Rating Action: Azgard Nine Limited

Moody's assigns provisional (P)B2 rating to Azgard 9 Limited

Hong Kong, July 03, 2007 -- Moody's Investors Service has assigned a provisional (P)B2 corporate family rating to Azgard 9 Limited ("Azgard"). At the same time, Moody's has assigned a provisional (P)B2 rating to the proposed long term US$200-260 million senior unsecured bonds to be issued by Azgard. The outlook on the ratings is stable. This is the first time that Moody's has assigned a rating to Azgard.

The bond proceeds will ultimately be used to refinance the bulk of the group's corporate debt, part of which was incurred to finance the 2006 acquisition of Pak American Fertilizer Limited ("PAFL").

"The (P)B2 rating reflects Azgard's diversified operations and revenue streams from non-competing businesses, as well as the company's 100% ownership of a highly efficient fertilizer plant producing utility-like cash flows," says Laura Acres, a Moody's Vice President.

"Other supportive factors include a diversified and direct contact with its customer base both internationally for textiles and locally for fertilizer; ready access to raw materials (raw cotton for textiles and subsidized gas for urea production); and a long-term debt maturity profile with limited liquidity needs once the bond issuance is completed," adds Acres, also Moody's Lead Analyst for the company.

At the same time, the rating reflects the risks of exposure to a fashion-based industry for an increasing proportion of the company's revenues, particularly if Azgard were to acquire an overseas textile brand, as well as the ability to convert projected revenue growth in all areas of the business into hard numbers.

Other risks include the ability of management to successfully develop Azgard's fertilizer operation and the uncertainty pertaining to the political, legal and economic environment in Pakistan.

The stable outlook reflects the expectation that Azgard will execute its business plan as planned and build its competitiveness in the near to medium term. This is needed to mitigate the loss in 2010 of the extra gas subsidy it currently enjoys, and which presently underpins its relatively high margins and operating cash generation.

Upward rating pressure over the next 12-18 months is limited given the evolving nature of the two businesses under the Azgard umbrella. However, financial metrics Moody's would consider when evaluating upgrade potential include: adjusted EBIT/adjusted interest in excess of 2x on a consistent basis, and gross adjusted debt/EBITDA below 3-3.5x.

On the other hand, downward pressure on the rating could emerge as a result of: 1) a failure in the Pakistani cotton crop, such that raw material costs increased substantially for the textile business; 2) any change in the relationship between Azgard and its major shareholders - the Shaikh family (40% shareholders in Azgard) and the JS Group (36% shareholders in Azgard) - resulting in an adverse impact on the business; and/or 3) heightened political or economic tensions in Pakistan resulting in a loss of orders for the textile business. Specific indicators Moody's would look for include: gross adjusted debt/EBITDA of greater than 4.5x; and adjusted EBIT/adjusted interest falling below 1-1.5x on a sustained basis.

Incorporated in 1993 and publicly listed, Azgard is an established denim textile manufacturer. It has fully integrated spinning, weaving and processing operations.

In July 2006, Azgard acquired PAFL, one of 5 urea plants in Pakistan with a 7% market share of the domestic fertilizer business. In 2007 Azgard will merge with PAFL to create a single company under the Azgard name.

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