



RATING (AUGUST 2011)

STRUCTURED FACILITY BY

SPENCER & COMPANY LIMITED (SCL)

INSTRUMENT	NEW	PREVIOUS
STRUCTURED FINANCE FACILITY (PKR 420MLN)	AA	AA

FINANCIAL DATA

UNILEVER PAKISTAN LIMITED (UPL)

PKR mln

	Mar-11	Dec-10	Dec-09
Total Assets	16,213	13,501	11,426
Total Debt	155	346	1,123
Equity	2,384	3,573	3,304
Net Income	901	3,273	3,056
EBITDA	1,505	5,605	5,791
Pure Cash Conversion Efficiency (FCFO/Sales) (%)	9.1	9.5	11.2

* Based on un-audited accounts for 3months

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PROFILE OF THE ISSUER

- SCL, established in 1948, is a pharmaceutical manufacturing company. The company posted a net income of PKR 174mln at end-Jun10 which was a significant increase compared to last year (end-Jun09: PKR 16mln) on account of rising 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. Meanwhile, the first installment commenced in Nov10 (Current Outstanding Principal: PKR 279mln).

RATING RATIONALE AND KEY RATING DRIVERS

- The ratings reflect the sound security structure of the structured finance facility. SCL (the lessor) is directing the rent (being received from Unilever Pakistan Limited, the lessee) to Askari Bank against the finance facility. Under the structure of the loan, cashflows arising on account of rent receivable from UPL are exclusively assigned for the repayment of the loan; hence transferring the risk to UPL. During the term of the facility, the tripartite 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 Askari Bank.
- The rating reflects UPL's strong financial profile, backed by its healthy cashflow position and low leveraged capital structure. However, any significant deterioration in the financial profile of UPL, though unlikely, may have negative impact on the rating.

INSTRUMENT STRUCTURE

- 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. Subsequently, UPL requested SCL (having all the rights and obligations as lessor) to refund 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 AKBL, 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.

ASSESSMENT

- The FMCG industry is governed by strong profit margins due to inelastic nature of the demand. Resultantly, UPL has retained its gross profit margins during the previous years despite the unfavorable economic environment prevailing in the country (Power outages, security issues and high inflation levels). During CY10 the company's topline witnessed 17% growth on the back of healthy performance of the ice cream segment and the Home and Personal Care (HMC) segment. Meanwhile, the operating expenses of the company increased in line with rise in sales. However, the company managed to significantly reduce its financial charges thereby, registering reasonable growth in its bottom-line.
- In 1QCY11, the trend of strong top-line continued (19% growth) with support emanating from Home and Personal Care (HMC) and ice cream segment. At the same time, lower financial charges enabled bottom-line to stay healthy.
- The strong cash flows can largely be attributed to its business model. Meanwhile, debt payback, interest coverages and cash conversion cycle remain favorable. Although its current ratio (0.8%) is lower than what is expected in the FMCG industry, it can be explained due to the incidence of high accrual of liabilities – a common phenomenon in UPL's business operations. These liabilities are repaid through cash flows, signifying the company's cash generation ability and working capital management as a crucial factor for maintaining its financial strength.
- UPL has historically had a healthy capital structure with low levels of debt. At present the debt levels have fallen even further thereby slashing debt equity ratio to 7% (CY10: 10%). The company's debt is usually aligned with working capital requirements. Over the years, UPL has effectively managed its working capital requirements thereby decreasing overall debt levels.

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, established in 1890 – internationally rated A+ (long term) and A1 (short term) by Fitch. 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. Unilever PLC's equity base stood at Eur 2.2bln at end-Jun11 (Eur 2bln at end-Jun10) and its asset stood at Eur 44bln at end-Jun11 (Eur 42bln at end-Jun10). Meanwhile, the net income of the company witnessed an increase of 9% YoY (Jun11: Eur 2.4bln, Jun10: Eur 2.2bln).