Press Release

VIS Reaffirms Entity Ratings of Chashma Sugar Mills Limited

Karachi, October 28, 2022: VIS Credit Rating Company Limited (VIS) has reaffirmed the entity ratings of Chashma Sugar Mills Limited (CSML) at 'A-/A-2' (Single A Minus/A-Two). Long-term rating of 'A-' signifies good credit quality with adequate protection factors. Risk may vary slightly from time to time because of economic conditions. Short-term rating of 'A-2' depicts good certainty of timely payment where liquidity factors are sound with good access to capital markets. Outlook on the assigned rating is 'Stable'. The previous rating action was announced on November 23, 2021.

The ratings assigned to CSML takes into account the company's association with Premier Group. The group has presence in sugar, ethanol, high-grade polypropylene, real-estate and distribution of consumer goods and bulk storage of agriculture produce. Business risk profile of sugar sector is high given inherent cyclicality in crop levels and raw material prices along with any adverse changes in regulatory duties. Given the projected higher crop coverage area and yields for the upcoming year, the balance of raw material demand and supply dynamics was expected to remain manageable. However, the recent catastrophic floods are likely to have an adverse impact on sugarcane availability. The ratings further take note of developments with regards to penalties imposed by CCP on certain sugar mills and legal proceedings for interim relief initiated by the subject company. However, in the meanwhile, uncertainty of the outcome would persist on the sector. The material impact of penalty imposed on CSML will be significant therefore VIS will continue to monitor further development in this matter. Furthermore, any negative decision by the court of law will be incorporated in the rating action accordingly.

The ratings incorporate extensive sponsors experience in the sugar sector, satisfactory operating track record and financial flexibility in view of diversified revenue stream. Revenue of the company has reported an uptick on account of higher annualized volumetric sale of both sugar and ethanol coupled with sizable increase in ethanol retail price. Further, the company experienced significant improvement in the gross margins in line with high sugar cane crushing resulting in increased capacity utilization and economies of scale, enhancement of sucrose recovery levels and higher ethanol process in the export market. The gross margins are expected to remain healthy going forward in line with expected improvement in recovery levels on account of recent BMR projects undertaken to minimize losses in the production process. Ratings draw strength from adequate liquidity position underpinned by improvement in cash flows; however, owing to sizable procurement of borrowings to fund BMR, investment in other ventures and higher working capital requirement in lieu of significant increase in inventory levels, FFO in relation to outstanding obligations and debt service coverage declined on a timeline. In addition, sizable capital is vested in new real estate venture initiated by CSML under its own banner coupled with equity investments and advances extended to associates for set up of food related business; the turnaround of all projects and the impact on company's financial risk profile will be ascertained over time. Stemming from financing procured for capital projects undertaken, leverage indicators have increased during the rating review period; the same continue to remain on a higher side in comparison to peers. Further, given there are capex plans in perspective, leverage indicators are slightly expected to slide upwards or at least remain at current levels. Ratings remain dependent on the cyclicality of sugarcane production and prices along with maintenance of threshold financial indicators and a favorable outcome of the imposed penalty wherein it does not materially impact the risk profile of the company.

For further information on this rating announcement, please contact Ms. Maham Qasim (042-35723411-13, Ext. 8010) and/or the undersigned at 021-35311861-66 (Ext. 207) or email at info@vis.com.pk.

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Applicable rating criterion: Corporates (August 2021)
https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf