of Unicol is to manufacture and sell ethanol and LCo2. The plant is located in Mirpurkhas, whereas, its head office is located on Beaumont Road, Karachi. The Company produces Anhydrous Ethanol (>99.9%), A-Grade Ethanol (>96%) and B Grade ethanol (>92%) with installed production standing at 160MT per day. Unicol produced 54,639MT of ethanol during MY22 (MY21: 54,888MT), with utilization of 98%. The Company also produces food-grade LCo2 of 99.9% purity level through sugarcane fermentation, with an installed production capacity of 72MT per day. Unicol produced 10,914MT of LCo2 during MY22 (MY21: 11,451MT), with utilization of 61% (MY21: 64%).

Ownership

Ownership Structure Unicol is a JV among three sugar mills, Faran Sugar, Mehran Sugar and Mirpurkhas Sugar, each holding an equal stake of ~33.33%

Stability Ownership seems stable. The sponsoring groups, Ghulam Faruque, Amin Bawany and Hasham, have a strong standing in various segments of economy.

Business Acumen Ghulam Faruque, Amin Bawany and Hasham groups are ranked amongst the leading industrial groups of the country with diversified interests in cement, packaging, sugar, construction, renewable energy and consumer goods segments.

Financial Strength The companies in the JV have strong financial strength derived from their operations. during Sep-22, the three companies had a cumulative assets base of ~PKR 25bln, supported by an equity base of ~PKR 8bln with a debt of ~ PKR 12bln They generated a revenue base of ~ PKR 20bln and posted a cumulative loss of ~PKR 1.5bln during Sep-22.

Governance

Board Structure Board of Directors comprises 7 members. There are 5 Non-Executive Directors, 1 Chief Executive and 1 Independent Director on the BoD. The three sponsoring companies have equal representation on the Company's Board.

Members' Profile The Company's Board comprises experienced individuals. Mr. Asif Qadir, Chairman of the Board, is an Independent Director. He has an overall experience of more than 4 decades and is also on the Board of Cherat Cement Ltd., Descon Oxychem Ltd., TriPack Films Ltd., Thal Ltd. and Liaqat National Hospital.

Board Effectiveness During MY22, four Board meeting were convened among members with meeting minutes being captured formally. The Board is assisted by Board Audit Committee, which is chaired by Mr. Asif Qadir. The Committee met four times during MY22.

Financial Transparency The Company has appointed EY Ford Rhodes as its external auditors. The firm has expressed an unqualified opinion on the financial statements of the Company for the year ended Sept-22. The firm has been appointed as the Company's auditor since inception.

Management

Organizational Structure The Company's organizational structure reflects clear reporting lines and is split between the production site and head office. The Company operates through seven functions; namely, operations, procurement, sales & marketing, finance, IT, internal audit and HR. All functional heads reports to the Company's CEO, who then reports to the BoD. However, HR, IT, procurement and internal audit functions are shared at the group level.

Management Team Management comprises experienced individuals. Mr. Aslam Faruque, CEO, has more than 25 years experience in sugar & ethanol industry. He's also CEO of Mirpurkhas Sugar Mills Ltd. He is supported by Mr. Mustapha Qaisar (COO), Mr. Saad Ali Khawaja (CFO) and Mr. M. Asad Siddiqui (Company Secretary).

Effectiveness Performance is discussed among the Directors on a weekly basis to review activity and operations. However, the Company has no formal management committees in place.

MIS The Company uses SAP software, installed and managed by a Group company, Zensoft Pvt. Ltd. Reports are submitted to senior management as per requirement.

Control Environment Internal audit function is placed at group level. It ensures compliance and efficiency by quarterly evaluations while reporting to Audit Committee.

Business Risk

Industry Dynamics Pakistan's ethanol industry is largely export based owing to meager domestic consumption. The Country's ethanol exports witnessed ~10% during MY22 from 353,937MT during MY21 due to higher molasses production and better recovery. Prices in the global market have been high, on the back of spike in ethanol demand, despite unsteady economic conditions worldwide. Impact of high international ethanol prices was supplemented by devaluation of the Pakistani Rupee. Sugarcane production in Pakistan during MY22 improved, as domestic distilleries posted stable profits. Going forward, the ethanol industry's margins are expected to remain stable owing to increased ethanol prices, though raw material cost has also increased in the current sugar crushing season (MY23).

