Quarterly Report June 2016

DIRECTORS' REPORT

On behalf of the Board, I feel pleasure in presenting financial results for the period ended June 30, 2016.

Operational Highlights	2015-2016	2014-2015
Season Duration (Days)	105	108
Capacity Utilization	81.44%	83.50%
Sucrose Recovery	11.31%	11.42%
Sugar Production- M.Tons	106,400	108,136
Molasses production- M.Tons	38,604	39,027
Molasses Recovery	4.10%	4.12%

Financial Highlights	2015-2016	2014-2015
	(Rupees in Thousand except EPS)	
Turnover	6,106,667	3,118,021
Sales tax /F.E.D	430,841	165,460
Gross profit	740,119	576,170
Gross Profit margin	13.04%	19.51%
Profit before tax	624,095	412,645
Profit before tax margin	11.00%	13.98%
Net Profit after tax	489,852	329,080
Net Profit margin	8.63%	11.15%
Earnings per share	15.29	10.27

By the grace of Allah, our sucrose recovery at 11.31% was one of the highest recovery achieved by any sugar mill in the country. It was also historically our second highest recovery just behind the figure of 11.42% achieved in season 2014-2015.

The Sind sucrose recovery of 10.43% was around 8% lower than Mehran's. The overall recovery in Sind during the previous year was 10.46%.

The average national recovery was 10.07% which meant that Mehran's recovery was 12.31% higher than the national average giving us a comparative advantage in the industry.

During the year the price of sugarcane increased beyond the government stipulated minimum price due to competition amongst sugar mills for procurement. Luckily this price increase was absorbed due to a subsequent increase in sugar prices. A positive element is that the higher sugarcane prices would ultimately motivate growers to plant more sugarcane and improve the competitiveness compared to other crops in the region.

Following factors were primarily responsible for achieving healthy financial results;

- Increase in Turnover by 92%.
- Improvement in average selling price of sugar by 6.5%.
- Higher Share of Profit from Unicol Limited to Rs.103.91 million as compared to Rs. 60.06 million.
- Continual decline in the Discount Rate by the State Bank and lower reliance on short term

borrowings has reduced Financial Expenses to Rs. 84.76 million from Rs.125.74 million in the corresponding period of last year.

- Income from Supply of Power to the national grid also showed an improvement to Rs. 39.87 million as compared to Rs. 22.13 million in the previous period.
- Dividend Income from portfolio investments increased to Rs.45.92 million compared to Rs. 38.92 million in the previous year.

Mehran was able to achieve a turnover of Rs.6.0 billion which is highest in the history of the Company in the nine months period. We are aiming to achieve yet another milestone in terms of Turnover and Profitability by the end of the financial year.

Our Earnings per share at Rs. 15.29 is also a record for the nine months period. Similarly, during this period the company market capitalization crossed Rs. 5.5 billion for the first time in our 50 years history. This reflects the confidence of our shareholders in the present and future earning potential of the Company.

Power supplies to HESCO during the crushing season remained satisfactory and we supplied 5,158,832 units to the national grid. Entire payment towards power supply has been received. We appreciate the coordination of the regulatory authorities as well as HESCO in this regard.

The Retail Division has performed better than the corresponding period of last year. Three new products i.e. Moisture, Icing and Castor sugar were launched and are gaining market attention. The Retail Division has also gone through structural change whereby separate distributors have been appointed in 3 major cities instead of one distributor. This has resulted in a reduction in distribution costs, improved margins and a more specialized approach. The savings will allow the company to spend on further promotions and product development.

Progress on BMRE and Maintenance work has been satisfactory. The Capital Expenditure for the year is predominantly focused on making the plant more energy efficient by reducing the steam demand of the factory. Subsequently, efforts are being made to reduce the overall electrical load of the plant. Mehran is also installing a state of the art waste water treatment to ensure 100 percent compliance of all NEQS laws. We are confident that all these planned projects shall be commissioned before the start of the season 2016-2017.

INDUSTRY REVIEW

In order to dispose the surplus stock of sugar arising out of yet another healthy production, the Federal Government had announced an Export Policy. Till the period ended June 2016, 253,909 Tons of sugar was exported. Since the expert policy was time bound no further exports are allowed.

