

Press Release

JCR-VIS releases its first issue of ‘Rating Reflections’

Karachi, October 19, 2009: The period commencing after June 2008 has been extremely difficult in economic terms, both internationally and in Pakistan. Internationally we saw several big names go into bankruptcy in the United States of America and these were then either rescued by the US Government or allowed to flounder. In addition the US Government announced a first aid package of US\$ 900 billion to prevent the total collapse of the US financial system and efforts are still on to try to keep it above water. Similarly, the financial systems of all member states of the European Union have been facing tremendous pressure and bankruptcies. To a lesser degree South East Asian and Middle Eastern countries are also facing problems. In Pakistan, the stock exchanges closed down for over 3 months following a collapse of share prices in September 2008 and the property markets also plunged. Amid all of this, the world’s major credit rating agencies also came under fire for not having been able to foresee the brewing turmoil and for not accurately assessing loans backing up structured finance transaction.

The parallel drawn between the recent performance of global credit rating companies and local rating agencies is as misplaced as it is common. In light of the above, JCR-VIS Credit Rating Co Ltd. has carried out a study to see how the ratings of the companies operating in Pakistan fared after June 2008 and has issued its first issue of ‘Rating Reflections’ in this regard, which is attached for information of the general public.

For further information on this rating announcement, please contact the undersigned (safdar@jcrvis.com.pk / Ext: 501) or Ms. Sabeen Saleem (sabeen@jcrvis.com.pk / Ext: 510) at 5311861-70 or fax to 5311873.

Safdar Kazi
Director

RATING REFLECTIONS

NATIONAL EXCELLENCE, INTERNATIONAL REACH

October, 2009

The purpose of this paper is to inculcate transparency in ratings and correct perceptions regarding the accuracy of assessments provided by a rating agency in particular or rating agencies as a whole. This is done by analyzing the performance of ratings in the recent trying economic environment. Entities have been facing tough operating conditions on account of inflationary pressures, liquidity shortages in the financial market, a sharp fall in capital markets, spiraling interest rates, extremely rapid and steep rupee depreciation, and acute power shortages. This was compounded by political uncertainty at the national front as well as a global recession that also hurt exporters in certain segments in terms of export orders available. The overall effect was unparalleled in terms of stress on companies' creditworthiness and sets tough grounds for testing ratings assigned in better economic circumstances.

Default is defined as

"The debt issuer is in a state of default on debt obligations, unable to fulfill principal and interest payments for the rated debt as agreed originally."

If the rating assigned to the issuer or issue in question does not denote a high probability of non-payment at the time of default, it is deemed to have failed. Indeed a rating is also considered to have failed if it does not begin to indicate an increasing probability of default, a considerable period prior to its occurrence. It is understood that rapid downgrades a very short while prior to a default are also indicative of incorrect rating assessments. Also worth mentioning at this point is that a 'AA' rated entity delaying repayment is distinctly different from a 'BB' rated entity doing the same. In fact, a rating agency's quality of ratings is determined by default statistics for each rating. Therefore rating quality can easily be differentiated by the original rating of each issuer delaying payments. It is in this context that this paper is to be read, while also keeping in view the default definitions applicable internationally and as referred above.

Rating Collapses Downward rating actions of 3 notches or more

Ratings of	Type of Ratings	As of 30/06/08	As of 25/09/09	# of Notches	Rating Agency
<u>AA rating category</u>					
1st Dawood Inv. Bank Ltd.	TFC-Rs.345M	AA-	BB	6	PACRA
Trust Inv. Bank Ltd.	TFC-Rs.600M	AA	A	3	PACRA
<u>A rating category</u>					
1st Dawood Inv. Bank Ltd.	Entity	A+	BB	7	PACRA
Dewan Cement Limited	TFC-Rs.5B	A	CC	12	PACRA
Dewan Cement Limited	Entity	A-	CC	11	PACRA
Eden Developers Pvt. Ltd.	Sukuk-Rs.200M	A-	BBB-	3	PACRA
Gharibwal Cement Limited	TFC-Rs.400M	A-	BBB-	3	JCR-VIS
New Allied Elect. Pvt. Ltd.	Sukuk-Rs.750M	A	D	14	JCR-VIS
New Allied Elect. Pvt. Ltd.	Sukuk-Rs.600M	A-	D	13	JCR-VIS
New Allied Elect. Pvt. Ltd.	TFC-Rs.900M	A-	D	13	JCR-VIS
Saudi Pak Leasing Co. Ltd.	TFC-Rs.750M	A	BBB	3	JCR-VIS
Saudi Pak Leasing Co. Ltd.	Entity	A-	BBB-	3	JCR-VIS
Security Leasing Corp. Ltd.	Entity	A-	BBB-	3	JCR-VIS

