



Rating Action

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PACRA DOWNGRADES RATINGS OF MAPLE LEAF CEMENT FACTORY LIMITED

Maple Leaf Cement Factory Limited (MLCFL), since the past few years, has been facing severe business and financial constraints. The company has been incurring losses since FY08. This has resulted in significant erosion in equity (net of revaluation surplus), thereby leading to additional stress on the company's capital structure. Furthermore, subdued cash flows coupled with continuous accumulation in debt (9MFY10: PKR 18,331mln, FY08: PKR 14,837mln) put further pressure on Maple Leaf's debt payback coverages.

The company went into post default restructuring in FY10, whereby the company was able to negotiate favorable restructuring terms with lenders. However, it proved to be only a temporary respite, as the company's financial position remained subdued mainly owing to an adverse economic environment, which has resulted in lower cement demand in both local and export markets. Despite a significant price recovery in the local market, lower dispatches coupled with rising energy costs adversely impacted the performance of the company. Meanwhile, higher administrative and financial charges further dented the company's bottom line.

Post restructuring in FY10, the company was in a continuous struggle to meet its ongoing debt maturities. The first markup payment of restructured Sukuk was due on September 03, 2011 and was not honored. The management plans to meet this repayment within 90 days from the due date, availing the benefit of regulatory grace period allowed to make overdue financial obligations good before being categorized under non performing status as per prudential regulations. In case of conventional bank borrowings, this is an accepted practice, particularly for distressed borrowers. However, in case of public instruments - like Maple Leaf's Sukuk - the tacit grace period is restricted to 15 days. Hence, the delay in meeting the financial obligation by Maple Leaf tantamounts to default. The Pakistan Credit Rating Agency (PACRA) has downgraded the rating of Maple Leaf Cement Factory Limited's privately placed and secured Sukuk issue of PKR 8,000mln to "D" (Previous rating: BB+). Meanwhile, the entity ratings have also been downgraded to "D" (Previous ratings; long-term: BB; short-term: B). The ratings denote that the financial obligations are currently in default.

PACRA would continue to monitor the developments and update its rating opinion accordingly

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