The recently announced Federal Budget has fixed the value of sugar at Rs.56/kg for levying GST. This tax will be payable at the rate of 8% and 10% for registered and unregistered buyers respectively. We feel this is a good step as it creates uniformity of tax rate for all sugar mills and creates a more transparent pricing formula between the industry and the government.

During this period global sugar prices have also rallied. Sugar is one of the few agriculture commodities whereby a fundamental shortage anticipated next year is driving international prices higher. The recent ban on Indian exports and news of drought in Thailand has meant that the white sugar market has seen tightness. The impact of this has also been felt in the domestic sugar markets of neighbouring Afghanistan and subsequently in our own domestic market. Higher prices shall lead to inventory gains and thus most mills holding stock should report positive fourth quarter numbers.

UNICOL LIMITED

The distillery operated satisfactorily during the period. Ethanol and CO_2 plants ran efficiently and at capacity. The profitability improved from Rs.100.57 million to Rs. 288.03 million during the current period. This was achieved largely due to better gross margins and reduction in financial charges due to the lower cost of borrowing.

The enhanced molasses storage capacity and the majority of molasses purchasing being during the first and second quarter would enable the company to safeguard itself against major price fluctuation and sustain its profitability for the remaining period of the year.

During this period, production at Unicol was 40,086 Tons as compared to 43,396 Tons in the same period last year.

Key financial data for the period are as under:

Key Highlights		June 2016	June 2015
Turnover	(Rs.'000)	**3,055,719**	3,336,962
Gross Profit	(Rs.'000)	**585,029**	476,742
Gross Profit margin	(%)	**19.15**	14.29
Net Profit	(Rs.'000)	**288,038**	100,571
Net Profit margin	(%)	**9.43**	3.01
Earnings per share	(Rs.)	**4.16**	1.45

The Unicol BOD in the half year meeting on May 19, 2016 has approved an investment in a new 48 tons/day CO_2 plant. The project cost for the same shall be Rs. 300 million. The expanded capacity of the CO_2 business shall be 72 Tons/- day.

UNIENERGY LIMITED

Work on UniEnergy has been progressing steadily with the lessened land registered in the name of the company. We have also received formal approval for commencing grid studies.

However the present tariff had expired by the end of June 2016. On July 19, 2016 NEPRA has conducted a hearing for determining the new tariff. We await anxiously the final decision of NEPRA in terms of the new tariff. Discussions on financing arrangements for funding the project are ongoing with the lead banker which is Meezan Bank Limited.

Mehran so far has injected Rs. 20 million which accounts for 20% of the equity of the new company.

FUTURE OUTLOOK

Initial survey for the forthcoming crop indicates that sugarcane output is expected to remain similar to last year's figures however there is expected a 5-10 percent increase in the Punjab province.

Considering this we expect the total crop to be slightly higher than last year.

Higher International and subsequent domestic sugar prices have meant that the industry can make healthy payments to the farmer. This should allow decent margins for both miller and farmer in the upcoming season.

Mehran's focus on crop Development and improvement in the field has been ongoing. As a part of bringing improvement in farming techniques, we have decided to work on a long term basis with consultants from Mauritius Sugar Research Institute (MSRI). The MSRI team first visited our mill in March 2016 and are coming back with their soil specialists for a follow up visit in the first week of August 2016. The aim is to study ways and means of improving our farming and work closely with our grower. They also provide training to our cane staff for inculcating the same in the field.

As regards the high pressure cogeneration project, our technical consultants have submitted a Concept Note highlighting options regarding the size and scale of the proposed project. The same is now under evaluation stage.

Sugar prices have shown steady upward trend throughout the year. We continue to sell on regular basis and this policy is expected to improve our year end profitability.

Unicol Limited continues to contribute regularly and positively.

Management appreciates the contribution of its team in attaining positive results and look forward to sustainable efforts in the future.

