


MAPLE LEAF CEMENT FACTORY LIMITED

- A total of three downgrades preceding default
- Restructuring of non-performing Sukuk – completed

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 and is listed on all three stock exchanges of Pakistan. PACRA formed its first rating opinion on MLCFL in October 2007 and assigned a long-term entity rating of “A”. Meanwhile, the sukuk issue of PKR 8,000mln was rated “A+”. However, beginning 2008, the company’s financial health and business prospects came under significant pressure. PACRA, till December 18, 2009, took a total of four rating actions, including three downgrades.

| Rating | Oct -07 | Dec -08 | May -09 | Dec-09 | Dec-09 | Rating |
|--------|---------|---------|---------|--------|--------|--------|
| AA- | | | | | | AA- |
| A+ | | | | | | A+ |
| A | | | | | | 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 |
| | Oct -07 | Dec -08 | May -09 | Dec-09 | Dec-09 | |

Rating Watch **RW** Long-Term Entity Rating
 Negative Outlook  Instrument Rating

1.2 The initial rating was based on the company’s established position in the local industry further augmented by commencement of new production lines. Moreover, promising export prospects and expected improvement in the company’s margins and cashflows, based on efficient production of the new plant, boded well for the entity. Although these factors played in favor of the company initially and resulted in higher turnover, the overall risk profile of the company increased considerably, due to weakening fundamentals of the cement industry and MLCFL’s highly leveraged capital structure. This led to substantial increase in financial charges. Moreover, the company entered into cross currency interest rate swaps and incurred substantial losses due to Rupee depreciation against Dollar, further compounding the problem.

1.3 The global financial meltdown and its effects on the domestic and regional economies severally impacted economic activities in various industries, especially, the real estate sector. Subsequently, PACRA assigned a negative outlook to the cement industry in November, 2008 on significant weakening sector dynamics emanating from these factors. Furthermore, substantial capacity expansions led to the breakdown of the pricing arrangement amongst producers. Rising interest rates, lower cement retention prices and significantly high cost of energy and transportation charges further dampened the company’s profitability and, in turn, its repayment capacity. PACRA highlighted these challenges being faced by the cement sector through a press release issued on December 15, 2008. Simultaneously, PACRA took entity-wise rating actions and downgraded the entity and sukuk¹ ratings of MLCFL to **BBB+** (previous: **A**) and **A-** (previous: **A+**), respectively.

1.4 While, the entity and sukuk ratings of the company were maintained during the rating review in May 2009, (**long-term entity rating: BBB+**; **Sukuk rating: A-**), a negative outlook was assigned to the ratings, signifying downward pressure. Subsequently, on December 8, 2009, PACRA downgraded the long-term entity rating and Sukuk ratings of the company to “**BBB-**” and “**BBB**”, respectively, while assigning a fresh negative outlook. The rating opinion reflected heightened financial risks and restrained business prospects of the company amidst various

¹ Sukuk issue of PKR8,000 mln issued by MLCFL in 2007

challenges faced by the cement sector. The ratings were kept in the lowest investment grade category on the back of management’s plan of debt restructuring and fresh equity injection by the sponsors. Meanwhile, the ratings were placed on **Rating Watch** pending successful completion of debt restructuring and equity capital injection.

1.5 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-**). The management of the company, since then, has been engaged in negotiations with lenders for debt restructuring. Recently, a structuring agreement has been negotiated. However, ratings are yet to emerge from the default category, pending PACRA’s formation of a view on that restructuring.

1.6 As per PACRA Policy², entity ratings, put on the default counter, stand withdrawn after the lapse of thirty (30) calendar days. However, this condition does not apply to an entity assigned “**SD**”. Instruments, assigned a “**D**” rating remain under surveillance and are updated using both public and non-public sources.

References:

- December 18, 2009** [PACRA Downgrades Rating of Sukuk issue of Maple Leaf Cement Factory Limited To “D”](#) (Ratings: L/T Entity Rating: “SD”; Sukuk Rating: “D”)
- December 9, 2009** [PACRA Downgrades Ratings of Maple Leaf Cement Factory Limited, Outlook remains Negative](#) (Ratings: L/T Entity Rating: “BBB-”; Sukuk Rating: “BBB”)
- May 29, 2009** [PACRA Assigns Negative Outlook to Ratings of Maple Leaf Cement Factory Limited](#) (Ratings: L/T Entity Rating: “BBB+”; Sukuk Rating: “A-”)
- December 15, 2008** [PACRA Downgrades Ratings in the Cement Industry](#) (Ratings: L/T Entity Rating: “BBB+”; Sukuk Rating: “A-”)
- November 19, 2008** [PACRA Sees Tough Road Ahead for the Cement Industry](#)
- October 25, 2007** [PACRA Assigns “A+” Rating to the proposed Sukuk issue by Maple Leaf Cement Factory Limited](#) (Ratings: Sukuk Rating: “A+”)
- October 24, 2007** [PACRA Assigns Entity Ratings to Maple Leaf Cement Factory Limited](#) (Ratings: L/T Entity Rating: “A”)

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² PACRA Default Policy – “What is Default ?”



Rating Action

Lahore: (18-Dec-09)

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PACRA DOWNGRADES RATING OF SUKUK ISSUE OF MAPLE LEAF CEMENT FACTORY LIMITED TO “D”

The Pakistan Credit Rating Agency (PACRA) has downgraded the rating of Maple Leaf Cement Factory Limited’s Sukuk issue of PKR 8,000mln to “D” (Previous rating: BBB). Meanwhile, the entity ratings are placed on “SD” – Selective Default – (Previous ratings; long-term: BBB-; short-term: A3). The rating denotes that the financial obligations are currently in default.

The ratings reflect the company’s non-performance on its debt obligations (Sukuk’s interest payments), emanating largely from material deterioration in its financial profile – an outcome of the company’s highly leveraged capital structure and subdued cashflows. This has severely impacted Maple Leaf’s ability to meet its financial obligations on a timely basis. Meanwhile, the business prospects of the company are subdued due to challenging dynamics of the cement sector.

The management of the company is currently in negotiations with lenders for debt restructuring. Nevertheless, a favorable restructuring outcome may lead to revision of the ratings from its current level.

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