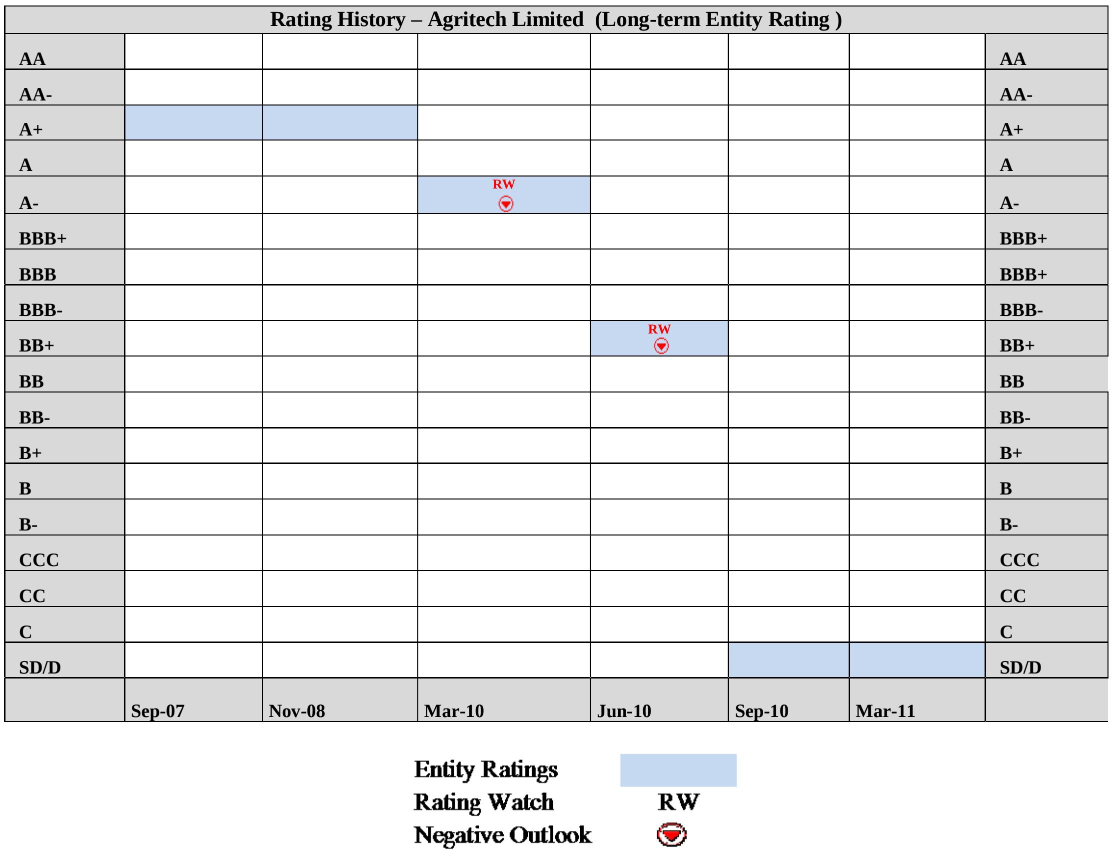
AGRITECH LIMITED

- A total of six rating actions within a period of four years preceding "default"

1.1 Agritech Limited, incorporated in 1959, as an unquoted public limited company that commenced commercial production of urea fertilizer in 1999. Azgard Nine Limited (ANL) is currently the major shareholder of Agritech. ANL acquired full ownership of Agritech during July 2006 through the privatization process. During 2010, ANL offloaded a portion of its holding (~20%) in the domestic market through 'offer for sale' – thus listing the company on KSE. PACRA assigned first entity rating to Agritech Limited in November 2007 and till March 2011 a total of six rating actions were taken, including three downgrades.



1.2 The initial ratings reflected the relatively low business risk profile of the company emanating from strong – indeed growing – demand for urea in the wake of continuing domestic supply deficit in the country. The company, with the capacity of 346,500MT per annum, was operating at a higher utilization level (~107%), adding incremental income to the bottomline. Since Agritech's plant was relatively new with less than ten years of age, the company had benefit of additional subsidy on the already subsidized gas feedstock. This reflected in the company's strong gross margins. At that time, the use of balanced fertilization – application of phosphate fertilizer with nitrogenous based fertilizers – was being highly emphasized and the GoP had extended cash subsidy on DAP fertilizer. Realizing the market potential and inline with the industry trend, Agritech also made inroads into the trading business of DAP. While bringing a slight diversification to the revenue stream, this provided the company with an additional cashflow stream. Nevertheless, Agritech's financial risk was under pressure, attributable to a sizeable amount of borrowings transferred onto its books by the parent. Moreover, the company embarked upon a BMR program aimed at enhancing capacity utilization of its plant. This also added to the company's leverage. However, comfort was taken from the company's strong operating margins and stable cashflows, mostly flowing into the company on an advance basis.