Rating Plunges Downward rating actions of 2 notches

Ratings of	Type of Ratings	As of 30/06/08	As of 25/09/09	# of Notches	Rating Agency
<u>AA rating category</u>					
Arif Habib Securities Ltd.	Entity	AA	A+	2	JCR-VIS
Trust Investment Bank Ltd.	TFC-Rs.375M	AA-	A	2	PACRA
Trust Investment Bank Ltd.	TFC-Rs.375M	AA-	A	2	PACRA
WorldCall Telecom Ltd.	TFC-Rs.350M	AA-	A	2	PACRA
WorldCall Telecom Ltd.	TFC-Rs.4B	AA-	A	2	PACRA
<u>A rating category</u>					
Maple Leaf Cement Ltd.	Entity	A	BBB+	2	PACRA
Maple Leaf Cement Ltd.	Sukuk-Rs.8B	A+	A-	2	PACRA
Pioneer Cement Limited	Entity	A-	BBB	2	PACRA
Trust Investment Bank Limited	Entity	A+	A-	2	PACRA
WorldCall Telecom Limited	Entity	A+	A-	2	PACRA

Note: All tables are sorted alphabetically on ratees' names

Despite the challenging conditions, JCR-VIS Credit Rating Co. Limited (JCR-VIS) believes that its ratings have fared well overall. Out of the 184 outstanding ratings of JCR-VIS as on June 30, 2008, no rating in the AAA or AA bands experienced delayed payments. Only one issuer rated in the 'AA' category experienced a downgrade of two notches. The issuer however continued to pay its obligations and the published accounts to date have not been qualified or cite any instance of delayed payment. Four issuers in the A band had witnessed downgrades of two or more notches up to September 25, 2009. Out of these, instruments issued by New Allied Electronics Industries (Pvt.) Limited were downgraded most significantly. These instruments were structured with credit enhancements built into the transactions. However, risk mitigating clauses pertaining to credit enhancements lapsed contributing to the enhancements becoming ineffective, and also on account of default by a guarantor to one of these transactions (First Dawood Investment Bank Limited). Upon non-payment on due date, these ratings were immediately downgraded to 'D' which we believe should be the standard practice in order to allow investors a transparent way of calculating default statistics and therefore assessing the credibility of ratings.

Financial statements of Saudi Pak Leasing Corporation Limited and Security Leasing Corporation Limited referred to in the accompanying table do not cite any instance of overdues and as per available information are current on their dues at present. Financial statements of the remaining issuers referred to in the table including First Dawood Investment Bank Limited, Dewan Cement Limited, Pioneer Cement Limited and Maple Leaf Cement Limited either confirm overdues, or auditors have expressed doubts over the ability of the company to continue as a going concern.

In other noticeable rating actions, ratings of Kohat Cement Limited were withdrawn on January 12, 2009 at BBB-/A3 and had been A-/A2 upto

December 15, 2008. The company had delayed its payments as evident from the financial statements for the period ended December 31, 2008. Similarly, financial statements of First Capital Equities Limited (FCEL) for 1HFY09 communicate a recovery suit that has been filed by Meezan Bank Limited

against FCEL during the period. Ratings of FCEL were withdrawn in March 2009 at A/A1 (positive outlook).

JCR-VIS's view on commercial default: JCR-VIS believes that ratings of entities that are in default on commercial payables should be indicative of the same. For instance, ratings of entities affected by the circular debt crisis should signal the exceptional liquidity related stress that the entities are facing. These are circumstances that are beyond the entities' control; however, we believe that the assigned ratings should keep stakeholders that have a credit stake in the company, abreast of the rated entities' repayment capacity at all times. In times of stress, these entities will not be able to raise secured bonds/TFCs with ratings one notch above their entity ratings. By way of policy, JCR-VIS would indicate default on commercial obligations, wherever known, indicated by assigning 'Selective Default' status to the existing ratings.

Through this paper, JCR-VIS is giving market participants an opportunity to compare the sustainability of ratings of different rating agencies. We believe that when BATS (Bonds Automated Trading System) comes online on the Karachi Stock Exchange, rating collapses and misleading ratings can cause significant volatility in the market. JCR-VIS plans to publish similar studies regularly for bringing about transparency in the assigned ratings.

TABLE - I	Type of Ratings	As of 30/06/08	As of 25/09/09	Rating Agency
Ratings of				
First Capital Equities Ltd.	Entity	A	Withdrawn	PACRA
Kohat Cement Ltd.	Entity	A-	Withdrawn	PACRA
<i>Note: see adjacent discussion for details</i>				

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