On behalf of the Board of Directors

Mohammed Ebrahim Hasham
Chief Executive Officer

Karachi: July 30, 2016

CONDENSED INTERIM BALANCE SHEET

As at June 30, 2016

ASSETS	Note	(Un-audited) Jun 30, 2016 Rupees	(Audited) Sep 30, 2015 Rupees
NON-CURRENT ASSETS			
Property, plant and equipment	4	1,888,229,137	1,649,074,339
Long-term investments	5	753,216,654	652,364,814
Long-term deposits		1,055,400	1,055,400
		2,642,501,191	2,302,494,553
CURRENT ASSETS			
Biological assets		21,526,947	48,829,127
Stores and spare parts		72,738,281	95,909,067
Stock-in-trade		1,641,603,085	1,462,632,972
Trade debts - unsecured		38,634,840	42,097,026
Loans and advances - unsecured	6	132,567,300	35,378,818
Trade deposits and short term prepayments		10,049,103	9,817,974
Other receivables		5,527,811	6,835,115
Short term investments		897,229,292	725,422,253
Advance income tax		-	9,970,709
Cash and bank balances		133,080,221	45,554,037
		2,952,956,880	2,482,447,098
TOTAL ASSETS		5,595,458,071	4,784,941,651
EQUITY AND LIABILITIES			
Share Capital and Reserves			
Issued, subscribed and paid-up capital		320,312,450	320,312,450
Reserves		1,972,165,670	1,541,452,888
		2,292,478,120	1,861,765,338
Non-Current Liabilities			
Long-term financing - secured		346,734,506	273,232,712
Liabilities against assets subject to finance leases		24,883,392	18,396,667
Deferred liabilities		8,899,247	9,414,422
Deferred taxation		348,660,887	289,248,760
Provision for quality premium		119,290,919	119,290,919
Market committee fee payable		70,334,256	26,160,000
		918,803,207	735,743,480
Current Liabilities			
Trade and other payables	7	1,240,055,776	1,670,966,579
Accrued mark-up		21,149,888	11,525,018
Short term borrowings - secured		769,113,396	190,888,771
Current portion of long term financing		165,325,269	151,020,204
Current maturity of liabilities against assets subject to finance lease		16,488,415	14,866,318
Provision for market committee fee		9,406,263	47,329,553
Current Portion of Market Committee fee payable		3,757,652	2,180,000
Income tax payable		54,250,374	-
Sales Tax / F.E.D / S.E.D. payable		104,629,711	98,656,389
		2,384,176,744	2,187,432,833
Contingencies and Commitments	8	-	-
TOTAL EQUITY AND LIABILITIES		5,595,458,071	4,784,941,651

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 June 30, 2016 (Un-Audited)

	Nine months ended		Quarter ended	
	Jun 30, 2016 Rupees	Jun 30, 2015 Rupees	Jun 30, 2016 Rupees	Jun 30, 2015 Rupees
Turnover - net	6,106,666,864	3,118,021,418	3,186,615,850	1,647,009,033
Less: Sales Tax / F.E.D	(430,840,844)	(165,459,653)	(232,722,884)	(89,930,238)
Turnover - net	5,675,826,020	2,952,561,765	2,953,892,966	1,557,078,795
Cost of sales	(4,935,707,380)	(2,376,391,293)	(2,826,352,239)	(1,376,278,593)
Gross profit	740,118,640	576,170,472	127,540,727	180,800,202
Distribution costs	(32,200,776)	(32,448,943)	(7,851,525)	(9,076,914)
Administrative expenses	(146,836,886)	(134,825,882)	(46,801,887)	(48,341,935)
Other operating expense	(52,329,396)	(32,151,249)	-	(2,577,336)
Other operating income	96,197,957	101,588,780	51,028,876	47,875,675
	(135,169,101)	(97,837,294)	(3,624,536)	(12,120,510)
Operating profit	604,949,539	478,333,178	123,916,191	168,679,692
Finance costs	(84,765,694)	(125,745,244)	(33,389,650)	(61,504,708)
Share of profit from an associate – net of tax	103,911,433	60,057,790	27,342,265	-
Profit before taxation	624,095,278	412,645,724	117,868,806	107,174,984
Taxation	(134,243,572)	(83,565,335)	(3,242,892)	(4,823,767)
Profit after taxation	489,851,706	329,080,389	114,625,914	102,351,217
Earnings per share- Basic and diluted	15.29	10.27	3.58	3.20

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 June 30, 2016 (Un-Audited)

