AL-NOOR SUGAR MILLS LIMITED (ANSML)

Rating (April 2005)

Al-Noor Sugar Mills Limited

	New	Previous
Secured TFC PKR. 203.6 mln.	A2^	BBB+

^ Short-term rating, as the issue is due for final redemption in October 2005.

Financial Data

PKR (mln)

	30-Sep-04	30-Sep-03
Total Assets	2,105.4	2,185.9
Profit / (Loss) After Tax *	72.4	(12.6)
Gross Margin %	16.8	10.5
Current Ratio	0.8	0.6
Net Debt / Equity %	279.6	478.1

** The impact of incremental depreciation on revaluation of fixed assets has been excluded from the net income.*

Analysts

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Rating Rationale

Assessment

- The rating assigned to ANSML's secured TFC reflects the improving trend in overall performance and financial coverages, owing to the enhanced contribution from the main sugar operations. At the same time, the rating also recognizes the company's highly leveraged capital structure and strained liquidity position. The sponsors demonstrated support in times of high liquidity requirement remains a source of comfort to the TFC holders.
- In contrast to net losses in the preceding years, the company posted a reasonable level of profitability during FY04 on the back of substantial improvement in the contribution from the sugar division owing to enhanced sales volumes and better margins. Improved climatic conditions, mainly water availability, led to larger sugarcane crop. This enabled ANSML to procure sugarcane at a lower price and achieve a higher level of production, resulting in improved efficiency, and also increased sales volumes. This, combined with higher recovery percentage, enhanced the profitability of the sugar division, despite depressed sugar prices on the back of a record nationwide sugar production of around 4.0mln tons.
- Despite increasing sales volumes, the contribution from the Medium Density Fibre (MDF) Board division registered a slight decline, owing to the pressure on margins. This is attributable to increasing volumes of the competitively priced imported MDF sheets entering the market and an overall increase in the domestic production capacity. However, following the installation of a new lamination plant in Feb 04, leading to higher level of value addition and diversification in the product base, the margins showed an improvement in the later half of FY04 and the trend appears sustainable as demonstrated in the 1QFY05 results.
- In order to capitalize on the increasing demand for MDF board, emanating from the boom in the construction activity, the management has initiated the process of balancing of the existing plant. This would raise the production capacity by 50% of the existing capacity and thus likely to augment the bottom line through increasing sales volumes. The project is expected to be completed in the second half of 2005 and the total cost is around PKR 100mln, which is to be financed through additional long-term borrowings.

Sugar Sector & ANSML

- Pakistan's sugar industry remains plagued by its long-standing problems such as friction between growers and millers, imbalances in the demand-supply situation of sugar, and the inability of the government to resolve such issues through comprehensive policy directives. Climate, mainly rains and irrigation water, is an important – and to a large extent – uncontrollable determinant of the success of the sugarcane crop, and thereby the sugar industry. The overall water availability has been largely adequate in the past couple of years. However, the recently ended crushing season was a different story. Scanty rainfall, shortage of water, and drought conditions in

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Sindh led to a reduced acreage of cultivation, and consequently, a 30% shortfall in the availability of sugarcane. Sugarcane prices soared, which in turn, prompted hoarding of sugarcane, and consequently a volatile crushing pattern in the mills. Also, the increase in the sugarcane prices has triggered an increase in sugar price. To counter the increase, the government allowed import of raw and/or refined sugar. While this has failed to bring down sugar prices, it has largely arrested the increasing trend.

- During 1QFY05, the margins from the sugar division continued to remain healthy, owing to increase in the prices of sugar and the availability of relatively lower cost carryover stock. At the same time, the contribution from the MDF board division has also shown further improvement, leading to an appreciable level of overall profitability.
- Going forward, with decrease in production volumes of sugar due to lower sugarcane availability and more than proportionate increase in the raw material costs, the profitability of the sugar division is likely to come under pressure for the remaining period of FY05, from the existing levels. However, the improving contribution from the board division and increasing price of molasses would compensate this to a large extent.

