



The Pakistan Credit Rating Agency Limited

## Rating Report

### Liberty Mills Limited

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#### Rating History

| Dissemination Date | Long Term Rating | Short Term Rating | Outlook | Action   | Rating Watch |
|--------------------|------------------|-------------------|---------|----------|--------------|
| 14-Jun-2023        | A+               | A1                | Stable  | Maintain | -            |
| 09-Jul-2022        | A+               | A1                | Stable  | Maintain | -            |
| 10-Jul-2021        | A+               | A1                | Stable  | Maintain | -            |
| 10-Jul-2020        | A+               | A1                | Stable  | Maintain | -            |
| 12-Jul-2019        | A+               | A1                | Stable  | Maintain | -            |
| 11-Jan-2019        | A+               | A1                | Stable  | Maintain | -            |
| 09-Apr-2018        | A+               | A1                | Stable  | Maintain | -            |

#### Rating Rationale and Key Rating Drivers

Liberty Mills' ratings reflect the strong business profile of the Company emanating from value-added textile business and topped up with non-core income from investments. This diversity in revenue stream insulates the Company's profitability to an extent by providing a cushion. The Company is a family-owned textile unit operating in apparel, institutional, and home textile segments. The focus of the company on the established niche of quality-conscious institutional buyers has led to customer concentrations and longevity of relationships with big-name clients in addition to sustained quality that helps manage the risk. The holding company structure of the entity strengthens its profile with the investment book constituting ~65% of the equity base. Over the recent years, the company has recorded a sizable increase in the topline. The increase in sales of home textile products has benefited the company and resulted in an enhanced turnover. The Company's financial risk matrix remained good where the recent increase in leverage was recorded. However, availed borrowings are under LTFF and TERF (at minimal rates). The Company has stepped into large-scale diversification with two ongoing Wind power projects (COD achieved). The Company has expanded its home textile business as well as achieved backward integration. Land of 152 Acres was procured last year (at Nooriabad) and the master complex (from Spinning right up to finished fabric) has been established. Spinning capacity has reached 1,600 bags per day whereas the weaving unit has 144 looms installed. The finishing capacity has been enhanced to 350,000 meters per day. Ratings also incorporate strong sponsor support augmented by a supplementary investment portfolio. Liberty Group - the sponsor - intends to expand its industrial footing with a diversification philosophy. Pakistan Aluminum Beverage Cans Limited, a large long-term project is fully in operation. A number of medium and long-term projects are underway at the group- level including (i) Pharmaceutical projects and (ii) Hydro Power projects. During 9MFY22 (Jul21-Mar22), Pakistan textile exports surged to \$14.2bln (recording a growth of 25%) as compared to \$11.3bln in the same period last year. This is attributable to an increase in demand for textile products internationally and the channeling of export orders toward the Pakistani market. On a YoY basis, the exports of raw cotton, cotton (carded or combed) and cotton cloth recorded notable growth.

Continued utilization of beefed-up capacities is considered critical. Moreover, improvement in the governance framework will be favorable for the ratings. Going forward, an increase in business size and continuation of dividend/another income stream will remain vital.

#### Disclosure

|                              |  |
|------------------------------|--|
| <b>Name of Rated Entity</b>  | Liberty Mills Limited  |
| <b>Type of Relationship</b>  | Solicited  |
| <b>Purpose of the Rating</b> | Entity Rating  |
| <b>Applicable Criteria</b>   | Methodology   Corporate Rating(Jun-22),Methodology   Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology   Rating Modifiers(Jun-22) |
| <b>Related Research</b>      | Sector Study   Composite and Garments(Dec-21)  |
| <b>Rating Analysts</b>       | Sehar Fatima   sehar.fatima@pacra.com   +92-42-35869504  |

## Profile

**Legal Structure** Liberty Mills Limited (Liberty Mills) is an unlisted, public limited concern incorporated in 1964.

**Background** Liberty Mills commenced operations in 1964 as a private limited Company. Later, in 1969, its legal status was changed to a public, listed company. In Dec'13, the Company was delisted from the stock exchange.

**Operations** Liberty Mills is in the business of manufacturing and processing textile fabrics and made-ups. It operates in two main segments: processing (dyeing and printing) and home textile. The Company has set up its backward integration units of spinning and weaving which are fully in operation and these will enhance efficiency along with limited dependency, going forward. The Company generates electricity for its in-house use through captive power generation. Its manufacturing facility is located at Sindh Industrial and Trading Estate in Karachi and Nooriabad.

## Ownership

**Ownership Structure** Liberty Mills is the flagship company of the Liberty Group. It is owned wholly by the Mukaty Family, mainly through the family members.

