

JCR-VIS Credit Rating Company Limited – Default Studies 2012

Below is the list of defaults that occurred during 2012. Along with this, we are also providing brief write-ups, documenting the events that transpired prior to the default. The same has also been published on our website.

- Quetta Textile Mills Ltd (TFC-1)

Quetta Textile Mills Limited – Sukuk Issue of Rs. 1.385 million

On March 30, 2012, JCR-VIS Credit Rating Co. Ltd. (JCR-VIS) assigned 'D' rating to the Rs. 1.385 billion Sukuk issue of Quetta Textile Mills Limited (QTML) in view of non-payment of full installment (principal plus interest) due on March 26, 2012.

The initial rating of 'A-' assigned to the Sukuk was based on the risk profile of the issuer and corporate guarantee of around Rs. 200m from at least an 'A' rated institution. Moreover, certain other conditions were laid down. With the revision in rating of guarantor from whom guarantee of Rs. 200m was arranged, the rating was placed on 'Rating-Watch Developing Status' and subsequently, the rating of the Sukuk was revised to 'BBB+' on August 05, 2009.

On March 01, 2012, rating of the company was revised to 'BBB-'. The rating action was taken in view of the weakening in cash flows, which raised concerns regarding the company's ability to service its debt in a timely manner. Moreover, leverage of the company was also considered on the higher side. For the upcoming installment against the Sukuk issue at end-March 2012, the sponsors had reiterated their commitment to meet the amount due on time.

On March 21, 2012, the rating was revised to 'BB' in view of the information made available by the company that sponsor support may not be forthcoming, as earlier expected and the issuer may not be able to meet the payment due on March 26, 2012.

The issuer was assigned default status on March 30, 2012 as installment due on March 26, 2012 was not paid on time.

About the issuer

QTML was incorporated as a public limited company in Pakistan in 1970 and its shares are listed on the Karachi Stock Exchange. The principal activities of QTML are manufacturing and sale of yarn and fabric. The textile industry witnessed compressed margins since Dec'11 which impacted risk profile of highly leveraged companies. QTML's leverage is considered high.

Rating Exhibit	
Date	Sukuk Rs. 1.385b
Mar. 27, 2008	'A-' Preliminary
Sep. 23, 2008	'A-' Final
March 09, 2009	'A-' Rating-Watch Developing
Aug. 5, 2009	'BBB+' Downgrade
May 27, 2010	'BBB+' Reaffirmed
Sep. 8, 2011	'BBB+' Reaffirmed
Mar. 01, 2012	'BBB-' Downgrade
Mar. 21, 2012	'BB' Downgrade
Mar. 30, 2012	'D'

Furthermore, lack of gas availability in Punjab, where a majority of QTML plants are located, forced the company to run on furnace oil driving up production costs significantly.