



RATINGS (SEPTEMBER 2010)

SPENCER & COMPANY LIMITED (SCL)

PRELIMINARY

STRUCTURED FINANCE FACILITY AA
(PKR 420 MLN)

FINANCIAL DATA (UPL) PKR mln

	30-Jun, 10*	31-Dec-09	31-Dec-08
Total Assets	12,991	11,426	11,386
Equity	2,670	3,304	2,230
Net Income	1,187	3,056	1,984
EBITDA	2,163	5,445	3,850
Net Debt / EBITDA (x)	0.41	0.16	0.84
EBITDA Net Interest Cover	30.5	12.7	8.3
Net Debt/Equity (%)	66.3	26.7	145.1

* Based on un-audited accounts for 6months

ANALYSTS

Muhammad Qasim Raza
+92 42 35869504
qasim.raza@pacra.com

Rana Muhammad Nadeem
+92 42 35869504
nadeem@pacra.com

PROFILE OF THE ISSUER

- SCL, established in 1948, is a pharmaceutical manufacturing company. The company posted a net income of PKR 16.2mln at end-Jun09 which was a decrease of ~84% compared to last year (Jun08: PKR 100mln) on account of reduced turnover.
- The company is majority owned by Beach Luxury Hotels (~98.7%) that acts as the holding company for various business ventures of the Avari Group.

FACILITY FEATURES

- The facility has been issued by SCL for a tenure of 3 years at 3 month KIBOR plus 100bps to be paid quarterly in arrears. Principal repayment shall be made in 12 equal quarterly installments, with the first installment due on Nov16, 2010.

RATING RATIONALE AND KEY RATING DRIVERS

- The preliminary rating reflects sound security structure of the proposed term loan arrangement whereby, SCL - the lessor - would raise funds to repay advance portion of rent to Unilever Pakistan Limited (UPL) - the lessee. Under the proposed facility, subsequent cashflows arising on account of rent receivable from UPL are exclusively assigned for the repayment of the proposed facility. During the term of the facility, the lease agreement cannot be altered/terminated without prior written consent of the lender. Meanwhile, UPL has undertaken to unconditionally cover the payment of total outstanding amount of the facility and related markup component directly to AKBL.
- The rating draws comfort from the strong ownership and financial profile of UPL. UPL is a low leveraged company where its borrowing has remained a function of its working capital requirements. UPL is 98.7% owned by Unilever PLC. Unilever PLC enjoys long term and short term entity ratings of 'A+' and 'A1', respectively, by Fitch. Any significant deterioration in the financial profile of UPL, though unlikely, may have negative impact on the rating.

STRUCTURED FINANCE FACILITY

- There are three participants in this structured finance facility, i) Spencer & Company Limited (SCL), ii) Askari Bank Limited (AKBL), and iii) Unilever Pakistan Limited (UPL).
- UPL made advance rental payments for the entire 5 years lease period (May08 to May13) for office space at Avari Plaza amounting to PKR 697mln. UPL requested SCL (having all the rights and obligations as lessor) to refund their advance rental payment for the period Aug10 to May13 amounting to PKR 420mln. SCL agreed to refund the balance rent to UPL by financing the amount through a term loan facility from a bank/financial institution, AKBL in this case, and accepting payments on a quarterly basis in return from UPL. Moreover, UPL accepted to make the mark-up payment on the term loan facility. UPL would make quarterly principal plus mark-up payments in favor of SCL directly in its account at AKBL, duly assigned to AKBL, from which the term facility would be adjusted automatically. Since the final onus for making the payments falls on UPL, the structured finance facility has been analyzed on the basis of the financial strength of UPL.
- FMCG is considered to be a resilient industry where profit margins are usually high. As far as UPL is concerned, the profit margins of the company remained high. On year-on-year basis, the company witnessed an increase of 23% in its top line during 2009, while maintaining its margins at the last year's level. The company managed to limit its financial charges, thereby, registering strong growth in its bottom-line. However, during 1H10, higher selling and marketing expenses kept the profits under pressure. The trend in financial charges signifies that UPL's borrowing is cyclical in nature and largely dependent on its working capital requirements. In 1H10, the bottom line of the company witnessed a decrease of ~3% as compared to 1H09 and stood at ~PKR 1.2bln.
- UPL's business model is largely dependent upon its cashflows. The company's cash generation ability remains a key for its sound financial position. The company enjoys healthy coverages both in terms of debt payback and interest payments.
- UPL has maintained an adequately leveraged capital structure. As at Jun30, 2010, the debt equity ratio stood at 46% (end-Dec09: 25%). The company's debt is usually aligned with working capital requirements, which itself are seasonal in nature. Meanwhile, as the company's overall debt is comprised of short term borrowings, the management needs to keep strong vigilance over its cash management in order to maintain its financial profile at adequate level.

PROFILE OF THE PAYEE:

- Unilever Pakistan Limited (UPL), established in 1930, specializes in manufacturing products for home, personal care and food groups. Some of the leading brands that are part of the product base of UPL are Lipton, Sunsilk, Surf Exel and Walls desserts. By maintaining the quality of its products, UPL has been able to establish strong roots in the local markets.
- UPL is 75% owned by Unilever PLC. Unilever PLC was established in 1890. The company specializes in products including home, personal care and food groups. The company's network is spread across 170 countries through its own operations and by subsidiaries. The equity base of Unilever PLC stood at Eur 12.5bln at end-Dec09 witnessing an increase of 21% YoY (Eur 10.3bln at end Dec08). The asset base of the company stood at Eur 37bln at end-Dec09 as against Eur 36bln at Dec08. On the other hand the net income of the company witnessed a decline of 30% YoY (Dec09: Eur 3.7bln, Dec08: Eur 5.3bln).