



Directors' Report

On behalf of the Board, I am pleased to present the financial results for the quarter ended December 31, 2014.

Operation Highlights	2014-2015	2013-2014	Variation %
Season Started	08-12-2014	01-11-2013	-
Crushing Days	24	44	-
Crushing-M.Tons	230,908	428,770	-46.15%
Sucrose Recovery	10.57%	9.91%	+6.65%
Sugar Production-M.Tons	22,850	41,075	-44.37%
Molasses Production – M.Tons	8,130	17,980	-54.78%

Financial Highlights (Rupees in thousand except EPS)

Turnover	851,397	1,988,172	-57.18%
Profit before tax	81,515	105,131	-22.46%
Profit after tax	64,447	73,844	-12.73%
Earnings per share	2.01	2.31	-12.73%

The 2014-15 crushing campaign started amidst uncertainty and controversy. Depressed domestic and international sugar prices made it almost impossible for the mills to purchase sugarcane at the Provincial Government's fixed Minimum Support Price of Rs.182/40 kgs. The sugar industry therefore repeatedly requested the government to align the sugarcane support price with the selling price of sugar. It also voiced its position to the honourable high court. These unfortunate conditions and circumstances significantly delayed the start of the crushing season.

Eventually the Provincial Government decided to resolve the matter by agreeing to bring the cane prices in line with sugar prices at the revised rate of Rs.155/40 kgs, prompting the mills to immediately start the crushing season albeit at a much later date as compared to last year. Unfortunately, just a few days after the mills started crushing, the revised notification was withdrawn. The sugar mills however continued operating in the best national interest.

As further negotiations remained unsuccessful, the sugar mills approached the Honourable Supreme Court of Pakistan with their grievances and a petition has been admitted for regular hearing which will now be heard in the second week of February, 2015.

It was initially forecasted that the current season would have another bumper sugarcane crop, especially in the Sindh province. However, initials reports are suggesting that the overall crop could be 5-10% lower than last year, even though it is a bit early to determine the exact scenario. Any reduction in numbers will only reduce the huge carryover stock and surplus sugar which the country is already holding.

In order to address the issue of surplus production in the country, the Federal Government has allowed the export of 650,000 tons of sugar with a cash subsidy of Rs.8/kg and an inland freight subsidy of Rs.2/kg. Sadly, the mechanism for both these subsidies is still pending and no sugar

has been exported from Pakistan yet during this season. In addition, the worldwide surplus in the supply of sugar and the recent decline in oil prices have sent international markets spiralling downwards, resulting in sugar now being traded at below \$400 per ton. For comparison's sake, last year Pakistan was exporting at levels close to \$500 per ton, therefore it is very clear that exports are not viable at current prices without having the subsidies in place. During this period domestic sugar prices have also remained under pressure due to international and local fundamentals.

Following factors contributed to the profitability of the Company during the quarter:

- Share of profit from Unicol Limited amounted to Rs.43.64 Million.
- Income from Equities Portfolio amounted to Rs.19.29 Million showing an increase of Rs.7.92 Million during the corresponding period of 2013.
- Sucrose recovery at 10.57% compared to 9.91% during the same time last year depicted an improvement of 6.65%.
- Decline in molasses selling price by 28.92%.
- Reduction in turnover due to lower dispatches.

On a positive note, our plant has operated consistently throughout the current season. Capacity Utilization improved to 96% compared to 85% during the corresponding period of 2013. In addition, bagasse savings have also improved due to an increase in the efficiency of our operations.

More importantly, even though our sales volume remained low due to the delayed start of the plant, we were still able to maintain profits at levels similar to last year.

Unicol Limited

Operations at Unicol remained satisfactory. Both plants are operating efficiently and at full capacity gaining better yields and maintaining low energy costs. However, the fall in sugar and oil prices has also had a negative impact on the international ethanol market, which has largely eroded the profitability for the quarter. However, as Molasses prices have recently stabilized we hope that this will have a positive impact on the margins of ethanol prices which should bode well for the company's profitability for the rest of the year.

Future Outlook

We are confident that our sugar production for this year will be close to our highest recorded production levels of last year. The major positive is that our recovery shall Inshallah be higher as compared to last year as well as higher than the national average, thus giving us an inherent advantage in the industry. Another encouraging development is that Mehran has commenced supply of its surplus power to the national grid and our bottom line will get a boost on account of this new source of revenue stream.

We are anxiously waiting for the issuance of all the necessary notifications relating to export subsidies and as soon as the mechanism is in place we shall be in the export market.

Contribution from Unicol should also remain positive despite the heavy depreciation and financial charges due to the expansion. The plant operations are expected to remain robust and should yield positive results when the ethanol market rebounds.

