



Rating Action

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PACRA revises ratings of Pak Elektron Limited

The Pakistan Credit Rating Agency (PACRA) has revised the long-term and the short-term entity ratings of PEL to '**BBB**' (Triple B) and '**A3**' (A Three), respectively [Previous: A-/A2]. Meanwhile, the ratings of the privately placed secured Sukuk issues of PKR 1,200m1n and PKR 1,100m1n have been revised to '**BBB+**' (Triple B plus) [Previous: A]. These ratings denote that the capacity for timely payment of financial commitments is considered adequate.

The ratings reflect continuous pressure on the company's financial profile mainly emanating from cash flow constraints, thereby impacting its debt servicing capacity. The management of the company is actively pursuing rescheduling of its long term debt obligations. In this regard, syndicate borrowings (~ two third of the total borrowings) including the sukuks issued by the company have been granted additional grace period of two years from Jun-11, while negotiations are in process for the rescheduling of balance borrowing (mainly a bilateral arrangement). The ratings would continue to remain **under watch** till finalization of the arrangements.

In terms of its business prospects, PEL, lately, has experienced improvement. It is receiving good order flow in its power division. Meanwhile the response of the latest launch of refrigerator (single largest contributor to total revenue) is encouraging. Improvement in business profile particularly targeted sales and desired conversion in cash remains critical for the company to create cushion for timely servicing of debt liabilities.

The company: PEL, incorporated in 1956, is listed on all the stock exchanges in Pakistan. The company is now majority owned (~ 53% at end Mar11) by Saigol Group, which has business interests in textile and energy sectors. While effectively family controlled, the company is run by professional management.

Sukuk issues: The company issued a secured privately-placed Sukuk of PKR 1,200m1n based on diminishing Musharakah in Sep07 for a tenor of 5 years, carrying profit at the rate of 3-months KIBOR plus 175bps, with a floor of 10% and a cap of 25%, payable quarterly in arrears. The principal redemption in fourteen equal quarterly installments began in Jun-09. The remaining six installments (PKR 514m1n) have been rescheduled for two years recommencing from Jun-13 with final redemption in Sep-14.

PEL issued its second secured privately placed Sukuk of PKR 1,100m1n in Jun-08 for a tenor of 7 years. The instrument carries profit at the rate of 3-months KIBOR plus 100bps, with a floor of 8% and a cap of 25%, payable quarterly in arrears. The instrument originally had 3 years grace period which is now extended by another 1 and half years. The principal redemption in sixteen quarterly installments will commence from Jun-13 with full redemption planned in Mar-17.

Post-rescheduling, first instalment against these sukuks have become due. The management intends to honor these within forbearance period.

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