	Nine months ended		Quarter ended	
	Jun 30, 2016 Rupees	Jun 30, 2015 Rupees	Jun 30, 2016 Rupees	Jun 30, 2015 Rupees
Net profit for the period	489,851,706	329,080,389	114,625,914	102,351,217
Other comprehensive income				
Items to be classified to profit and loss account in subsequent periods				
Unrealised gain on revaluation of investments	49,708,571	50,039,425	51,091,507	53,931,741
Reclassification to profit and loss account for (gain) / loss upon sale of investments - net	27,286,212	(21,645,335)	18,345,792	(8,739,408)
	76,994,783	28,394,090	69,437,299	45,192,333
Total comprehensive income for the period	566,846,489	357,474,479	184,063,213	147,543,550

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 June 30, 2016 (Un-Audited)

	Jun 30, 2016 Rupees	Jun 30, 2015 Rupees
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	624,095,278	412,645,724
Adjustment for non-cash items:		
Depreciation	102,741,115	96,482,358
Share of profit from an associate	(103,911,433)	(60,057,790)
Provision for market committee fee	9,406,263	9,468,708
Gain on disposal of fixed assets	(3,424,133)	(1,095,148)
Realised gain on disposal of short term investments	(252,244)	(38,500,545)
Finance costs	84,765,694	125,745,244
	89,325,262	132,042,827
Working capital changes	(625,073,808)	(649,515,813)
	(535,748,546)	(517,472,986)
Staff gratuity paid	(515,175)	(137,144)
Market Committee fee	(1,577,652)	(2,180,000)
Taxes paid	(23,211,462)	(15,271,050)
Finance costs paid	(75,140,824)	(109,523,621)
Net cash uesd in operating activities	(12,098,381)	(231,939,077)
CASH FLOWS FROM INVESTING ACTIVITIES		
Fixed capital expenditure	(345,073,726)	(138,405,545)
Short term investments	(698,904,759)	(546,753,906)
Proceeds from disposal of short term investements	620,005,447	323,596,118
Proceeds from disposal of operating fixed assets	6,601,946	2,803,849
Net cash used in investing activities	(417,371,092)	(358,759,484)
CASH FLOWS FROM FINANCING ACTIVITIES		
Long-term financing - net	87,806,859	3,555,169
Short term loans - net	578,224,625	768,704,503
Financing against assets subject to lease (net)	8,108,822	(3,553,908)
Dividend paid	(157,144,649)	(96,609,013)
Net cash generated from financing activities	516,995,657	672,096,751
Net increase in cash and cash equivalents	87,526,184	81,398,190
Cash and cash equivalent at the beginning of the period	45,554,037	33,192,734
Cash and cash equivalents at the end of the period	133,080,221	114,590,924

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 June 30, 2016 (Un-Audited)

	Issued, Subscribed and Paid-up Capital	Reserves					Total
		Capital Reserve	Revenue Reerve	Gain/(loss) on changes in fair value of available for sale investments	Acturial gain/(loss) on defined benefit plan	Accumulated (Losses) / Profit	
	Rupees						
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	-	-	-		-	329,080,389	329,080,389
Net gain on revaluation of available for sale investments	-	-	-	28,394,090	-	-	28,394,090
Total comprehensive income for the Period	-	-	-	28,394,090	-	329,080,389	357,474,479
Final dividend for the year ended September 30, 2014 @ Re. 1 per share	-	-	-	-	-	(32,031,245)	(32,031,245)
Interim dividend for the year ended September 30, 2015 @ Re.1 per share	-	-	-	-	-	(32,031,245)	(32,031,245)
Interim dividend for the year ended September 30, 2015 @ Re.1.25 per share	-	-	-	-	-	(40,038,800)	(40,038,800)
Balance as at June 30, 2015	320,312,450	63,281,250	85,000,000	118,931,924	-	1,318,095,015	1,905,620,639
Balance as at October 01, 2015	320,312,450	63,281,250	85,000,000	46,860,781	(667,641)	1,346,978,499	1,861,765,338
Final dividend for the year ended September 30, 2015 @ Re. 1.5 per share	-	-	-	-	-	(48,047,287)	(48,047,287)
Interim dividend for the year ending September 30, 2016 @ Re.1.25 per share	-	-	-	-	-	(40,039,142)	(40,039,142)
Interim dividend for the year ending September 30, 2016 @ Re.1.5 per share	-	-	-	-	-	(48,047,278)	(48,047,278)
Profit for the Period	-	-	-	-	-	489,851,706	489,851,706
Net gain on revaluation of available for sale investments	-	-	-	76,994,783	-	-	76,994,783
Total comprehensive income for the Period	-	-	-	76,994,783	-	489,851,706	566,846,489
Balance as at June 30, 2016	320,312,450	63,281,250	85,000,000	123,855,564	(667,641)	1,700,696,498	2,292,478,120

