

Date

05-Apr-24

Analyst

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Applicable Criteria

- Methodology | Corporate Rating | Jul-23
- Methodology | Correlation Between Long-term & Short-term Rating Scales | Jul-23
- Methodology | Rating Modifiers | Apr-23

Related Research

- Sector Study | Sugar | Aug-23

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PACRA Maintains Entity Ratings of Noon Sugar Mills Limited

Rating Type	Entity	
	Current (05-Apr-24)	Previous (05-Apr-23)
Action	Maintain	Maintain
Long Term	BBB+	BBB+
Short Term	A2	A2
Outlook	Stable	Stable
Rating Watch	-	-

The Pakistani sugar sector, recognized as the second most substantial agro-based industry within the nation, encompasses 91 mills with a collective processing capacity of roughly 80–90 million metric tons. The season ended with a sugar output of ~6.6 million tons, a ~16% decrease from the previous year's ~7.9 million tons due to severe floods that damaged the crop and shortened the harvesting period. Despite the lower crop, the country had sufficient sugar stocks to meet the annual demand, owing to the large carryover from the previous year. Anticipated water scarcity is projected to precipitate a significant ~13.7% contraction in the forthcoming sugarcane supply for MY24, ascribed to a decrement in cultivated area and yield.

The ratings reflect Noon Sugar Mills Limited's ('Noon Sugar' or 'the Company') diverse revenue stream, comprising the sales of sugar and ethanol segment. During MY'23, The Company generated sales from sugar segment ~55% (MY'22: 60%) from ethanol segment ~45% (MY'22: 40%). This diversification in revenue, provide the Company with a competitive advantage and mitigates industry-specific risks. During MY'23, the Company's sugarcane crushing decreased by 28% (MY'23; 0.807mlnMT, MY'22: 1.12mlnMT) attributed to decline in sugarcane cultivation and a shortened season duration. The decline in sugar production (MY'23; 75.7MT, MY'22: 104.7MT) and upswing in overall production costs, stemming from a substantial 33% increase in the minimum sugarcane support price along with inflation and markups, led to dip in profits (MY'23: 419mln, MY'22: 464mln). On the other hand, the Company's margins have improved, predominantly driven by the ethanol segment, with 75% (MY'22: 59%) of the gross profit attributed to the ethanol segment. The Company gross margin stood at (MY'23: 20%, MY'22: 13%) and net profit margin at (MY'23: 4.5%, MY'22: 3.9%).The financial risk profile of the Company is deemed adequate, as it is characterized by effective working capital management, strong coverages, and an adequacy leveraged capital structure. The company borrowing stood at (MY'23: 1,875mln, MY'22: 1,925mln) comprising 100% short-term borrowing, with an equity base at 2,086mln (MY'22: 1,733mln). A strong governance framework augurs well for the Company. Additionally, the Company is in the process of expanding its capacity, which bodes well for its future prospects.

The ratings are dependent on sustaining business margins, while maintaining stable financial risk profile. Any deterioration to revenue, margins, and/or cashflows will impact the ratings negatively. Meanwhile, improvement in capital structure will benefit the ratings.

About the Entity

Noon Sugar Mills Limited is primary engaged in manufacturing and sale of white refined sugar and ethanol exports. The Company has the capacity to crush 12,000 tons of sugarcane and can produce 130,000 liters of ethanol per day. Total sugar production during MY23's crushing season stood at 75,717MT with a sugar recovery rate of 9.37%. Majority shareholding is held by Noon family (~57%) through Ms. Tahia Noon and Mr. Salman Hayat Noon. Whereas, ~5% is held indirectly through Noon Industries Ltd., an associated company. The remaining shareholding is split between public institutions and the general public. The Company's Board is chaired by Mr. K. Iqbal Talib, whereas, Lt. Col. (R) Abdul Khaliq Khan heads the Company as the CEO. He is aided by a team of experienced professionals.

The primary function of PACRA is to evaluate the capacity and willingness of an entity to honor its obligations. Our ratings reflect an independent, professional and impartial assessment of the risks associated with a particular instrument or an entity. PACRA's comprehensive offerings include instrument and entity credit ratings, insurer financial strength ratings, fund ratings, asset manager ratings and real estate gradings. PACRA opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.