



Rating Action

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PACRA MAINTAINS RATINGS OF AL-ABBAS SUGAR MILLS LIMITED

The Pakistan Credit Rating Agency (PACRA) has maintained the long-term entity rating of Al-Abbas Sugar Mills Limited (AASML) at 'A' (Single A), and the short-term rating at 'A1' (A one). The rating for the privately placed TFC issue of PKR 750mln has also been maintained at 'A+' (Single A plus). These ratings denote low expectation of credit risk emanating from a strong capacity for timely payment of financial commitments.

The ratings reflect AASML's sound performance in its core business segments - sugar and ethanol - manifested from gradual increase in volumes and a rebound in gross margins, though largely led by appreciation in product prices. However, inflating operating and financial costs kept net margins under pressure. Meanwhile, the management's decision to dispose off loss making business units would yield benefits in future. The company's financial profile remained stretched, particularly during crushing season owing to higher working capital requirements. Nevertheless, adequate cashflows and largely stable coverages provide relief to it. The ratings continue to take support from the company's seasoned management team, having sound understanding of the industry dynamics. In order to further diversify its revenue stream, AASML is in the process of building a storage terminal at port; this is expected to add stable rental income.

The TFC Issue: AASML issued a secured privately placed TFC of PKR 750mln in Nov07. The instrument has tenure of 6 years with profit at rate of 6-month KIBOR plus 175bps. The principal is being redeemed in 10 equal semi-annual installments (PKR 75mln each), commencing in May09. The issue is secured by first pari passu charge on the present and future fixed assets of AASML with a 25% margin.

The Company: 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 (27%). AASML's BoD, comprising seven members including the CEO, consists of key sponsoring individuals. Mr. Shunaid Qureshi, the CEO, has been the driving force behind the company since its inception.

The company operates in two different locations at Mirpurkhas and Dhabeji, Sindh. The businesses include a) Sugar (capacity of 7,500 M. tons per day), b) Ethanol (combined capacity of two units: 172,500 liters per day) and c) Calcium carbide and Ferro Alloys (27,220 M. tons per annum)

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