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 June 30, 2016 (Un-Audited)

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. BASIS OF PRESENTATION

These interim condensed financial statements are un-audited and are being submitted to the shareholders as required under Section 245 of the Companies Ordinance, 1984 and have been prepared in accordance with the requirements of International Accounting Standard 34 'Interim Finical Reporting' as applicable in Pakistan. These interim condensed financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the financial statements of the Company for the year ended September 30, 2015.

3. 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, 2015. Also we have adopted the amendments and interpretations of IAS and IFRS which are effective during the period but did not have any effect to these condensed interim financial statements.

	Un-audited Jun 30, 2016	Audited Sep 30, 2015
4. OPERATING FIXED ASSETS		
Opening written down value	1,601,164,852	1,522,440,753
Additions during the period	299,631,309	211,414,619
	1,900,796,161	1,733,855,372
Written down value of disposal during the period	3,177,813	2,545,204
	1,897,618,348	1,731,310,168
Depreciation charged during the period	102,741,115	130,145,316
	1,794,877,233	1,601,164,852
4.1 CAPITAL WORK-IN-PROGRESS		
Civil Works	38,264,760	1,764,127
Advance against supply of Plant & Machinery	55,087,144	46,145,360
	93,351,904	47,909,487

CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the period ended June 30, 2016 (Un-Audited)

	Un-audited Jun 30, 2016	Audited Sep 30, 2015
5. LONG TERM INVESTMENT		
Associated Companies		
Unicol Limited	705,874,409	652,364,814
UniEnergy Limited	19,999,980	-
	725,874,389	652,364,814

5.1 The Company holds 23,059,573 (September 30, 2015: 23,059,373) shares representing 33.33 (Sep 30, 2015: 33.33) percent of the total equity of Unicol Limited which is involved in the manufacturing and selling of industrial ethanol.

5.2 The Company holds 2,500,000 shares representing 25 percent (including 5% indirect holding) of the total equity of UniEnergy Limited, an unquoted Company, which is involved in the wind power project.

6. LOANS AND ADVANCES-UNSECURED

Includes an amount of Rs. 53.39 million representing Federal Excise Duty paid on the basis of advance receipts from customers.

7. TRADE AND OTHER PAYABLES

	Un-audited Jun 30, 2016	Audited Sep 30, 2015
Creditors	152,523,123	47,052,566
Accrued expenses	243,084,386	247,734,507
Advances from customers	720,800,357	1,257,969,750
Workers' Profit participation fund	26,070,608	18,124,594
Workers' Welfare fund	48,770,021	36,781,789
Unclaimed Dividend	23,771,816	44,782,759
Other liabilities	25,035,465	18,520,614
	1,240,055,776	1,670,966,579

8. CONTINGENCIES & COMMITMENTS

CONTINGENCIES

There is no significant change in the contingencies since the last audited annual financial statements for the year ended September 30, 2015.

COMMITMENTS

Commitments in respect of capital expenditure as on June 30, 2016 amounted to Rs. 827.1 million (Sep 30, 2015: Rs. 710.73 million).

9. TRANSACTIONS WITH RELATED PARTIES

	Jun 30, 2016 Un-audited	Jun 30, 2015 Un-audited
Sales	354,168,998	318,663,619
Expenses shared	827,862	729,267
Donation Paid	6,000,000	6,500,000
Provident fund contribution	6,431,911	5,806,118

10. EVENTS AFTER BALANCE SHEET DATE

The Board of Directors in its meeting held on July 30, 2016 has declared an interim cash dividend of Rs. 1.5 per share i.e. 15% (June 30, 2015: Re. 1.25 per share i.e.12.5%).

11. GENERAL

These financial statements were authorized for issue on July 30, 2016 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

CELEBRATING 50 YEARS

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