Cash Flows, Liquidity & Capital Structure

- Despite an improvement in profitability, leading to higher EBITDA and thus an improvement in coverages, the internal cash generation still fell short of completely meeting the non-discretionary outflows. Meanwhile, the company managed to substitute long-term financing maturing during the year with fresh long-term loans having a grace period of one year. Resultantly, the current maturity of long-term financing as at end-04 almost declined to half of last year's level, thus providing additional comfort to the TFC holders as the TFC is due for final redemption by Oct 05. Further, the gearing level declined appreciably from last year, due to some reduction in debt and noteworthy enhancement in the equity base through profit retention. However, the capital structure still remained highly leveraged with a constrained liquidity position, as evidenced by a less than adequate current ratio.
- In line with seasonal pattern of procurement in the sugar sector, the debt levels have risen during 1QFY05 due to higher working capital requirements owing to the commencement of crushing season. Going forward, the anticipated reduction in year-end gearing would depend on the inventory levels.

TFC Issue:

ANSML issued a secured TFC of PKR 203.6mln in FY00 of a 5-year tenor, carrying a floating rate of SBP Discount Rate +2.50% p.a. with a floor of 16.5% and a cap of 18.5%. The profit is payable on a semi-annual basis and principal in 8 semi-annual instalments commencing from Apr 02. The TFC in issue is secured by way of exclusive first charge on the MDF Board Unit and a ranking charge on other assets of the company, providing a substantial margin over the outstanding TFC obligations. While the company has resorted to borrowings to service its TFC obligations in the past, the associated risk is mitigated by improvement in cashflow generation and reduced current maturity of long-term liabilities. Additionally, comfort can be drawn from the fact that currently only two instalments of the principal payable in Apr05 and Oct05 are outstanding (total principal amount: PKR 51mln). The company's capacity to service its obligations against its TFC is considered adequate. As the TFC is due for final redemption in Oct 05, PACRA assigns a short-term rating of A2 (A Two) to the instrument.

Profile

- Incorporated in 1969, Al-Noor Sugar Mills Limited (ANSML) is listed on the Karachi and Lahore Stock Exchanges. The company's plant is located at Shahpur Jahania, District Nawabshah, in upper Sind. ANSML is a member of the Al-Noor Group of Industries, which is engaged in the sugar, insurance and modaraba sectors along with commodities trading. The Ismail Zakaria family members and associates collectively hold 53.7% of the company's equity.
- Apart from sugar production, ANSML also operates a Medium Density Fiber (MDF) board carrying the brand name of '*Lasani* wood', which has emerged as a household name in construction material.

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Financial Summary – Al-Noor Sugar Mills Limited

(PKR mln) For the period ended	30/09/2004	30/09/2003	30/09/2002
Credit Statistics			
EBITDA	234.4	129.4	63.4
EBITDA Net Interest Cover (x)	2.3	1.1	0.4
Net Debt / EBITDA (x)	3.3	6.7	18.1
Current Ratio (x)	0.8	0.6	0.7
Quick Ratio (x)	0.4	0.2	0.2
Profitability			
Turnover	1,521.9	1,291.6	1,054.2
Turnover Growth	17.8%	22.5%	-21.1%
EBIT	175.3	73.4	23.4
Net Income	72.4	-12.6	-119.5
Gross Margin	16.8%	10.5%	6.5%
Net Profit Margin	4.8%	- ve	- ve
Return on Equity (ROE)	31.5%	- ve	- ve
Return on Assets (ROA)	3.4%	- ve	- ve
Cash Flow			
Cash Generated by Operations prior to W/C changes	244.4	196.4	56.7
Working Capital Changes	256.0	452.0	48.6
Net Finance Charges Paid	-110.6	-138.6	-137.6
Taxation & other charges Paid	-6.01	10.8	8.2
Net Cash from Operating Activities	139.4	324.2	-97.23
Capital Expenditure	-39.2	-17.8	-35.0
Cash in/(out) flow from other investing activities	-0.2	-0.0	-9.8
Cash in/(out) flow pre-financing	100.0	306.4	-142.0
Dividends Paid / Others	0.35	-31.7	4.9
Net Debt Decrease/ (Increase)	100.4	274.7	-137.2
Opening Net Debt	-873.33	-1,147.9	-1,010.8
Closing Net Debt	-772.9	-873.3	-1,147.9
Capital Structure			
Short Term Debt	-472.4	-514.2	-808.5
Long Term Debt	-382.1	-394.1	-386.9
Total Debt	-854.5	-908.3	-1,195.4
Less: Cash & Bank Balances	81.6	35.0	47.4
Net Debt	-772.9	-873.3	-1,147.9
Total Equity	276.5	182.7	195.0
Total Debt/Equity	309.1%	497.3%	612.9%
Net Debt/Equity	279.6%	478.1%	588.6%
Equity/Total Assets	13.1%	8.4%	11.6%

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