Relative Position Based on the export revenue, Unicol has a market share ~12.5%.

Revenues The Company's revenue stream is export based, accounting for ~97% of total revenue during MY22. Sales revenue during MY22 stood at ~PKR 8.9bln (MY21: PKR 8.4bln), surging by ~6.4%. The growth in revenue was primarily due to increase in ethanol price in the export market and rupee depreciation. During 1QMY23, sales remain dominated by ethanol exports, posting growth of ~ 75% (1QMY23: PKR 3.9bln, 1QMY22: PKR 1.5bln). This was on the back of higher prices of ethanol and rupee depreciation.

Margins Despite increase in the cost of molasses, the Company margins remain on the higher end supported by better prices. Gross margin stood at ~ 28% during MY22 (MY21: ~14%). Similarly, operating margin posted grew (MY22: ~22%, MY21: ~9%) due to a trickledown effect, despite proportionately lower admin and selling expenses. Finance cost rose by ~99% to PKR 305mln in MY22, from PKR 153mln in MY21, due to higher effective short-term borrowings. Hence, Unicol posted a net income of PKR 1.3bln (MY21: PKR 502mln), translating into a dip in net margin (MY22: ~15%, MY21: ~6%). During 1QMY23, gross margin stood at ~36% (1QMY22: ~14%). Operating margins also declined resultantly to ~32% (1QMY22: ~8%). Finance costs increased to PKR 103mln during 1QMY23, from PKR 38mln during 1QMY22, on the back of higher borrowings. Resultantly, net income stood at PKR 1bln during 1QMY23 (1QMY22: PKR 70mln). Net margin stood at ~27% (1QMY22: ~5%).

Sustainability The Company has no major expansion activities planned, rather its main focus is to improve efficiency through BMR. The management has no plans of obtaining further loans and aim to retain profits, going forward.

Financial Risk

Working Capital The Company's net working capital days stood at 96 days in MY22 (MY21: 62 days) due to higher avg. inventory held days. Receivable days remain stable at 10 days due to efficient recovery management. All receivables are due from locally sold LCo2. Payable days also remain stable at 2 days. In1QMY23, the Company witnessed an improvement in net working capital days (1QMY23: 69 days,1QMY22: 113 days) owing to lower stocks accumulation. Borrowing cushion has stretched due to higher utilization of short-term lines.

Coverages FCFO stood at PKR 2bln in MY22 (MY21: 895mln). Finance cost rose to PKR 305mln in MY22 (MY21: PKR 153mln) due to higher interest rates. As a result, interest coverage grew to 7x (MY21: 6.4x) and total coverage to 6x (MY21: 3.8x). In 1QMY23, coverage ratios grew to 11x (1QMY22: 4.7x) and total coverage to 10.3x (1QMY22: 3.2x). This was on the back of improved FCFO (1QMY23: PKR 1.1bln, 1QMY22: PKR 161mln), despite higher finance cost (1QMY23: PKR 93mln, 1QMY22: PKR 35mln).

Capitalization The Company has a moderately leveraged capital structure represented through a debt-to-equity ratio of ~47% in MY22 (MY21: 37%). Total debt in MY22 stood at PKR 3bln (MY21: PKR 1.8bln) registered a growth of ~69%. Despite availing ERF from SBP, finance cost remains high. Leverage stood at 58% in 1QMY23 (1QMY22: 53%).