**Stability** In the absence of a group holding company and the personal relationship that exists between the sponsors, there is no formal succession plan, which may have implications for the stability of the Company.

**Business Acumen** With almost four decades of experience, the Liberty Group has expertise in the textile and energy sectors of Pakistan. The sponsors carry extensive diversified industrial experience.

**Financial Strength** Apart from its presence in textile, and energy including wind power projects and aluminum, the Group also has interests in the pharmaceutical sector. The sponsors have shown a willingness and ability to support the Company in times of need.

## Governance

**Board Structure** The Board of Directors comprises seven members of the Mukaty family. The Board is Chaired by Mr. Muhammad Ashraf who also holds the CEO office. The absence of independent oversight indicates a need for improvement in the governance structure of the Company.

**Members' Profile** The Chairman, Mr. Muhammad Ashraf, brings with him over 30 years of experience in the local textile industry. Meanwhile, all board members have significant industry-related as well as diversified experience and have a long association with the Liberty Group.

**Board Effectiveness** Board meetings are conducted at regular intervals. However, documentation of discussion in meetings needs improvement. To ensure proper oversight, the Company has also formed two committees – Audit, and Human Resource & Remuneration – to assist the board on relevant matters.

**Financial Transparency** M/s Kreston Hyder Bhimji & Co. Chartered Accountants is the external auditor of the Company. They are classified by the State Bank of Pakistan in "Category A" on its panel of auditors. The auditor gave an unqualified opinion on the Company's financial statements for the year ended June 30, 2021.

## Management

**Organizational Structure** The structure of the Company is currently divided into ten functional departments, with the Head of each department reporting directly to CEO, Mr. Muhammad Ashraf.

**Management Team** Mr. Muhammad Ashraf – CEO of the company is supported by a team of experienced professionals. Most of the senior management has been associated with the Company for a reasonably long period of time. Prior to joining Liberty Mills, he was also the CEO of Liberty Power Tech Limited.

**Effectiveness** Liberty Mills maintains adequate IT infrastructure and related controls. The Company has a comprehensive reporting system for the management to keep track of activities.

**MIS** Oracle based Enterprise Resource Planning (ERP) system has been deployed which provides an integrated view of business processes, facilitating comprehensive MIS reporting.

**Control Environment** Liberty has a well-trained quality control department. The Company is ISO 9001 certified. It also has an internal audit department that reports directly to the CEO, while it should report to the Audit Committee of the Board, to ensure the effectiveness of the function.

## Business Risk

**Industry Dynamics** During 9MFY22 (Jul21-Mar22), Pakistan textile exports surged to \$14.2bln (recording growth of 25%) as compared to \$11.3bln in the same period last year. This is attributable to increase in demand for textile products internationally and channeling of export orders towards Pakistani market. On a YoY basis, the exports of raw cotton, cotton (carded or combed) and cotton cloth recorded notable growth. However, month on month basis, textile exports have declined by 3.5%. Going forward, the textile sector's outlook is expected to stay good in the medium term where demand for textile products is expected to sustain.

**Relative Position** Liberty Mills is placed among the major value-added textile exporters of Pakistan. The Company faces competition from other large players such as Yunus Textile Mills, Kohinoor Textile Mills, Gul Ahmed and Nishat Mills.

**Revenues** The Company's topline has recorded a sizable increase to PKR 34bln during FY21 (FY20: PKR 28.3bln) mainly attributable to enhanced exports and rupee depreciation. The company's sales have remained tilted towards exports (9MFY22: 96%). Sales are moderately diversified in several geographical regions. During 9MFY22, the trend continued and revenues enhanced to ~PKR 36bln (9MFY21: ~PKR 27bln), up ~25% YoY.

**Margins** The Company's gross margins recorded improvement (9MFY22: 13.2%, FY21: 9.9%). Operating margins also recorded an increase to 6.8% (end-Jun21: 3.1%). During FY21, the Company's non-operating income recorded a significant improvement to PKR 4.1bln where PKR 2bln was a gain (net) recorded on disposal of short-term investment (listed shares). Hence, net profitability enhanced to PKR 2.1bln (FY20: PKR 1.8bln). The trend continued in 9MFY22 where net profitability clocked in at PKR 1.6bln. Net profit margins were recorded at 6.4% and 4.5% for FY21 and 9MFY22 respectively.

**Sustainability** The company has increased its production by acquiring new machines in various segments of the business. In the spinning unit, the number of rotors increased to 10,200 leading to an increase in capacity up to 1,600 bags per day. In weaving capacity, the number of looms increased to 144, enhancing the capacity to 80,000 meters per day. Due to a sizeable increase in the total number of machines in the dyeing and printing department, increasing in per day capacity from 300,000 meters to 350,000 meters. The Company is an export-oriented entity that has experienced a demand shift from export destinations which is translated into this acquisition to achieve its required production volumes.