Our investment Portfolio has been performing reasonably well and is expected to post even better results thanks to continued upward trend in the stock market index which is due to falling interest rates and better macro conditions primarily because of falling oil prices.

Even though the overall scenario in the sugar industry looks challenging, we are positive of a favourable outcome on the matter of sugarcane prices. Our diversification policy shall continue to enable us to post better results in the remaining part of the year.

On behalf of the Board of Directors



Mohammed Ebrahim Hasham
Chief Executive Officer

Karachi: January 28, 2015

CONDENSED INTERIM BALANCE SHEET

As at December 31, 2014

	Note	Un-audited Dec 31, 2014	Audited Sep 30, 2014
-----Rupees-----			
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	4	1,592,362,802	1,584,876,678
Long term investment	5	602,035,832	558,396,204
Long term deposits		1,055,400	1,055,400
		2,195,454,034	2,144,328,282
CURRENT ASSETS			
Biological assets		56,453,590	58,924,461
Stores and spare parts		83,758,431	62,222,707
Stock-in-trade		942,111,117	459,926,470
Trade debts - unsecured	6	36,319,857	42,871,351
Loans and advances - unsecured		40,565,310	34,340,982
Trade deposits and short term prepayments		30,108,415	28,286,701
Other receivables		4,487,859	4,697,979
Short term investments		560,988,576	487,902,312
Advance income tax		55,531,563	57,588,417
Cash and bank balances		141,185,034	33,192,734
		1,951,509,752	1,269,954,114
TOTAL ASSETS		4,146,963,786	3,414,282,396
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Issued, subscribed and paid-up capital		320,312,450	320,312,450
Reserves		1,437,766,747	1,331,935,000
		1,758,079,197	1,652,247,450
NON-CURRENT LIABILITIES			
Long-term financing - secured		390,463,294	318,348,217
Liabilities against assets subject to finance leases		17,099,857	22,592,870
Deferred liabilities		7,985,215	8,004,115
Deferred taxation		245,604,152	234,621,296
Provision for quality premium		119,290,919	119,290,919
Market committee fee payable		26,160,000	28,340,000
		806,603,437	731,197,417
CURRENT LIABILITIES			
Trade and other payables		910,173,678	288,028,701
Accrued mark-up		15,392,307	29,360,066
Short term borrowings - secured		434,263,765	457,972,745
Current portion of long term financing		137,976,188	135,892,855
Current maturity of liabilities against assets subject to finance lease		20,761,478	15,928,366
Provision for market committee fee		44,529,924	42,220,845
Sales Tax / F.E.D / S.E.D. payable		19,183,812	61,433,951
		1,582,281,152	1,030,837,529
CONTINGENCIES AND COMMITMENTS	7	-	-
TOTAL EQUITY AND LIABILITIES		4,146,963,786	3,414,282,396

The annexed notes from 1 to 11 form an integral part of these condensed interim financial statements.


Chief Executive Officer


Director

CONDENSED INTERIM PROFIT AND LOSS ACCOUNT

For the period ended December 31, 2014 (Un-Audited)

	Note	Dec 31, 2014	Dec 31, 2013
		-----Rupees-----	
Turnover		851,396,902	1,988,171,743
Less: Sales Tax / F.E.D		(48,191,073)	(126,564,874)
Turnover - net		<u>803,205,829</u>	<u>1,861,606,869</u>
Cost of Sales		(717,603,212)	(1,706,140,026)
Gross Profit		<u>85,602,617</u>	<u>155,466,843</u>
Distribution costs		(6,384,543)	(6,488,045)
Administrative expenses		(37,737,948)	(36,845,058)
Other operating expense		(3,051,642)	(6,460,256)
Other operating income		20,207,426	12,357,652
		<u>(26,966,707)</u>	<u>(37,435,707)</u>
Operating profit		<u>58,635,910</u>	<u>118,031,136</u>
Finance costs		(20,761,011)	(23,608,075)
Profit from an Associate		43,639,628	10,708,427
Profit before taxation		<u>81,514,527</u>	<u>105,131,488</u>
Taxation	9	(17,067,406)	(31,287,215)
Profit after tax		<u>64,447,121</u>	<u>73,844,273</u>
Earnings per share - basic and diluted		<u>2.01</u>	<u>Restated 2.31</u>

The annexed notes from 1 to 11 form an integral part of these condensed interim financial statements.


