



## The Pakistan Credit Rating Agency Limited

### Rating Report

#### H. Sheikh Noor-ud-Din & Sons (Private) Limited

#### Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

#### Rating History

| Dissemination Date | Long Term Rating | Short Term Rating | Outlook    | Action    | Rating Watch |
|--------------------|------------------|-------------------|------------|-----------|--------------|
| 31-Jan-2020        | BBB              | A2                | Negative   | Downgrade | YES          |
| 01-Aug-2019        | A-               | A2                | Developing | Maintain  | YES          |
| 31-Jan-2019        | A-               | A2                | Developing | Maintain  | YES          |
| 02-Aug-2018        | A-               | A2                | Stable     | Maintain  | -            |
| 29-Jan-2018        | A-               | A2                | Stable     | Initial   | -            |

#### Rating Rationale and Key Rating Drivers

H. Sheikh Noor-ud-Din & Sons (Private) Limited (The Company) is the manufacturing arm of NRS International which is primarily engaged in manufacturing of relief and health items for international donor agencies. In FY19, due to ongoing ownership related changes, the Company did not bid for new contracts with international relief agencies, which led to a decrease in revenue and overall profitability. The Company's sales of Long Lasting Insecticidal Nets (LLIN) – Major revenue contributor– reluctantly suffered as production stopped. To mitigate the impact, the sponsors transferred all the key underlying products of previously established brand "Tana Netting" to a recently established brand "Moon Netting". Loss of revenue and higher total borrowings pressured the Company's financial profile. The Company is in the process of converting its entire short-term borrowings to SBP's export refinance scheme to save interest expense and also rescheduling certain loans to mitigate this to an extent. The pressure on business profile is expected to persist in near future. The ratings incorporate the Company's long term association with international donor agencies such as UNHCR, UNICEF, Red Cross and others as a qualified vendor. Strong support from sponsors and other group businesses remains a key rating factor. The ownership structure of the Company has been reorganized after the sponsors reached an agreement. The process is expected to be completed till June-2020. PACRA has maintained "Rating Watch" on the ratings and will continue to closely monitor these developments. A rating action may be taken accordingly.

Successful transition and implementation of new ownership structure, improvement in sales volumes through commencement of production of netting business and prudent working capital management remain critical for ratings. Meanwhile, adherence to agreed financial matrices (Short term borrowing to Net working capital <70%, cash debt coverages of above 2.5x) and improving governance practices are important. Any significant delays in production leading to lower sales and/or deterioration in coverages will impact the ratings negatively.

#### Disclosure

|                              |                                                                                                                                                              |
|------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Name of Rated Entity</b>  | H. Sheikh Noor-ud-Din & Sons (Private) Limited                                                                                                               |
| <b>Type of Relationship</b>  | Solicited                                                                                                                                                    |
| <b>Purpose of the Rating</b> | Entity Rating                                                                                                                                                |
| <b>Applicable Criteria</b>   | Methodology   Corporate Ratings(Jun-19), Methodology   Correlation Between Long-Term And Short-Term Rating Scale(Jun-19), Criteria   Rating Modifier(Jun-19) |
| <b>Related Research</b>      | Sector Study   Relief(Jan-20)                                                                                                                                |
| <b>Rating Analysts</b>       | Muhammad Hassan   muhammad.hassan@pacra.com   +92-42-35869504                                                                                                |

## Profile

**Legal Structure** H. Sheikh Noor-ud-Din & Sons Pvt. Ltd. ('The Company') was incorporated in 1979 as a Private Limited Company.

**Background** In 1966, Sheikh Muhammad Sarwar, founder and Chairman of the Company, opened a local shop to sell canvas. A pivotal event in the Company was when it began to supply tents to the United Nations during the Iran-Iraq War in 1980.

**Operations** Principal operations of the Company comprise production and sale of humanitarian relief items, multi-purpose tents, insecticidal nets and solar solutions. The Company operates as the production arm of NRS Group.

## Ownership

**Ownership Structure** The group is a family business owned and managed by Sarwar family via equal individual shareholdings of four brothers Farhan Sarwar, Farhaj Sarwar, Ahmar Sarwar and Furqan Sarwar. However, Sarwar family has decided to alter the ownership structure. In the new structure, Mr. Farhan will sell his shareholding in the Company and the remaining three brothers; Mr. Farhaj Sarwar, Mr. Ahmar Sarwar and Mr. Furqan Sarwar will split the shareholding equally.

**Stability** The Company recently went through the process of re-designing its ownership structure. Sponsors of the Company reached an asset division agreement, which resulted in one of the four brothers exiting the Company. The agreement also clearly lays out a road map for any future division of the Company assets in case of a split between the remaining three brothers. The transition in ownership structure has affected stability.

**Business Acumen** Sponsors have strong knowledge of the industry with extensive experience in the relevant fields. This facilitates smooth and effective running of the Company.

**Financial Strength** Financial Strength of the entity is considered strong. Apart from relief industry, the sponsors are also involved in other businesses like; oil extraction, real-estate and dairy products.

## Governance

**Board Structure** The board is dominated by the sponsors. Currently, all four brothers are on the board but the composition will soon reduce to three brothers after the departure of Mr. Farhan Sarwar from the Company. All directors are executive directors, with no independent or non-executive directors.

**Members' Profile** Board members have significant industry experience and have a long association with the Company. Mr. Farhaj Sarwar recently replaced Mr. Farhan Sarwar as the CEO and Chairman of the Company.

**Board Effectiveness** As a private limited company, the board does not have any formal committees. Being executive directors, all directors are actively involved in the day to day operations of the Company. However, documentation of minutes of meetings needs improvement. There is room for improvement in governance framework.

