



**Rating Action**

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**PACRA UPDATES RATINGS OF AZGARD NINE LIMITED**

Azgard Nine Limited (ANL) experienced significant pressure in the past few months. Heightened financial risk led to non-performance on most financial obligations. This, alongwith squeezed working capital, engulfed the company's core operations resulting in dismal business results – production dropped to the level of 20% towards the end of 2010.

The company has completed restructuring of its borrowings. 'Master Restructuring and Intercreditor Agreement' was signed by all the stakeholders in Dec-10. The agreement, while capturing various aspects of debt restructuring, has stipulated a number of qualitative covenants including special audit, quality of external auditors, and divestment of Agritech Limited.

As part of restructuring arrangement, ANL has been provided fresh working lines of above PKR 2.5bln, though with a delay. ANL has now managed to gain sizeable upturn in its capacity utilization, running at overall ~60% capacity, with its spinning unit operating at close to 85% level. Although the company is still incurring cash losses, its improved revenue stream has reduced the quantum.

A key element of the overall restructuring process is divestment of ANL's ~80% equity stake in Agritech Limited. This is expected to yield above PKR 8bln to the company. The proceeds, while mainly utilized for debt reduction, would fund current losses of the company. Although the management is hopeful of early closure of sale transaction, the timing remains uncertain.

The company has accumulated interest overdues on its financial obligations. This fact is reflected in its “D” ratings (entity and TFCs of PKR 2,144mln and PKR 2,500mln). Going forward, prospects of spinning industry are sanguine and ANL is also regaining its lost denim business. However, the ability of the company to manage working capital constraints to achieve high capacity utilization is critical. At the same time, timely sale of Agritech is important to rationalize overall debt profile. PACRA is monitoring these developments and would update its rating opinion accordingly.

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