

# RATING REFLECTIONS

JCR-VIS Credit Rating Company Limited

NATIONAL EXCELLENCE, INTERNATIONAL REACH

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## Gharibwal Cement Limited (Entity & TFC)

In December 2007, JCR-VIS Credit Rating Company Limited (JCR-VIS) had assigned preliminary medium to long term rating of 'A-' (Single A Minus) with 'Stable' outlook to the proposed privately placed TFCs of Rs. 400m to be issued by Gharibwal Cement Limited (Gharibwal). In April 2008, this rating was confirmed.

The proposed structure of the transaction provided significant comfort to the ratings. Till the management could arrange to create a first pari passu charge on the fixed assets of the company and commercial production from the new dry process cement line started, an amount of Rs. 426m was to be guaranteed by a financial institution with a credit rating of 'A' or above along with a ranking charge on fixed assets. Once both the above-mentioned conditions had been satisfied, the TFC guarantee was to be reduced up to 37.5% of the outstanding TFC amount with a semi-annual reset of the guarantee amount based on the coverage provided by fund flow from operations to total net debt.

In July 2008, JCR-VIS assigned entity ratings of 'D' to Gharibwal on account of overdue payments outstanding amounting to Rs. 24m. Moreover, in light of increased stress on cashflows caused by delay in commencement of production, JCR-VIS revised the rating on the TFC issue from 'A-' (Single A-Minus) to 'BBB' (Triple B) with Negative Outlook.

Following the receipt of evidence from sponsors of payment against overdue amounts, JCR-VIS revised entity ratings to 'BB+/A-3' (Double B Plus/A-Three).

By March 2009, the rating of the guarantor, First Dawood Investment Bank Limited (not rated by JCR-VIS), had fallen five notches in only two months time. The rating of the guarantor had fallen below the minimum threshold laid down in the transaction structure, making the security structure weak. In view of this, JCR-VIS placed the TFC rating under 'Rating Watch-Developing' status. In view of the same, rating of the TFC was revised to 'BBB-' (Triple B Minus) in June 2009.

In October 2009, the entity rating was once again revised to 'D' on account of outstanding overdue payments. Moreover, the TFC rating was revised downwards from 'BBB-' (Triple B Minus) to 'BB+' (Double B Plus) with 'Negative' outlook, in view of increasing stress on cashflows caused by the delay in commencement of full scale production.

As of the date of JCR-VIS assigning default, the full guarantee was in force but the TFC holders had not been paid because the guarantor, First Dawood Investment Bank Limited had failed to fulfill its commitments.

TABLE - I: Gharibwal Cement Limited - Entity

Rating Action	Action Date	Rating	Outlook
Initial	Jun. 9, 2006	BBB	Stable
Reaffirmed	Jul. 12, 2007	BBB	Stable
Default	Jul. 16, 2008	D	-
Rating Watch	Jul. 16, 2008	BB+	Rating Watch - Developing
Reaffirmed	Jun. 3, 2009	BB+	Stable
Default	Oct. 19, 2009	D	-

TABLE - II: Gharibwal Cement Limited - TFC (Rs. 400m)

Rating Action	Action Date	Rating	Outlook
Preliminary	Dec. 12, 2007	A-	Stable
Final	Apr. 23, 2008	A-	Stable
Downgrade	Jul. 16, 2008	BBB	Negative
Maintained	Jul. 16, 2008	BBB	Rating Watch - Developing
Rating Watch	Mar. 17, 2009	BBB	Rating Watch - Developing
Downgrade	Jun. 3, 2009	BBB-	Stable
Downgrade	Oct. 19, 2009	BB+	Negative
Default	Nov. 23, 2009	D	-