

PACE (PAKISTAN) LIMITED

- Delay in payment of interest on TFC of PKR 1,500mln

1.1 Pace (Pakistan) Limited (Pace), incorporated in 1992, was acquired by First Capital Group in 1998. The company is principally engaged in developing, managing and sale of real estate properties. Pace has been listed on Karachi and Lahore stock exchanges since February 2007. PACRA formed its first rating opinion on Pace in June 2007 and assigned a long-term entity rating of “A+”. Meanwhile, the issue of TFC amounting PKR 1,500mln was rated “AA-”. PACRA, till March 15, 2011, took a total of five rating actions, including one downgrade preceding default.

Rating History - Pace (Pakistan) Limited (Long-Term Entity & Instrument Ratings)							
AA-							AA-
A+		▲					A+
A				▼	▼ RW		A
A-							A-
BBB+							BBB+
BBB							BBB
BBB-							BBB-
BB+							BB+
BB							BB
BB-							BB-
B+							B+
B							B
B-							B-
CCC							CCC
CC							CC
C							C
SD							SD
D							D
	Jun-07	May-08	Aug-09	May-10	Jul-10	Mar-11	

Rating Watch
Positive Outlook

RW
▲

Entity ratings
Negative Outlook

▼

1.2 The initial rating (entity rating: A+) opinion was based on the company’s established position in the local real estate industry, low leveraged capital structure and portfolio of real estate assets. The company’s association with First Capital Group (majority sponsor) was also considered a key rating factor. Timely support from the group was considered critical for maintaining the ratings at the current level. However, in August 2009, long-term entity and instrument ratings were downgraded to “A” and “A+” respectively, due to stress on financial profile of the sponsors coupled with worsening sector dynamics – low consumer confidence, slow GDP growth, limited credit expansion, and deteriorating law and order situation – impacting demand. The ratings were assigned a negative outlook in May 2010 due to further pressure on cash flows of the company as it increased its stake in Pace Barka Properties Limited (PBPL) and overall downturn in the real estate sector impacting the financial health and business prospects of the group in general and the company in particular.

1.3 Subsequently, the company went for restructuring of its TFC of PKR 1,500mln and PACRA, in July 2010, placed the ratings on rating watch pending the finalization of restructuring terms. As a result, the company got an extension of grace period on repayment of principal till August 2012, further increasing the tenor to 9 years from existing 5 years.

1.4 The company had investment properties of around PKR 4,399mln and an investment of around PKR 1,150mln in the shares PBPL which constitutes around 38% holding in PBPL at December 31, 2010. Besides, a low-leveraged capital structure underpinned the company’s ability to raise funds in case of need. When faced with cash flow problems, the company planned to divest its 18% holding in PBPL. The purpose was to fund its project-in-progress (Pace Towers) while meeting its upcoming debt obligations (including the interest payment PKR 111.6mln on TFC). However, the transaction did not materialize in a timely manner as envisaged due to political unrest in Middle East, from where the flow of funds was expected and the company, facing a cash crunch, defaulted on its TFC payment. Foreseeing further delay beyond the forbearance period, on March 15, 2011, PACRA assigned a “D” rating to Pace’s TFC issue of PKR 1,500mln. Meanwhile, the entity rating was taken down to “SD” (Selective Default).

1.5 Subsequently, the company has made payments on April 7, 2011. Nevertheless, ratings are yet to emerge from the default category, pending PACRA’s formation of a view on post default-scenario.

1.6 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, occurs. 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 16, 2011	<u>PACRA Downgrades Ratings of Pace (Pakistan) Limited</u>
July 16, 2010	<u>PACRA Places Ratings of Pace (Pakistan) Limited on Rating Watch</u>
May 28, 2010	<u>PACRA maintains ratings of Pace (Pakistan) Limited</u>
August 27, 2009	<u>PACRA assigns ratings to Pace (Pakistan) Limited and its proposed sukuk</u>
May 8, 2008	<u>PACRA assigns positive outlook to ratings of Pace (Pakistan) Limited</u>
June 20, 2007	<u>PACRA assigns Entity Rating to Pace (Pakistan) Limited</u>

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