

DEWAN CEMENT LIMITED

- A total of six rating actions within a period of three years preceding “default”
- Inability to timely restructure obligations spelled DCL’s default

1.1 Dewan Cement Limited (DCL) - formerly Pakland Cement Limited, was incorporated in 1995. PACRA formed its first rating opinion on DCL in Jul06, and till Nov09 a total of seven rating actions were taken, including four downgrades.

1.2 The demand-supply imbalances, emanating from substantial capacity expansions across the sector, diminished the

performance prospects of most of the cement companies in 2008. At the same time, the sector came under significant pressure from economic downturn. In this regard, PACRA, while emphasizing weakening sector dynamics, saw the credit profile deteriorating for the sector. This was attributable to rising interest rates, overall subdued local cement demand and limited availability of export window. PACRA highlighted the impending crisis in cement sector through a press release issued on December 15, 2008. Subsequently, entity-wise specific rating actions were taken, whereby the entity and TFC ratings of DCL were downgraded by five notches (**Long-term: BB from A-; Short-term: B from A2; TFC-Pre-IPO of PKR 3,850mln: BB+ from A**) into speculative grade category. Subsequently, the entity and TFC ratings of DCL remained under continuous surveillance and were downgraded by another six notches (**Long-term: CC from BB; Short-term: C from B; TFC-Pre-IPO of PKR 3,850mln: CC from BB+**) on May 25, 2009.

1.3 The ratings were downgraded owing to significant deterioration in the financial risk profile of the company, emanating from non-materialization of major initiatives to re-profile debt, as they were subject to the company’s ability to achieve timely restructuring, significant sponsor support and material reduction in leverage. Furthermore, the impact of deteriorating cement sector dynamics magnified the already weakened state of the company substantially, specially, in view of subdued sponsor financial strength. The company’s association with Dewan Group (majority sponsor) was considered a key rating factor and timely support from the group was considered critical for maintaining the ratings at the current level. However, over the years, the group experienced significant deterioration in its financial profile. Furthermore, different options, outlined as follows, being explored by the sponsors to restructure the company’s business model, have hitherto remained unsuccessful:

- To secure its business risk, the management secured a contract of extendable nature for supply of cement with a Jordanian company, initially for 6-months. However, the contract could not be continued.
- The company’s management made a concerted effort to re-profile its financial obligations through issuance of a foreign currency convertible debt of around US\$50mln, which was in the final stages of completion. However, the management’s initiative could not materialize as envisaged.
- The management opted to re-profile debt through issuance of TFC of PKR 5,000mln in the domestic capital market. The TFC, owing to subdued capital market operations, experienced excessive delays and could not be issued. Meanwhile, the company received pre-IPO amount of PKR 3,850mln for meeting its obligations to existing lenders. However, thereafter, the company’s financial position deteriorated significantly and the committed deadlines for completion of the proposed TFC could not be met. Many of the TFC investors mutually agreed to

Rating History - Dewan Cement Limited (Long-Term Entity & Instrument Ratings)								
	Jul -06	Aug -07	Jan -08	Sep -08	Dec -08	May -09	Nov -09	
AA-								AA-
A+								A+
A		RW		RW				A
A-				RW				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
D								D

Rating Watch

RW

Long-Term Entity Rating

Negative Outlook



Instrument Rating

restructure the TFC pre-IPO amount offering lenders’ forbearance. However, few investors declined to forbear and filed suit against the company.

1.4 On November 10, 2009, PACRA assigned an entity and TFC rating of ‘D’ to DCL. The default was primarily driven by the management’s inability to execute the proposed debt restructuring, leading to non performance on liabilities. Moreover, with lenders’ forbearance exhausted, litigation proceedings were in progress against the company. The ratings, hence, reflected substantial delays in execution of proposed debt restructuring, eventually leading to a payment default. As per the latest public financial statements of Dewan Cement, the company has largely stopped mark up and principal payments to its lenders.

1.5 Currently, the management of DCL has approached its lenders with a fresh restructuring proposal. The proposal involves restructuring the entire debt obligations by exercising various options including re-profiling of all debt obligations in the form of privately placed TFC of 8 years tenor with a grace period of 3 years on principal repayments (This includes the already outstanding, non-performing, rated, and privately placed TFC). The principal payments on this new instrument are proposed to be in equal half-yearly installments, falling due after six months from the end of the grace period, and mark-up payments, outstanding as of Dec 31, 2008 and frozen since that time, are proposed to be paid quarterly over a period of four years from restructuring of the debt obligations. To-date no material development has taken place as to acceptance of this fresh restructuring proposal.

1.6 As per PACRA Policy¹, entity ratings, put on the default counter, stand withdrawn after the lapse of thirty (30) calendar days. 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, however, remain under surveillance and are updated using both public and non-public sources.

References:

November 10, 2009	PACRA Downgrades Ratings of Dewan Cement to “D” [Long-Term Entity Rating and Instrument Rating: D]
May 25, 2009	PACRA Downgrades Ratings of Dewan Cement to “CC” category [Long-Term Entity Rating and Instrument Rating: CC]
December 15, 2008	PACRA Downgrades ratings in the Cement Industry: Entity & TFCs Rating of Dewan Cement Limited downgraded to “BB” category [Long-Term Entity Rating: BB, Instrument Rating: BB+]
November 19, 2008	PACRA sees tough road ahead for the cement industry
September 19, 2008	PACRA Places the Ratings of Dewan Cement Limited on Rating Watch [Long-Term Entity Rating: A-, Instrument Rating: A]
January 19, 2008	PACRA Assigns Entity & TFC Ratings To Dewan Cement Limited [Long-Term Entity Rating: A-, Instrument Rating: A]
August 17, 2007	PACRA Assigns Entity & TFC Ratings To Dewan Cement Limited [Long-Term Entity Rating: A]
July 31, 2006	PACRA’s Assigns Entity Ratings to Dewan Cement Limited [Long-Term Entity Rating: A]

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¹ PACRA Default Policy – “What is Default ?”