Press Release

VIS Reaffirm Entity Ratings of JDW Sugar Mills Limited (JDWS)

Karachi, April 27, 2020: VIS Credit Rating Company Limited (VIS) has reaffirmed entity ratings of JDW Sugar Mills Limited (JDWS) at 'A/A-2' (Single A/Single A-Two). The long term rating signifies good credit quality with adequate protection factors. Risk factors are considered variable if changes occur in the economy. Short term rating of 'A-2' depicts good certainty of timely payment. Liquidity factors and company fundamentals are sound with good access to capital markets. Risk factors are small. Outlook on the assigned rating is 'Stable'. Previous rating action was announced on March 13, 2019.

The assigned ratings incorporate JDWS market position as the leading player in the country's sugar industry and significant experience of sponsors in the sugar and agriculture sector. Ratings also take into account strong corporate governance framework and professional management team. The company has longstanding relationships with growers alongwith focus on research activities in sugarcane development is a competitive advantage. Support functions have kept up pace with the growing scale of the institution. Ratings also reflect improvement in financial profile during MY19 and in the ongoing year and high business risk profile of the sugar sector.

The business risk profile of the sugar sector is considered high given the inherent cyclicality in crop levels and raw material prices. Moreover, distortion in the pricing mechanism of raw material prices and refined sugar also creates challenges for sugar mills. Given the decline in area under cultivation in MY19 and the ongoing year, sugar production has declined and prices have trended upwards. However, increase in profitability is expected to be limited (barring those players that have sizeable carryover stock) due to significant jump in sugar cane prices and decline in recovery ratio (Tiddi Dal pest attack) in the ongoing year. Business risk profile draws support from diversification in revenue streams achieved through forward integration into co-generation segment which has consistently contributed to profitability over the years. While the crushing season has largely ended, disruption in operations/sales due to coronavirus outbreak remains a business risk factor.

Despite sizeable increase in finance cost and impairment against investment in FPML, overall profitability was higher due to increase in revenues and improvement in margins. Going forward, the profitability of the company is expected to improve due to sizeable carryover stock carried at lower cost. Moreover, efficient procurement of sugar cane is expected to keep cost of production within manageable levels despite weakening expected in recovery ratio. Improving cash flows alongwith reprofiling of long-term debt is expected to improve debt servicing ability and cash flow coverages. While declining on a timeline basis, leverage indicators continue to remain on the higher side. Higher internal capital generation, reduction in stock levels and projected debt repayments are expected to result in gradual reduction in leverage indicators over the rating horizon.

For further information on this rating announcement, please contact Mr. Talha Iqbal (Ext: 213) or the undersigned (Ext: 306) at (021) 35311861-66 or email at info@vis.com.pk.

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Applicable Rating Criteria: Industrial Corporates (April 2019)
https://s3-us-west-2.amazonaws.com/backupsqlvis/docs/Corporate-Methodology-201904.pdf