1.3 In the wake of global economic meltdown, the macro economic landscape in the country experienced notable changes. While there was immense pressure on PKR – USD parity, the interest rates in the country witnessed a significant rise. This had a huge impact on Agritech's finance cost that went upward substantially. In the meantime, the company had to wind up interest rate swaps, which resulted in a loss of over 1bln. The plant revamp project met with unforeseen delays despite engagement of world renowned expert – Stamicarbon. The cost overruns, due to delay and rupee devaluation among other factors, went close to PKR 3bln. Meanwhile, deterioration in the parent company's financial profile had a trickle down impact on Agritech. In the beginning of 2010, Agritech had to shut down for an extended period beyond annual turnaround due to intense gas shortage in the country during winter season. This caused a cash loss of PKR 475mln to the company.

1.4 Cognizant of the emerging situation, PACRA issued a press release on March 19, 2010, downgrading entity and TFCs ratings by two notches (**long-term:** *A- from A+*; **TFC I, TFCII, Sukuk and Syndicated Finance Facility**: *A* from *AA-*) highlighting the increase in business and financial risk of the company. Meanwhile, PACRA assigned a negative outlook to these ratings mentioning that Agritech's capacity for timely payments of financial commitments may get susceptible to adverse changes in business, economic, or financial conditions.

1.5 The entity and TFCs ratings remained under surveillance and were further downgraded on June 30, 2010 by four notches taking the entity rating in speculative grade – **"BB+"**, while, rating of all financial instruments issued by Agritech were revised to "**BBB-**" (lowest investment grade rating) – a notch higher than entity rating – capturing the security structure of the instruments. These ratings indicated that credit risk was developing, particularly as a result of adverse economic change over time. The company's urea revamp project, besides experiencing significant cost overruns, was still far removed from completion. During April 2010, the government decided to include fertilizer sector in the gas load management plan, which impacted Agritech's production more acutely as it was on SNGPL's network where gas curtailment was higher in comparison to Mari network. Due to its already weakened financial profile, Agritech found it difficult to pass on the full impact of production loss on to the consumer, thereby constraining its cash generation ability. Another reason leading to sizeable deterioration in Agritech's financial profile was lending to both the parent (Azgard Nine Limited) and the subsidiary (Hazara Phosphate Fertilizers Limited). By that time, the group was focusing on twofold strategy: i) divestment of its remaining stake in Agritech Limited and (ii) restructuring of its borrowings, including revival and expansion in working capital lines. The divestment was at an early stage of due diligence by interested investors. Restructuring was at an advanced stage of finalization. Also, the ratings were placed on *Rating Watch* emphasizing the ongoing restructuring process, where timely completion was critical. Meanwhile, outlook on ratings remained negative as the company was still in the restructuring phase and was struggling to cope with gas crises.

1.6 On September 29, 2010, PACRA downgraded the entity ratings of Agritech to "**SD**" (Selective Default), denoting that a portion of the financial obligations was in default at that date. Meanwhile, the ratings of its financial instruments were revised to **"CCC"**. The ratings, in addition to security structure, reflected the cushion available for the repayment (beginning 1QCY11) by which time the entire restructuring process was expected to complete, supporting cashflow generation of the company.

1.7 On March 31, 2011, PACRA took the entity and TFCs ratings to **"D"**, reflecting the heightened financial risk leading to non-performance on most financial obligations – accumulated interest overdues on its financial commitments. This was attributed to the weakened financial profile of the company in the wake of substantial time consumed in the restructuring process. Agritech's debt restructuring exercise was actively conducted after ANL due to its strong business fundamentals.

1.8 Just before the actual default, the group has completed restructuring of its entire borrowings. 'Master Restructuring and Intercreditor Agreement' was signed by all the stakeholders in Dec 2010. The agreement, while capturing various aspects of debt restructuring, has stipulated a number of qualitative covenants.

1.9 Going forward, the company is expected to exhibit fast recovery. Apart from the negative impact of gas load-shedding, the company has been operating well. Its BMR program has been fully implemented. This would enable the company to achieve capacity utilization of approximately 125% (previous: 107%). This, alongwith recent price hike, would help Agritech achieve improvement in its profitability as well as liquidity profile. This is expected to help company to meet its debt obligations.

1.10 As per PACRA Default Recognition Policy ("What is Default"), entity ratings, put on the default counter (whether D or SD), remain under surveillance on a best-effort basis and updated using both public and non-public sources, till the time: (i) the rating relationship is terminated at the client's request or made to terminate by PACRA on account of a lack of cooperation, particularly at a time when the company is experiencing financial distress and refuses to provide all the information needed to continue surveillance on the ratings, and / or (ii) when an entity ceases to exist as a result of a merger / acquisition. An entity rating, hence withdrawn, marks the end of the rating relationship with PACRA. Thereafter, a fresh rating mandate is agreed in order for entity ratings to be assigned. Instruments, assigned a D rating, remain under surveillance (till fully settled) and are updated using both public and non-public sources, on a best effort basis.

Key References:

March 31, 2011	PACRA Updates Ratings of Agritech Limited
September 29, 2010	PACRA Downgrades Ratings of Agrietech Limited To "SD"
June 30, 2010	PACRA Revises Ratings of Agritech Limited...;Remains on Rating Watch with Negative Outlook
March 19, 2010	PACRA Downgrades Ratings of Agritech Limited; Placed on Watch

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