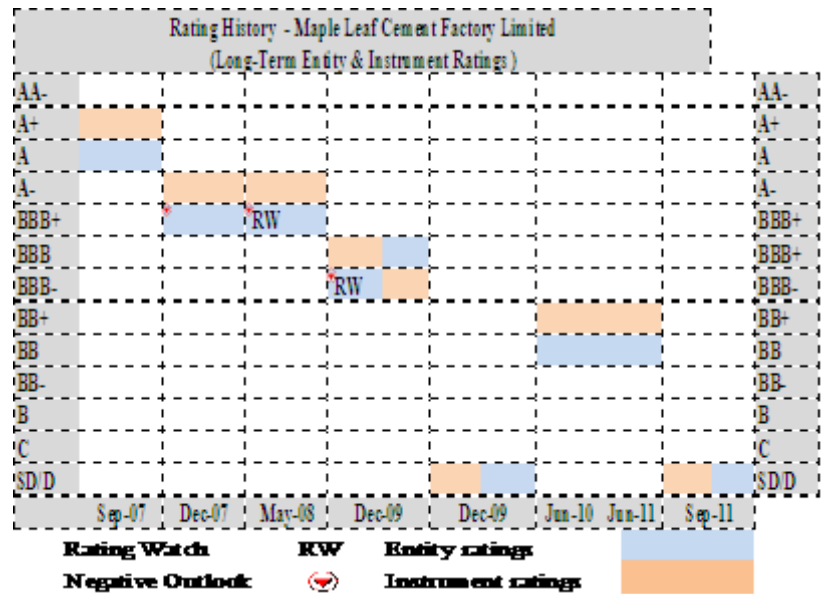


MAPLE LEAF CEMENT FACTORY LIMITED

1.1 Maple Leaf Cement Factory Limited (MLCFL), established in 1956 as a joint collaboration between West Pakistan Industrial Development Corporation and Government of Canada, was taken over by the Kohinoor Maple Leaf Group, subsequent to its privatization in 1992. It is the fourth largest cement manufacturer in the country (Capacity Share: 9.7%) and is listed on all three stock exchanges of Pakistan.



1.2 PACRA formed its first rating opinion on MLCFL in September 2007 and assigned a long-term entity rating of “A”. Meanwhile, the Sukuk issue of PKR 8,000mln was rated “A+” along with the entity rating. However, beginning 2008, the company’s financial health and business prospects came under significant pressure and a number of downward rating actions were taken (as evident from the above rating history table). During 1HFY09, MLCFL’s management initiated negotiations with lenders for debt restructuring. However, these plans did not materialize in a timely manner and on December 18, 2009, PACRA assigned a “D” (Previous rating: **BBB**) rating to MLCFL’s Sukuk issue of PKR 8,000mln, based on the exhaustion of lenders’ forbearance on account of the company’s non performance on its debt obligations – Sukuk’s interest payment. Meanwhile, the entity rating was assigned “SD” – Selective Default (Previous rating: **BBB-**).

1.3 In March 2010, MLCFL restructured majority of its long-term loans (apart from a loan from ICD of USD 12.8mln) and Sukuk issue on favorable terms. In this regard, MLCFL paid the interest due till December 2009 and the sponsors injected PKR 1,000mln as interest free loan (quasi equity) as per the conditions of the restructuring process. Consequently, in June 2010, PACRA reassessed MLCFL and assigned the entity a long-term rating of “BB”. Meanwhile, the secured Sukuk of PKR 8,000mln was assigned a rating of “BB+” (Double B Plus). These were speculative grade ratings and indicated a possibility of credit risk developing.

1.4 Despite being able to avail soft restructuring terms, it proved to be only a temporary respite, as the company’s financial position remained subdued. This was mainly owing to adverse economic environment, which has resulted in lower cement demand in both local and export markets. Despite a significant price recovery in the local market in FY11, lower dispatches coupled with rising energy costs adversely impacted the performance of the company. Meanwhile, higher administrative and financial charges further dented the company’s cash flows and its ability to service its debt obligation in a timely manner.

1.5 The company was in a continuous struggle to meet its ongoing debt maturities. Moreover, subdued cash flows coupled with continuous accumulation in debt (9MFY10: PKR 18,331mln, FY08: PKR 14,837mln) put further pressure on Maple Leaf’s debt payback coverages. The first markup payment of restructured Sukuk was due on September 03, 2011 and was not honored. The management planned to meet this repayment within 90 days from the due date, availing the benefit of regulatory grace period allowed to make overdue financial obligations good before being categorized under non performing status as per

prudential regulations. However, it did not make its obligations good even within this period. In case of conventional bank borrowings, repayment within 90 days is an accepted practice, particularly for distressed borrowers. However, in case of public instruments - like Maple Leaf's Sukuk - the tacit grace period is restricted to 15 days. Hence, the delay in meeting the financial obligations by Maple Leaf tantamounts to default.

1.6 Consequently, PACRA for the second time downgraded the rating of MLCFL's Sukuk issue of PKR 8,000mln to "**D**" (Previous rating: "**BB+**"). Meanwhile, the entity ratings have also been downgraded to "**D**" (Previous ratings; long-term: "**BB**"; short-term: "**B**"). The ratings denote that the financial obligations are currently in default.

1.7 MLCFL's management is currently in the process of negotiating favorable restructuring agreements with its main lenders. In this regard, the management is optimistic of a successful conclusion. Moreover, it is worth noting that the performance of MLCFL has improved recently. However, the company is still registering bottom-line losses. The improvement is primarily on the back of increase in cement prices. Nevertheless, a better operating performance would bode well for the company to negotiate another restructuring agreement. The sustainability of this performance would; however, depend on the persistence of improved operating margin with expanding volumes. Hence, going forward, the company faces the risk of constrained cash flows as its debt-levels remain high. PACRA will continue to monitor the developments and update its rating opinion accordingly.

Analysts	Awais Z. Khan +92 42 3586 9504 awais@pacra.com	Rana Muhammad Nadeem +92 42 3586 9504 nadeem@pacra.com
-----------------	---	---

Disclaimer:

PACRA has used due care in preparation of this document. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA shall owe no liability whatsoever to any loss or damage caused by or resulting from any error in such information. None of the information in this document may be copied or otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA's written consent. Our reports and ratings constitute opinions, not recommendations to buy or to sell.