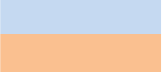




SHAKARGANJ MILLS LIMITED

- A steady deterioration in financial profile resulted in default

1.1 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. SML has diversified business operations comprising sugar, ethanol, particle board, and textile businesses. Meanwhile, SML has stake in food businesses through subsidiary, Shakarganj Food Products Limited. Crescent Group owns majority shareholding of ~59% in SML, mainly through its different companies and family members.

| Rating History - Shakarganj Mills Limited (Long-Term Entity and Instrument Ratings) | | | | | |
|---|-----------|-----------|-----------|-----------|------|
| 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 |
| D | | | | | D |
| | 04-Feb-08 | 22-Apr-08 | 10-Nov-09 | 17-Nov-09 | |

Rating Watch RW **Long-Term Entity Rating** 

Negative Outlook  **Instrument Rating** 

1.2 The entity rating of SML was initiated by PACRA in February 2008. At that time, these reflected higher business risk emanating from cyclical nature of sugar industry – the primary revenue-driver for SML. The company made some attempts into diversification, but these failed to spread out risk and improve margins to a material extent. Meanwhile, due to a highly leveraged capital structure, the subdued cashflows exerted further pressure on the financial profile of SML.

1.3 On April 22, 2008, in an attempt to revive the business, the management initiated the process to issue a secured privately placed TFC (PKR 630mln for a period of 6 years with a profit rate of 6-month KIBOR plus 225bps) in order to finance expansion into a new sugar unit. Considering the secured nature of the instrument, the rating of A- (Single A Minus) was assigned to the instrument. The instrument was issued on September 22, 2008. The principal redemption, in 10 equal semiannual installments, was to begin in Mar-10.

1.4 Subsequently, the management’s efforts to streamline and re-invigorate its business operations did not materialize as envisaged. SML could not fetch better margins, despite higher sugar prices, on account of rising input costs. Meanwhile, the rising interest rates further strained the highly leveraged capital structure. Finally, the company opted to restructure its financial obligations, which experienced excessive delays. Concurrently, PACRA began its annual rating update exercise and experienced non-availability of information and inaccessible company management.

1.5 On November 10, 2009, SML’s entity and instrument ratings were downgraded by multiple notches owing to continuous deterioration in risk absorption capacity and the ratings were placed in speculative grade (Double B) category. Meanwhile, SML missed its profit payment of the instrument and the ratings of entity and instrument were immediately downgraded to ‘D’ on November 17, 2009 on account of company’s non-performance on its liabilities. The ratings reflect the company’s non-performance on its debt obligations, emanating largely from material deterioration in its financial profile – a result of significant business losses, high leveraging, and subdued cashflows. Moreover, dynamics of the sugar and allied industry instigates doubts on the company’s ability to timely revive its business prospects and competitive margins. Cognizant of all these problems, the management struggled to re-profile its debt obligations. However, no material progress was achieved in this context.

1.6 Currently, SML is in the process to restructure its overdue liabilities with a consortium of lenders. An initial understanding to this effect has also been signed on February 16, 2010. As per publicly available financial statements, the company is expected to dispose off some of its assets for repayment of its liabilities by Sept 30, 2010 in accordance with terms of the restructuring agreement. However, breach of the agreement would result in selling one of SML's three sugar units for subsequent repayment of the restructured loans.

1.7 As per PACRA Policy¹, entity ratings, put on the default counter, stand withdrawn after the lapse of thirty (30) calendar days. An entity rating, hence withdrawn, marks the end of the rating relationship with PACRA. Thereafter, a fresh rating mandate is agreed in order for entity ratings to be assigned. Instruments, assigned a "D" rating, however, remain under surveillance and are updated using both public and non-public sources.

References:

November 17, 2009

[PACRA Downgrades Ratings of Shakarganj Mills Limited to "D"](#) [Long-Term Entity Rating: D, Instrument Rating: D]

November 10, 2009

[PACRA Downgrades Ratings of Shakarganj Mills Limited to "BB"](#) [Long-Term Entity Rating: BB-, Instrument Rating: BB]

April 22, 2008

[PACRA Assigns Ratings of A- to the proposed TFC of Shakarganj Mills Limited](#) [Long-Term Entity Rating: BBB+, Instrument Rating: A-]

February 04, 2008

[PACRA Assigns Entity Ratings To Shakarganj Mills Limited](#) [Long-Term Entity Rating: BBB+]

| | | |
|-----------------|--|--|
| Analysts | Aisha Yasin +92 42 3586 9504 aishayasin@pacra.com | Humaira Jamil +92 42 3586 9504 humaira@pacra.com |
|-----------------|--|--|

Disclaimer:

PACRA has used due care in preparation of this document. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA shall owe no liability whatsoever to any loss or damage caused by or resulting from any error in such information. None of the information in this document may be copied or otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA's written consent. Our reports and ratings constitute opinions, not recommendations to buy or to sell

¹ PACRA Default Policy – "What is Default?"