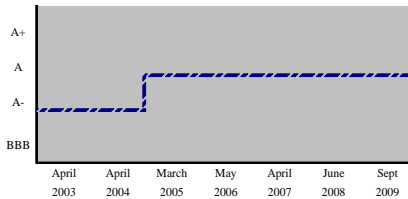


## AL-ABBAS SUGAR MILLS LIMITED (AASML)

### RATINGS (OCTOBER 2009)

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

### HISTORY – LT ENTITY RATING



### FINANCIAL DATA

PKR (mln)

	Jun-09*	Sep-08	Sep-07
Total Assets	4,380.6	3,768.7	2,728.6
Equity	988.4	869.8	801.9
Net Income	146.9	75.0	149.5
Gross Margins	16%	22%	8%
ROA %	2.5	1.9	5.4
ROE %	11.1	8.6	18.6
Total Debt/Equity (%)	223.2	205.5	131.6

\* Based on unaudited accounts for 9 months ended June 30, 2009

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### TFC Issue:

The company issued a secured privately placed TFC of PKR 750mln in Nov07. The instrument has tenure of 6 years and carries profit at rate of 6-month KIBOR plus 175bps. The principal is being redeemed in 10 semi-annual equal installments (PKR 75mln each), commenced in May09. The issue is secured by first pari passu charge on the present and future fixed assets of AASML with 25% margin. During FY08, AASML entered into cross currency swap agreement against the TFC amount of PKR 750mln with US component at PKR 62.7 (US \$ 11.9mln). The company would receive 6-month KIBOR and pay 6-month LIBOR plus 245bps, which is reset semi-annually. The swap would mature in Mar2011. The company has the option to unwind the agreement prior to Sep, 2010.

### RATING RATIONALE AND KEY DRIVERS

- The ratings reflect the company's ability to manage its business risk, amidst pressure of the sugar industry – seasonal as well as cyclical – owing to its diversified and efficient business operations, mainly sugar and distillery. Meanwhile, the newly acquired fiber board, ferro alloys and related businesses are still in development phase; the timing and extent of benefits to be accrued to the company is yet to be seen. Though these acquisitions have put pressure on the company's leveraging, overall financial profile of the company is expected to remain at an adequate level on account of relatively stable profitability and cash flows.
- The ratings are dependent on the company's ability to achieve optimal capacity utilization to attain the targeted volumetric growth while limiting any further increase in its leveraging. The sustainability of its key segment margins and streamlining of recently acquired businesses would remain critical. Meanwhile, any material deterioration in margins, and/or prolonged stress on cashflows would have negative implications on the ratings.

### ASSESSMENT

- In recent years, the availability of sugar has remained on higher side compared to demand due to better sugarcane crops and carryover stocks. The lower sugar production during FY09, because of constrained availability of sugar cane (evident from decreased cane acreage), resulted in higher sugar prices in the country. Meanwhile, international sugar prices, with relatively lower output in major sugar producing countries, have followed a steady upward trend. The substantial price increase led the government to step in for ensuring sugar to the end-consumers at reasonable price. The matter, requiring consensus of all major stakeholders, is yet to be settled. Sugar prices are expected to remain on the higher side in the upcoming crushing season owing to widening demand-supply gap on the back of expected lower sugar production, going forward.
- AASML managed to maintain its business volumes in an increasingly challenging economic environment during FY08. The company benefiting from the strength of its two key business units (sugar and distillery - constituting more than 90% of the company's revenue base) posted significantly higher gross margins. The performance of other recently acquired business units (MDFB, calcium carbide and Ferro alloys) remained constrained owing to rapidly changing business dynamics in respective units. Though increasing financial cost remained a drag on AASML's bottomline, the company, benefiting from higher gross margins, showed noteworthy improvement in profitability compared to last year's level (excluding the acquisition gain). During 9MFY09, AASML's profitability further improved (9MFY09: PKR 146mln, 9MFY08: PKR 77mln) on the back of higher margins in sugar business, though witnessed a decline as compared to its peers. Meanwhile, the ethanol business largely sustained its performance trend. However, other business, though relatively small, have yet to achieve meaningful breakeven.
- Going forward, the management while focusing to streamline the new business units would continue to strengthen its sugar and ethanol businesses. The company has acquired further storage capacity at Karachi Terminal Port. This would bring further, though marginal, efficiency in cost structure. Keeping in view the rising sugar and ethanol prices, the company's overall performance is expected to improve by capitalizing on existing demand-supply gap.
- AASML has implemented Enterprise Resource Planning (ERP) solution - Oracle financials - for better internal control and managing the growing business volume of the company. This is expected to improve the quality of MIS reporting.
- AASML's leveraging increased significantly following the acquisition of Al-Abbas Industries Limited in FY08. However, in the absence of any major new capex, leveraging is not expected to increase further. Moreover, the commencement of repayments of TFC in May'09 would drive down the company's gearing level gradually.
- AASML's overall cash flows came under pressure on account of subdued profitability in FY08. However, the cash flows, supported by better profits, have shown significant improvement during 9MFY09. Moreover, the coverages are expected to remain at an adequate level with overall improving cashflows.

### PROFILE

- Al-Abbas Sugar Mills Limited (AASML), listed on the Karachi Stock Exchange (KSE), was incorporated in May 1991. Al-Abbas group owns majority shareholding (~48%) in AASML followed by Jahangir Siddiqui (JS) group with 24% holding.
- AASML's BoD, comprising seven members including the CEO, consists of key sponsoring individuals. The BoD, having diversified background and relative expertise, is a key source of guidance to the management. Mr. Shunaid Qureshi, the CEO, has been the driving force behind the company since its inception.
- The company has diversified businesses and operates in two different locations at Mirpurkhas and Dhabeji in Sindh. The businesses include a) Sugar (capacity of 80,702 M. tons p.a.), b) Ethanol (combined capacity of two units: 47,530 M. tons p.a.), c) Medium Density Fiber Board (960,000 sheets p.a.) and d) Calcium carbide and Ferro Alloys (27,220 M. tons). AASML meets its in-house power requirements through two captive power plants of 7.5MW and 15MW each.