## Financial Risk

**Working Capital** Liberty's working capital requirements are a function of its inventory and receivables, for which the company relies on a mix of internal generation and short-term borrowings (STBs). The Company's net cash cycle remained largely the same (9MFY22: 161 days, FY21: 167days). The company has current assets of PKR 50,793mln (FY21: PKR 38,381mln) when compared to short-term borrowings recorded at PKR 27,416mln (FY21: 21,383mln).

**Coverages** Due to increase in short-term borrowing, the finance cost increased (9MFY22: PKR 1,118mln, 9MFY21: 673mln). Consequently, the Company's coverage remained good (Interest coverage: 9MFY22: 2x, FY21: 0.5x).

**Capitalization** Liberty maintains a moderately leveraged capital structure. Debt increased significantly, recorded at PKR 37.5bln, (FY21: PKR 27.6bln) resulting in increased leveraging of ~58.4% against ~53% as of end-Jun21. A major portion of debt continues to be dominated by short-term borrowing at end-Mar22: 73% (end-Jun21: 76%). The equity base of the Company has also enhanced to PKR 27bln (end-Jun21: PKR 24.6bln, end-Jun20: PKR 19.8bln).



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Financial Summary

PKR mln

| Liberty Mills Limited<br>Compsite   | Mar-22<br>9M | Jun-21<br>12M | Jun-20<br>12M | Jun-19<br>12M |
|---|--------------|---------------|---------------|---------------|
| <b>A BALANCE SHEET</b>  |              |               |               |               |
| 1 Non-Current Assets  | 16,617       | 10,050        | 5,830         | 5,394         |
| 2 Investments   | 12,688       | 13,321        | 10,738        | 8,052         |
| 3 Related Party Exposure  | 6,120        | 6,002         | 5,864         | 1,937         |
| 4 Current Assets  | 41,764       | 28,719        | 23,657        | 19,082        |
| <i>a Inventories</i>  | 23,136       | 16,349        | 11,284        | 9,301         |
| <i>b Trade Receivables</i>  | 9,018        | 5,919         | 3,770         | 6,037         |
| 5 Total Assets  | 77,191       | 58,092        | 46,088        | 34,465        |
| 6 Current Liabilities   | 11,721       | 5,178         | 4,458         | 3,120         |
| <i>a Trade Payables</i>   | 8,909        | 3,197         | 2,852         | 2,045         |
| 7 Borrowings  | 37,550       | 27,621        | 20,021        | 13,501        |
| 8 Related Party Exposure  | 445          | 230           | 1,691         | 225           |
| 9 Non-Current Liabilities   | 450          | 450           | 51            | -             |
| 10 Net Assets   | 27,023       | 24,613        | 19,868        | 17,618        |
| 11 Shareholders' Equity   | 27,023       | 24,613        | 19,868        | 17,618        |
| <b>B INCOME STATEMENT</b>   |              |               |               |               |
| 1 Sales   | 35,998       | 34,125        | 28,316        | 26,358        |
| <i>a Cost of Good Sold</i>  | (31,233)     | (30,747)      | (23,980)      | (21,517)      |
| 2 Gross Profit  | 4,765        | 3,378         | 4,337         | 4,841         |
| <i>a Operating Expenses</i>   | (2,317)      | (2,311)       | (1,923)       | (1,695)       |
| 3 Operating Profit  | 2,449        | 1,067         | 2,414         | 3,146         |
| <i>a Non Operating Income or (Expense)</i>  | 749          | 3,080         | 410           | 937           |
| 4 Profit or (Loss) before Interest and Tax  | 3,197        | 4,147         | 2,824         | 4,083         |
| <i>a Total Finance Cost</i>   | (1,118)      | (1,031)       | (608)         | (342)         |
| <i>b Taxation</i>   | (469)        | (922)         | (349)         | (333)         |
| 6 Net Income Or (Loss)  | 1,610        | 2,194         | 1,867         | 3,408         |
| <b>C CASH FLOW STATEMENT</b>  |              |               |               |               |
| <i>a Free Cash Flows from Operations (FCFO)</i>                                   | 2,516        | 411           | 2,373         | 4,322         |
| <i>b Net Cash from Operating Activities before Working Capital Changes</i>        | 1,580        | (447)         | 2,398         | 4,323         |
| <i>c Changes in Working Capital</i>   | (6,274)      | (5,275)       | (3,896)       | (5,893)       |
| 1 Net Cash provided by Operating Activities                                       | (4,694)      | (5,722)       | (1,498)       | (1,570)       |
| 2 Net Cash (Used in) or Available From Investing Activities                       | (5,808)      | (2,601)       | (8,005)       | (3,675)       |
| 3 Net Cash (Used in) or Available From Financing Activities                       | 4,467        | 5,862         | 797           | 6,025         |
| 4 Net Cash generated or (Used) during the period                                  | (6,035)      | (2,461)       | (8,706)       | 780           |
| <b>D RATIO ANALYSIS</b>   |              |               |               |               |
| <b>1 Performance</b>  |              |               |               |               |
| <i>a Sales Growth (for the period)</i>  | 40.7%        | 20.5%         | 7.4%          | 63.3%         |
| <i>b Gross Profit Margin</i>  | 13.2%        | 9.9%          | 15.3%         | 18.4%         |
| <i>c Net Profit Margin</i>  | 4.5%         | 6.4%          | 6.6%          | 12.9%         |
| <i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>     | -10.4%       | -14.3%        | -5.4%         | -6.0%         |
| <i>e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/Sh</i> | 8.3%         | 9.9%          | 10.0%         | 21.4%         |
| <b>2 Working Capital Management</b>   |              |               |               |               |
| <i>a Gross Working Capital (Average Days)</i>                                     | 207          | 200           | 196           | 172           |
| <i>b Net Working Capital (Average Days)</i>                                       | 161          | 167           | 164           | 145           |
| <i>c Current Ratio (Current Assets / Current Liabilities)</i>                     | 3.6          | 5.5           | 5.3           | 6.1           |
| <b>3 Coverages</b>  |              |               |               |               |
| <i>a EBITDA / Finance Cost</i>  | 3.0          | 1.1           | 6.4           | 18.5          |
| <i>b FCFO / Finance Cost+CMLTB+Excess STB</i>                                     | 1.4          | 0.2           | 3.9           | 11.3          |
| <i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>         | 5.4          | -15.1         | 2.3           | 0.5           |
| <b>4 Capital Structure</b>  |              |               |               |               |
| <i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>               | 58.4%        | 53.1%         | 52.2%         | 43.8%         |
| <i>b Interest or Markup Payable (Days)</i>  | 101.1        | 85.4          | 102.9         | 109.4         |
| <i>c Entity Average Borrowing Rate</i>  | 5.4%         | 3.5%          | 3.0%          | 2.4%          |

