



Rating Action

Lahore : 17-Aug-2011

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PACRA UPDATES RATINGS OF PACE (PAKISTAN) LIMITED

Pace has witnessed significant deterioration in its financial profile and business prospects in the recent period. This, to a large extent, is due to tough operating environment prevailing in the real estate sector resulting in low turnover, high stock-in-trade, and extended receivables; all putting significant pressure on the company's ability to generate adequate cashflows.

In a bid to manage the situation, the company decided to divest its 18% holding in Pace Barka Properties Limited (PBPL) to one of its foreign partner, to pay off its liabilities and complete its current project. In this regard, part payment (PKR 300mln) has been received in April 2011 and was utilized to repay its certain overdue debt obligations. However, this could not offer materail respite to company's woes. Moreover, though Pace carries a sizeable portfolio of investment properties, given muted demand the likelihood of its realization into cash remained limited. As a consequence, the company has experienced delays in completion of its ongoing project and meeting its financial commitments.

The company has two rated debt instruments in issue. TFC of PKR 1,500mln was issued in Feb 2008. It was restructured in Sep 2010. However, the company could not honour payment due in Feb 2011, though this was later settled in Apr 2011. Pace is again in default on installement due in Aug 2011. Sukuk of PKR 400mln was issued in Oct 2009. The company could not pay the installment due in Apr 2011. The fact that company has accumulated principal and interest overdues on its financial obligations is reflected in its "D" ratings (entity, TFC of PKR 1,500mln and Sukuk of PKR 400mln).

Slowdown in real estate sector is likely to prevail due to overall poor economic and law and order conditions. At the same time, inflation is expected to remain high, hence high interest rates. The impact of these factors would keep the investors reluctant to invest in real estate ventures. Although Pace is expecting to receive PKR 250mln from the sale of PBPL, given relatively limited amount and uncertain timing, the impact may not be significant. Nevertheless, the management is pursuing hard to restructure its debt obligations and dilute high inventory levels. These are expected to provide some cashflow relief to complete unfinished projects, in turn, improve financial health. However, this remains an uphill task.

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