Chief Executive Officer


Director

CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME
For the period ended December 31, 2014 (Un-Audited)

	Dec 31, 2014	Dec 31, 2013
	-----Rupees-----	
Net profit for the year	64,447,121	73,844,273
Other comprehensive income		
Items to be classified to profit and loss account in subsequent periods		
Unrealised gain / (loss) on revaluation of investments	46,845,458	41,400,978
Reclassification to profit and loss account for gain on sale of investments	(5,460,832)	(813,812)
	41,384,626	40,587,166
Total comprehensive income for the period	<u>105,831,747</u>	<u>114,431,439</u>

The annexed notes from 1 to 11 form an integral part of these condensed interim financial statements.


Chief Executive Officer


Director

CONDENSED INTERIM CASH FLOW STATEMENT

For the period ended December 31, 2014 (Un-Audited)

	Dec 31, 2014	Dec 31, 2013
	-----Rupees-----	
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	81,514,527	105,131,488
Adjustemnts for non -cash items:		
Depreciation	31,376,705	28,221,266
Share of profit from an associate	(43,639,628)	(10,708,427)
Dividend Income	(13,484,034)	(8,607,065)
Provision for market committee fee	2,309,079	4,287,704
(Gain)on disposal of fixed assets	(535,963)	(281,539)
Realised gain on disposal of short term investments	(5,805,563)	(2,766,932)
Finance costs	20,761,011	23,608,075
Working Capital Changes	80,579,443	(226,562,940)
	71,561,050	(192,809,858)
Staff gratuity paid	(18,900)	(470,415)
Taxes paid	(4,027,696)	(3,428,571)
Finance costs paid	(34,728,770)	(31,641,363)
Long term deposits	-	(16,326,506)
Market committee fee paid	(2,180,000)	-
Net cash generated from operating activities	112,120,211	(139,545,225)
CASH FLOWS FROM INVESTING ACTIVITIES		
Fixed capital expenditure	(39,631,866)	(65,533,344)
Dividend received from short term investemnts	13,484,034	8,607,065
Short term investments	(132,173,736)	(55,493,127)
Proceeds from disposal of short term investemnts	106,277,659	61,223,120
Proceeds from disposal of operating fixed assets	1,305,000	650,000
Net cash used in investing activities	(50,738,909)	(50,546,286)
CASH FLOWS FROM FINANCING ACTIVITIES		
(Repayment) / receipt of long-term financing (net)	74,198,410	(33,750,000)
(Repayment) / receipt of short term loans (net)	(23,708,979)	336,812,802
(Repayment)/ Financing acquired against assets subject to finance lease (net)	(659,901)	(2,713,743)
Dividend paid	(3,218,532)	(329,422)
Net cash generated / (used) in financing activities	46,610,998	300,019,637
Net (decrease)/increase in cash and cash equivalents	107,992,300	109,928,126
Cash and cash equivalent at the beginning of the period	33,192,734	6,114,516
Cash and cash equivalents at the end of the period	141,185,034	116,042,642

The annexed notes from 1 to 11 form an integral part of these condensed interim financial statements.


Chief Executive Officer


Director

CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY

For the period ended December 31, 2014 (Un-Audited)

	Issued, Subscribed and Paid-up Capital	Reserves			Accumulated (Losses) / Profit	Total
		Capital Reserve	Revenue Reserve	Gain/(loss) on changes in fair value of available for sale investments		
-----Rupees-----						
Balance as at October 01, 2013	253,211,430	63,281,250	85,000,000	25,618,133	296,424,948	1,385,548,825
Profit for the period	-	-	-	-	73,844,273	73,844,273
Net Loss on revaluation of available for sale investments	-	-	-	40,587,166	-	40,587,166
Total comprehensive income for the year	-	-	-	40,587,166	73,844,273	114,431,439
Balance as at December 31, 2013	<u>253,211,430</u>	<u>63,281,250</u>	<u>85,000,000</u>	<u>66,205,299</u>	<u>370,269,221</u>	<u>1,499,980,264</u>
Balance as at October 01, 2014	320,312,450	63,281,250	85,000,000	90,537,834	1,093,115,916	1,652,247,450
Profit for the period	-	-	-	-	64,447,121	64,447,121
Net gain on revaluation of available for sale investments	-	-	-	41,384,626	-	41,384,626
Total comprehensive income for the year	-	-	-	41,384,626	64,447,121	105,831,747
Balance as at December 31, 2014	<u>320,312,450</u>	<u>63,281,250</u>	<u>85,000,000</u>	<u>131,922,460</u>	<u>1,157,563,037</u>	<u>1,758,079,197</u>

The annexed notes from 1 to 11 form an integral part of these condensed interim financial statements.


