



Rating Action

Lahore: (10-Nov-2009)

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PACRA DOWNGRADES RATINGS OF SHAKARGANJ MILLS LIMITED

The Pakistan Credit Rating Agency (PACRA) has downgraded the long-term and short term entity ratings of Shakarganj Mills Limited (SML) to “**BB-**” (Double B Minus) and “**B**” (Single B), respectively [Previous entity ratings; Long-term: BBB+, Short-term: A2]. These ratings denote that there is a possibility of credit risk developing.

The rating of the privately placed secured TFC of PKR 630mln has also been downgraded to “**BB**” (Double B) [Previous rating; A- (Single A Minus)]. This rating indicates that there is a possibility of credit risk developing, but business or financial alternative may be available to allow financial commitments to be met. The ratings of the instrument draws comfort from first pari passu mortgage charge on moveable properties of SML with a 25% margin.

The ratings of SML reflect its deteriorating financial profile, a result of high leveraging and dismal cashflows. Meanwhile, significant losses incurred by the company during the recent periods further stressed the financial position. Moreover, prevailing dynamics of the sugar and allied industry instigates doubts on the company’s ability to timely revive its business prospects. Cognizant of all these problems, the management is striving to re-profile its debt obligations. As the company is facing difficulties, timely materialization of the management’s efforts seem doubtful.

PACRA is closely monitoring the progress of the company. However, in this regard, the co-operation of the company’s management in timely provision of requisite information is critical.

The Company: Shakarganj Mills Limited (SML), listed on all the stock exchanges, commenced its operations in 1974. Crescent group owns majority shareholding of around 43% in SML, mainly through its different companies and family members.

The TFC: The company has issued a secured privately placed TFC of PKR 630mln for a period of 6 years with a profit rate of 6-month KIBOR plus 225bps. The principal redemption, in 10 equal semiannual installments, would begin in Mar10.

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