



## Rating Action

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## PACRA Downgrades Ratings of Pak Elektron Limited

The Pakistan Credit Rating Agency Limited (PACRA) has downgraded the ratings of privately placed and secured issues of PKR 1,200mln (Sukuk I) and PKR 1,100mln (Sukuk II) by Pak Elektron Limited (PEL) to "D" (Previous rating: 'BBB+'). The entity ratings of PEL have also been downgraded to "D" [Previous ratings: long-term: BBB; short-term: A3]. The rating denotes that the financial obligations are in default. PEL had been under **Rating Watch** since June 2011.

The rating reflects the company's non-performance on due installments of its privately placed and secured Sukuks. The inability to timely honor these payments was attributed to significant liquidity constraints primarily driven by low business activity, and in turn, limited cash flows. Cognizant of this, the company is working on a two-pronged strategy whereby i) additional working capital lines have been arranged to add volumes to core operations, and ii) restructuring of long term financial obligations (inclusive of principal and interest payment) on soft terms to provide breathing space is being discussed with lenders. A favorable outcome of the negotiations and revival of business operations to generate required liquidity may lead to revision of the ratings from its current level.

**Sukuk issues:** The company issued a secured privately-placed Sukuk of PKR 1,200mln based on diminishing Musharakah in Sep07 for a tenor of 5 years, carrying profit at the rate of 3-months KIBOR plus 175bps, with a floor of 10% and a cap of 25%, payable quarterly in arrears. The principal redemption in fourteen equal quarterly installments began in Jun-09. In June 11, the remaining six installments (PKR 514mln) were rescheduled for two years recommencing from Jun-13 with final redemption in Sep-14.

PEL issued its second secured privately placed Sukuk of PKR 1,100mln in Jun-08 for a tenor of 7 years. The instrument carries profit at the rate of 3-months KIBOR plus 100bps, with a floor of 8% and a cap of 25%, payable quarterly in arrears. The instrument originally had 3 years grace period which was extended (in June 2011) by another two years. The principal redemption in sixteen quarterly installments will commence from Jun-13 with full redemption planned in Mar-17.

Post-rescheduling, the company managed to honor first two installments on these instruments. However, could not repay the third installment of Sukuk I (PKR 20mln) and Sukuk II (PKR 41mln) due on 28th and 31st December 2011, respectively, within tacit forbearance period.

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