### Credit Rating

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

| Scale | Long-term Rating Definition   |
|-------|---|
| AAA   | <b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments  |
| AA+   |   |
| AA    | <b>Very high credit quality.</b> Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.   |
| AA-   |   |
| A+    |   |
| A     | <b>High credit quality.</b> Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.  |
| A-    |   |
| BBB+  | <b>Good credit quality.</b> Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.                                 |
| BBB   |   |
| BBB-  |   |
| BB+   | <b>Moderate risk.</b> Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met. |
| BB    |   |
| BB-   |   |
| B+    |   |
| B     | <b>High credit risk.</b> A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.  |
| B-    |   |
| CCC   | <b>Very high credit risk.</b> Substantial credit risk "CCC" Default is a real possibility.  |
| CC    | Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.  |
| C     |   |
| D     | Obligations are currently in default.   |

| Scale | Short-term Rating Definition  |
|-------|---|
| A1+   | The highest capacity for timely repayment.  |
| A1    | A strong capacity for timely repayment.   |
| A2    | A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.                  |
| A3    | An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.                |
| A4    | The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient. |



\*The correlation shown is indicative and, in certain cases, may not hold.

**Outlook (Stable, Positive, Negative, Developing)** Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

**Rating Watch** Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

**Suspension** It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

**Withdrawn** A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults, or/and e) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

**Harmonization** A change in rating due to revision in applicable methodology or underlying scale.

**Surveillance.** Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

**Note.** This scale is applicable to the following methodology(s):  
 a) Broker Entity Rating  
 b) Corporate Rating  
 c) Debt Instrument Rating  
 d) Financial Institution Rating  
 e) Holding Company Rating  
 f) Independent Power Producer Rating  
 g) Microfinance Institution Rating  
 h) Non-Banking Finance Companies Rating

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### **Rating Team Statements**

(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

### **2) Conflict of Interest**

i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)

ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)

iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

### **Restrictions**

(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)

(4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)

(5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

### **Conduct of Business**

(6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)

(7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report | Clause 11-(A)(p).

(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)

(9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)

(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)

(11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

### **Independence & Conflict of interest**

(12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA's opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity

(13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)

(14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)

(15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)

(16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)

(17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

### **Monitoring and review**

(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)

(19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)

(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)

(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

### **Probability of Default**

(22) PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA's transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(F-VII)

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