

Press Release

VIS Revises Ratings of JDW Sugar Mills Limited

Karachi, March 13, 2019: VIS Credit Rating Company Limited (VIS) has revised the entity ratings of JDW Sugar Mills Limited (JDWSML) from 'A+/A-1' (Single A Plus/A-One) to 'A/A-2' (Single A/A-Two). The medium to long-term rating of 'A' denotes good credit quality with adequate protection factors. Moreover, the risk factors may vary with possible changes in economy. The short-term rating of 'A-2' denotes good certainty of timely payment coupled with sound company fundamental and liquidity factors. Outlook on the assigned ratings is 'Stable'. The previous rating action was announced on October 31, 2017.

The ratings assigned to JDWSML take into account its leading position in the sugar sector of the country with the highest installed sugar crushing capacity, consistent availability of sugarcane produce largely from own farms and relatively high sucrose recovery levels. In addition, the diversification in revenue streams achieved through forward integration into co-generation has enabled the company to partially withstand the impact of prevailing downturn in sugar prices. Co-generation revenues have provided support to the company's profitability. However, carryover sugar inventories in the industry are keeping the demand and prices under pressure leading to a timeline weakening of financial risk profile of the company despite recovery gains. The sizeable decline in sales and margins adversely impacted cash coverages and funds flow from operations with respect to debt obligations.

Weakening in demand and prices led to higher sugar inventory, an industry wide phenomenon, demanding higher short-term borrowings. Gearing and leverage indicators thus witnessed an increasing trend despite expansion of equity base. Management efforts to mitigate the impact of weak demand are ongoing and would be observed over timeline. Going forward, a reduction in stocks and a corresponding decrease in leverage is desirable to support the financial risk profile, strengthening of which may have an impact on the assigned ratings.

For further information on this rating announcement, please contact the undersigned at 021-35311861-70 or Mr. Maimoon Rasheed at 042-35723411-13.

Javed Callea
Advisor

Applicable rating criterion: Corporates (May 2016)
<https://www.vis.com.pk/kc-meth.aspx>

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