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

Uicol Limited Sugar	Dec-22 3M	Sep-22 12M	Dec-21 3M	Sep-21 12M	Sep-20 12M
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A BALANCE SHEET

1 Non-Current Assets	2,344	2,309	2,444	2,469	2,590
2 Investments	1,579	479	16	16	16
3 Related Party Exposure	-	-	4	1	30
4 Current Assets	6,812	4,256	4,468	2,775	3,065
<i>a Inventories</i>	2,508	3,043	1,847	1,271	1,229
<i>b Trade Receivables</i>	476	48	243	441	15
5 Total Assets	10,735	7,043	6,932	5,262	5,701
6 Current Liabilities	934	571	505	367	281
<i>a Trade Payables</i>	108	65	73	53	41
7 Borrowings	5,686	3,033	3,412	1,800	2,190
8 Related Party Exposure	-	-	-	-	-
9 Non-Current Liabilities	-	-	-	-	-
10 Net Assets	4,115	3,440	3,015	3,095	3,230
11 Shareholders' Equity	4,115	3,440	3,015	3,095	3,230

B INCOME STATEMENT

1 Sales	3,911	8,917	1,488	8,382	5,823
<i>a Cost of Good Sold</i>	(2,504)	(6,456)	(1,275)	(7,229)	(4,703)
2 Gross Profit	1,407	2,460	213	1,154	1,120
<i>a Operating Expenses</i>	(150)	(510)	(88)	(403)	(348)
3 Operating Profit	1,257	1,951	125	751	772
<i>a Non Operating Income or (Expense)</i>	(65)	(159)	(3)	(11)	(60)
4 Profit or (Loss) before Interest and Tax	1,192	1,792	123	740	713
<i>a Total Finance Cost</i>	(103)	(305)	(38)	(153)	(130)
<i>b Taxation</i>	(39)	(167)	(15)	(85)	(59)
6 Net Income Or (Loss)	1,050	1,320	70	502	524

C CASH FLOW STATEMENT

<i>a Free Cash Flows from Operations (FCFO)</i>	1,106	2,027	161	895	916
<i>b Net Cash from Operating Activities before Working Capital</i>	1,133	1,758	136	742	788
<i>c Changes in Working Capital</i>	(2,218)	(1,315)	(1,297)	324	(16)
1 Net Cash provided by Operating Activities	(1,085)	444	(1,161)	1,066	772
2 Net Cash (Used in) or Available From Investing Activities	(1,189)	(561)	(31)	(127)	(89)
3 Net Cash (Used in) or Available From Financing Activities	2,278	261	1,462	(1,025)	(578)
4 Net Cash generated or (Used) during the period	4	144	271	(86)	105

D RATIO ANALYSIS

1 Performance					
<i>a Sales Growth (for the period)</i>	75.4%	6.4%	-29.0%	43.9%	5.8%
<i>b Gross Profit Margin</i>	36.0%	27.6%	14.3%	13.8%	19.2%
<i>c Net Profit Margin</i>	26.9%	14.8%	4.7%	6.0%	9.0%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital / Sales)</i>	-28.4%	8.0%	-76.3%	14.5%	15.5%
<i>e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets / Equity)]</i>	111.2%	40.4%	9.2%	15.9%	15.5%
2 Working Capital Management					
<i>a Gross Working Capital (Average Days)</i>	71	98	117	64	67
<i>b Net Working Capital (Average Days)</i>	69	96	113	62	64
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	7.3	7.5	8.8	7.6	10.9
3 Coverages					
<i>a EBITDA / Finance Cost</i>	11.7	6.9	5.2	7.0	8.2
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	10.3	6.0	3.2	3.8	4.9
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Fin Cost)</i>	0.0	0.0	0.3	0.2	0.2
4 Capital Structure					
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	58.0%	46.9%	53.1%	36.8%	40.4%
<i>b Interest or Markup Payable (Days)</i>	81.4	75.4	94.2	60.4	70.9
<i>c Entity Average Borrowing Rate</i>	9.2%	8.4%	4.4%	4.8%	5.2%

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.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
AA-	
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.
A-	
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.
BBB-	
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.
BB-	
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.
B-	
CCC	
CC	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.
C	
D	Obligations are currently in default.

Scale	Short-term Rating 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 conditions.
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 surveil 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

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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

- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (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 | Clause 11-(A)(p).
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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)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

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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