

Press Release

VIS Reaffirms Entity Ratings of Shahtaj Sugar Mills Limited

Karachi, June 05, 2025: VIS Credit Rating Company Limited (VIS) reaffirms entity ratings of Shahtaj Sugar Mills Limited ("SSML" or "the Company") at 'A-/A2' (Single A minus/A Two) with a "Stable" outlook. Medium to long term rating of 'A-' indicates good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy. Short term rating of 'A2' indicates a good likelihood of timely repayment of short-term obligations with sound short-term liquidity factors. Previous rating action was announced on June 14, 2024.

SSML was incorporated in Pakistan in 1965 as a public limited company. Its registered office is situated at West Wharf, Karachi. The Company is listed on Pakistan Stock Exchange Limited (PSX) and is engaged in the manufacture and sale of sugar with molasses and bagasse as its by-products. The Company is a part of the Shahnawaz Group, a conglomerate comprising five distinct entities: Shahtaj Sugar Mills Ltd., Shezan International Ltd., Shahtaj Textiles Ltd., Shahnawaz Pvt. Ltd., and Information Systems Associates Ltd. These companies are engaged in diverse sectors including sugar production, food processing, textiles manufacturing, automobiles, distribution, and integrated systems development.

Assigned ratings incorporate the business risk profile of the sugar sector in Pakistan, which is considered to be medium. The sector remains exposed to seasonal and cyclical production patterns, government intervention, procurement challenges, and sensitivity to price and interest rate risks. Sugarcane cultivation is geographically concentrated and time-bound, leading to raw material procurement pressures and high exposure to cost volatility. Regulatory developments, such as the discontinuation of the minimum support price policy, have altered procurement dynamics. While demand remains inelastic due to population growth and consumption by ancillary industries, competition for sugarcane remains high due to the clustering of mills near growing areas. Production and supply trends were impacted by weather-related disruptions and lower sucrose recovery during the 2024–25 crushing season. Inventory levels and export permissions influenced price dynamics during the review period. Lower-than-expected output has resulted in a domestic supply shortfall, which continues to affect industry fundamentals.

Assigned ratings also incorporate the financial risk profile of the Company for MY24 and 1QMY25. In MY24, the Company experienced a decline in profitability, primarily on account of operational and financial headwinds. These included elevated sugarcane procurement costs, subdued sugar prices, and increased finance costs associated with a high policy rate environment and expanded borrowing to fund the power project. The impact of these cost pressures was reflected in net margin compression, which continued into 1QMY25. Capital structure indicators weakened during the review period, with increased leverage resulting from higher bank borrowings utilized to finance the ongoing power project. Coverage metrics deteriorated in MY24 due to lower operating profits and a reported loss before tax. However, ratings are supported by an improvement observed in 1QMY25, supported by a decline in benchmark interest rates and, consequently, a reduction in finance cost. Liquidity position is now also adequate and commensurate with assigned ratings. Moreover, expected benefit from revenue diversification with the addition of a power segment also provides support to the financial risk profile going forward.

Going forward, ratings will remain sensitive to the Company's ability to sustain operational profitability, and to maintain adequate coverage and capitalization metrics. The impact of ongoing diversification efforts and the stability of regulatory policies will be key to financial stability. Sustained enhancement in liquidity and further improvement in the debt service coverage ratio will also remain important.

For further information on this rating announcement, please contact at 021-35311861-64 or email at info@vis.com.pk.

Applicable Rating Criteria:

Corporate Rating

<https://docs.vis.com.pk/docs/CorporateMethodology.pdf>

VIS Issue/Issuer Rating Scale

<https://docs.vis.com.pk/docs/VISRatingScales.pdf>

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REGULATORY DISCLOSURES					Annexure II
Name of Rated Entity	Shahtaj Sugar Mills Limited				
Sector	Sugar				
Type of Relationship	Solicited				
Purpose of Rating	Entity Ratings				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook/Rating Watch	Rating Action
	RATING TYPE: ENTITY				
	05-Jun-25	A-	A2	Stable	Reaffirmed
	14-Jun-24	A-	A2	Stable	Initial
Instrument Structure	N/A				
Statement by the Rating Team	VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.				
Probability of Default	VIS’ ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.				
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Due Diligence Meetings Conducted		Name	Designation		Date
		Mr. Waqar Ahmad	Chief Financial Officer (CFO)		23 rd May 2025
		Mr. AG Saqib	Deputy Manager (DM)		