

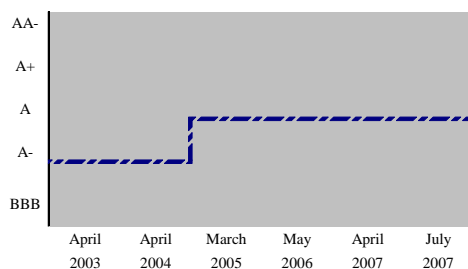
## AL-ABBAS SUGAR MILLS LIMITED (AASML)

### RATINGS (JULY 2007)

#### AL-ABBAS SUGAR MILLS LIMITED

	NEW	PREVIOUS
<b>ENTITY</b>		
Long Term	A	A
Short Term	A1	A1
<b>TFC</b>		
Secured, privately placed (PKR 750mln)	A+	-

### L.T. ENTITY RATING HISTORY



### FINANCIAL DATA

#### PKR (mln)

	30-Sep-06	30-Sep-05
Total Assets	1,678.5	1,681.7
Equity	652.4	699.6
Profit after Tax	4.9	63.4
ROA (%)	0.29	3.77
ROE (%)	0.75	9.07
Total Debt/Equity (%)	96.3	43.07

### ANALYSTS

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### TFC Issue:

The company is in the process of issuing a secured privately placed TFC of PKR 750mln including a green shoe option of PKR 250 for a tenure of 6 years at a rate of 6 month KIBOR + 175bps. The proceeds of the TFC would be utilized to finance ongoing working capital requirements, in addition to retiring a portion of existing short-term debts. The issue is secured by first pari passu charge on the present and future fixed assets of AASML with 25% margin. Considering the secured nature of the instrument, it has been assigned a one-notch higher rating than the entity rating.

### ASSESSMENT

- AASML's ratings reflect the company's sound capital structure, operational efficiency and management quality. The ratings also recognize diversification in the company's operations – sugar and distillery – that has helped to some extent in managing relatively high business risk, an inherent feature of the cyclical nature of sugar business.
- The company registered a significant (36%) turnover growth during FY06 on the back of increased volume and product prices mainly in sugar division. The margins for sugar division remained largely stable. However, margins declined sharply in the distillery division. As a consequence, overall performance registered a substantial decline. The decline in distillery margins was primarily because of changed market for industrial alcohol, wherein with the removal of subsidies in EU, the company was gradually moving to non-EU markets. Additionally AASML faced problems in procuring molasses at competitive prices.
- The company has been successful in establishing demand for its industrial alcohol in non-EU markets at competitive prices, ensuring high margins. This has been reflected in the performance of distillery division during 1HFY07. The company currently has orders in hand for the whole FY07. AASML has also improved its molasses procurement system and the company is considering increase in its storage capacity to ensure timely availability of the core raw material. The growing pattern of orders from newly identified markets reinforces the earlier perception that distillery division would add more stability to its sugar operations.
- The demand for sugar in the country has shown persistent growth and has remained higher than domestic supply in the last few years. However, with encouraging results of the recently ended crushing season and availability of carry-over stocks, the rising sugar demand is expected to be met without any major reliance on imports. Meanwhile, international sugar prices, with higher output in major sugar producing countries, have declined recently. However, domestic industry is protected by 25% import duty. Any further reduction in international sugar prices or relaxation in import duty would put pressure on local prices, and, in turn, margins of sugar mills. However, given sufficient availability of sugar in the country and relatively reasonable end-consumer sugar prices – any reduction in duty is unlikely, unless local prices increase substantially. Over the years, AASML sugar division has shown stability in its operations. Going forward, though the trend is expected to be maintained, any such change may impact its performance negatively.

- During FY06, AASML swapped its high cost TFC, with low cost bank borrowings, helping to lower the finance cost. However, AASML has a predominantly short-term overall borrowing mix. The company's short-term borrowings are a function of its inventory levels. Given the company's low leveraged capital structure (the highest gearing at any time during FY06: 2 times), AASML retains sufficient borrowing capacity to finance any inventory built up in times of contingency. Nevertheless, the cash flows and coverages were adversely affected due to reduced profitability during FY06. However, these are improving on the back of improved performance prospects particularly in the distillery operations.

### KEY RATING DRIVERS

These ratings are dependent on the company's success in maintaining its recently revived performance mainly from the distillery operations. Any prolonged downturn in the industry resulting from either development in domestic or international markets would have negative implication for the ratings. At the same time, the ratings remain constrained by limited diversity in the company's operations.

### PROFILE

Al-Abbas Sugar Mills Limited (AASML), listed on the Karachi Stock Exchange (KSE), was incorporated in May 1991. The company operates a sugar plant and an Industrial Alcohol Distillery (IAD) located in Mirpurkhas, a district of lower Sindh. Al-Abbas group owns majority shareholding (around 50%) in AASML followed by Jahangir Siddiqui (JS) group. AASML has recently acquired 100% shareholding of Al-Abbas Industries Limited (AAIL) - engaged in the business of manufacture and sale of Medium Density Fiber Board, based on local wood, and Calcium Carbide and also has a 10MW power plant. The acquisition of AAIL has provided AASML diversification into non-sugar segments.