



Rating Action

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PACRA ASSIGNS RATING OF A- TO PROPOSED SECURED TFC ISSUE BY SHAKARGANJ MILLS LIMITED

The Pakistan Credit Rating Agency (PACRA) has assigned ‘A-’ (Single A minus) rating to the proposed privately placed secured TFC issue of PKR 1,200mln by Shakarganj Mills Limited (SML). The rating denotes a low expectation of credit risk emanating from a strong capacity for timely payment of financial commitments.

The rating reflects relatively high business risk of SML’s operations, an outcome of cyclical nature of sugar industry. Nevertheless, the rating recognizes the management’s ongoing efforts to reduce interdependency of various business segments – sugar, ethanol, and particleboard – to add stability to its core revenues, in turn, cashflows. Meanwhile, SML has a relatively strained capital structure – indeed improving – engendering high, albeit manageable, financial risk.

About the TFC Issue: The company is in the process of issuing a secured privately placed TFC of PKR 1,200mln (including a green shoe option of PKR 400mln) for a period of 6 years. The instrument carries profit at a rate of 6-month KIBOR plus 225bps. The principal redemption would be in 10 equal semiannual installments beginning from the 18th month after issuance. The instrument would be secured by first pari passu mortgage charge on all immovable and hypothecation charge on all moveable properties of SML with a 25% margin. The company can exercise call option at anytime by giving 60-day notice.

About the Company: Shakarganj Mills Limited (SML), listed on all the stock exchanges, commenced its operations in 1974. It is one of the largest sugar producers in Punjab. The company has diversified business operations comprising a) Sugar – in addition to bulk, also has branded retail sugar products, b) Ethanol – produces three grades of ethanol, c) Particleboard, d) Textile and e) Food business through a wholly owned subsidiary. It also has a Sugar Research Institute set up in 1983, supporting its sugar related businesses.

Crescent group owns majority shareholding of around 59% in SML, mainly through its different companies and family members. A team of professionals supports Mr. Ahsan M. Saleem, the CEO of the company. The company has experienced a fair degree of stability at senior management level.

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