Chief Executive Officer


Director

Condensed Notes to the Financial Statements

For the period ended December 31, 2014

1. THE COMPANY AND ITS OPERATIONS

Mehran Sugar Mills Limited (the Company) was incorporated in Pakistan as a public limited company on December 22, 1965 under the Companies Act, 1913 (now Companies Ordinance, 1984). The shares of the Company are quoted on Karachi Stock Exchange. The Company is principally engaged in the manufacturing and sale of sugar. The registered office of the Company is situated at 14th Floor, Dolmen City Executive Tower, Marine Drive, Block 4, Clifton, Karachi. The mill of the Company is located at Distt. Tando Allahyar, Sindh.

2. STATEMENT OF COMPLIANCE

These condensed interim financial statements are unaudited and are being presented to the shareholders as required under Section 245 of the Companies Ordinance, 1984 and have been prepared in accordance with the requirements of the International Accounting Standard (IAS) – 34, "Interim Financial Reporting" and provisions of and directives issued under the Companies Ordinance, 1984. In case where requirements differ, the provisions of or directives issued under the Companies Ordinance, 1984 have been followed. These condensed interim financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Company's annual financial statements for the year ended September 30, 2014.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of these condensed interim financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended September 30, 2014.

	Un-audited Dec 31, 2014	Audited Sep 30, 2014
4. OPERATING FIXED ASSETS		
Opening written down value	1,522,440,753	1,424,307,615
Additions during the period	34,428,494	225,318,161
	<u>1,556,869,247</u>	<u>1,649,625,776</u>
Written down value of disposal during the period	769,037	6,138,857
	<u>1,556,100,210</u>	<u>1,643,486,919</u>
Depreciation charged during the period	31,376,705	121,046,166
	<u>1,524,723,505</u>	<u>1,522,440,753</u>
4.1 CAPITAL WORK-IN-PROGRESS		
Civil Works	9,134,834	40,000
Advance against supply of Plant & Machinery	52,254,463	56,145,925
Advance against Purchase of Land	6,250,000	6,250,000
	<u>67,639,297</u>	<u>62,435,925</u>

Condensed Notes to the Financial Statements

For the period ended December 31, 2014

		Un-audited Dec 31, 2014	Audited Sep 30, 2014
5.	LONG TERM INVESTMENT - Associated Company		
	Investment in related party	5.1 <u>602,035,832</u>	<u>558,396,204</u>

5.1 The Company holds 23,059,573 (Sep 30, 2014: 23,059,573) shares representing 33.33 (Sep 30, 2014: 33.33) percent of the total equity of Unicol Limited which is involved in the manufacturing and selling of industrial ethanol.

6. TRADE DEBTS - unsecured

Include an amount of Rs.14.519 million due from the GoS which was withheld by the GoS from the bills raised by the Company during the years 1981 to 1983, on account of a dispute regarding the quality of sugar. Consequently, the Company has withheld mark-up due to the GoS, amounting to Rs.6.192 million. Since then, the matter is under litigation and pending before the Honorable High Court of Sindh. The said amount has been fully provided as a matter of prudence as the case is pending for a considerable long period. Accordingly, the respective liability of mark-up due to the GoS was also written back.

7. CONTINGENCIES & COMMITMENTS

CONTINGENCIES

There is no significant change in the contingencies since the last audited annual financial statements for the year ended September 30, 2014.

COMMITMENTS

Commitments in respect of capital expenditure as on December 31, 2014 amounted to Rs. 63.827 million (Sep 30, 2014: Rs. 15.126 million).

Commitments in respect of operating lease rentals for farms as on December 31, 2014 amounted to Rs. 16.640 million (Sep 30, 2014: Rs. 25.35 million).

Commitments for ljarah rentals in respect of motor vehicles as on December 31, 2014 amounted to Rs. 1.736 million (Sep 30, 2014: Rs. 2.132 million).

Condensed Notes to the Financial Statements
For the period ended December 31, 2014

	Un-audited Dec 31, 2014	Un-audited Dec 31, 2013
8. TRANSACTIONS WITH RELATED PARTIES		
Sales	49,222,056	164,698,681
Expenses shared	247,720	239,006
Insurance premium	13,400,111	8,771,253
Provident fund contribution	1,740,276	1,456,993
Donation Paid	1,000,000	3,500,000
9. TAXATION		
Current	6,084,550	9,376,719
Deferred	10,982,856	21,910,496
	<u>17,067,406</u>	<u>31,287,215</u>

10. EVENTS AFTER BALANCE SHEET DATE

The Board of Directors in its meeting held on January 28, 2015 has declared an interim cash dividend of Re. 1.0 per share i.e. 10% (December 31, 2013: Re. 0.50 per share i.e. 5%).

11. GENERAL

These financial statements were authorized for issue on January 28, 2015 by the Board of Directors of the Company.

Previous period figures have been rearranged/regrouped wherever necessary to facilitate comparison.

Figures have been rounded off to the nearest rupee.


Chief Executive Officer


Director



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