**Financial Transparency** Kamran & Co. Chartered Accountants are the external auditors of the Company. The auditor has given an unqualified opinion on the financial statements as at 30th June 2019. Going forward, the Company plans to enhance its financial transparency by upgrading to a more established auditor.

## Management

**Organizational Structure** The Company has a broad organizational structure. It is mainly divided into four divisions. Three divisions operate in Pakistan whereas sales and marketing division is based out of Dubai. The four divisions are 1) Finance 2) Sales & Marketing Services, 3) Supply Chain Services and 4) Production.

**Management Team** Mr. Farhaj Sarwar looks after the sales and marketing division of the group in Dubai and Mr. Furqan Sarwar overseas production division. Whereas, Mr. Ahmar Sarwar heads finance function, as well as, administrative responsibilities discharged by Mr. Farhan Sarwar. Mr. Farhaj Sarwar recently replaced Mr. Farhan Sarwar as the CEO of the Company.

**Effectiveness** The Company maintains good IT infrastructure and related controls. The Company recently changed its Enterprise Resource Planning Software from SAP to Oracle EBS 12.27 and Qlik Sense in its facilities.

**MIS** The Company maintains a comprehensive MIS reporting system for the management to keep track of activities. The Company's MIS comprises a range of reports including cash position, receivable position, payable position, production, inventory status reports, and segment wise profit & loss statement.

**Control Environment** The Company has a well-trained quality control department, which is responsible for ensuring strict product quality. The Company's compliance with internationally acclaimed quality standards help it meet customer specification. The Company is ISO 9001, ISO – 14000 and SA 8000 certified.

## Business Risk

**Industry Dynamics** Sales of the industry are majorly made to relief organizations world wide to help people in areas affected by natural calamities or areas which are more prone to diseases caused by mosquitoes. Relief items are mainly provided in parts of Africa, parts of Middle East, Western Asia which are affected by war, floods or other calamities.

**Relative Position** The Company is one of the world's leading manufacturers of core relief items and long-lasting insecticidal nets for humanitarian aid and public health sectors. The Company also has a significant world market share in netting.

**Revenues** During FY19, revenue of the Company decreased by ~39% YoY to PKR 11,904mln (FY18: PKR 19,596mln). The decrease in revenue was mainly due to the fact that the Company did not bid for contracts with international relief organizations because of transition in ownership. This resulted in production halts and affected top-line. Trend of decrease in revenue continued through 1QFY20 (1QFY20: PKR 2,851mln, 1QFY19: PKR 3,032mln). The Company's sales mix remains dominated by insecticidal nets segment.

**Margins** During FY19, the Company's gross margin increased to 25.8% (FY18: 18.9%) and operating margin to 17.9% (FY18: 12.5%) due to currency devaluation and increase in rebate income (FY19: PKR 1,016mln, FY18: PKR 588mln). Cost of sales also contributed to improvement in margins and clocked in at PKR 8,828bln (FY18: PKR 15,886mln, FY17: PKR 16.6bln). The proportionate decrease was on the back of reduction in purchases amid rising raw material prices. The net profit margin decreased to 7.7% (FY18: 10.2%) on the back of higher finance cost. Net profit stood at PKR 918mln in FY19 (FY18: 1,683mln). During 1QFY20, gross margin further increased to 26.6% and operating margin to 20.3%. Net profit margin also improved to 9.6% during the period, as the Company posted a net income of PKR 274mln (1QFY19: PKR 310mln).

**Sustainability** The Company's revenue and margins are expected to take around one year to recover from the effect of recent restructuring and reach previous levels. The group is also consolidating oil extraction, poultry and dairy farm businesses in its portfolio. These new projects are expected to support the Company's revenues. Successful completion of restructuring of loans will provide comfort and may improve performance.

## Financial Risk

**Working Capital** During FY19, the Company's net working capital cycle increased to 185days (FY18: 104days) due to higher inventory retention as a result of lower sales. Short term borrowings increased to PKR 8,269mln (FY18: PKR 6,381mln) to meet the financing gap due to higher inventory retention and lower receivable realization. During 1QFY20, working capital cycle further increased to 207days and short term borrowings to PKR 8,308mln. This has put pressure on the liquidity profile of the Company. The management intends to rationalize its working capital cycle as there is very little room for further borrowing at trade level.

**Coverages** During FY19, Free Cashflow from Operations (FCFO) decreased by ~8.5% YoY and clocked in at PKR 2,335mln (FY18: PKR 2,553mln) mainly due to decline in revenue. Decrease in FCFO and increase in finance cost (FY19: PKR 1,085mln, FY18: PKR 487mln) led to lower interest coverage ratio of 2.2x (FY18: 5.7x) and debt coverage ratio of 1.8x (FY18: 4.5x). However, FCFO was better in 1QFY20 on QoQ to reach PKR 586mln (1QFY19: PKR 505mln) while the coverages remained stagnant.

**Capitalization** During FY19, the Company's leveraging increased to 46.7% (FY18: 40.6%) on the back of increase in long term borrowings to PKR 854mln (FY18: PKR 136mln). This made up ~9.3% of the total debt (PKR 9,123mln). Increase in long term borrowings was due to ongoing BMR. The Company mainly relies on finance lease in order to finance its CAPEX. Leveraging stayed almost unaltered in 1QFY20 at 46.6% while the long term borrowings further increased to PKR 992mln and made up ~10.7% of the total debt (PKR 9,300mln).



The Pakistan Credit Rating Agency Limited

Financial Summary

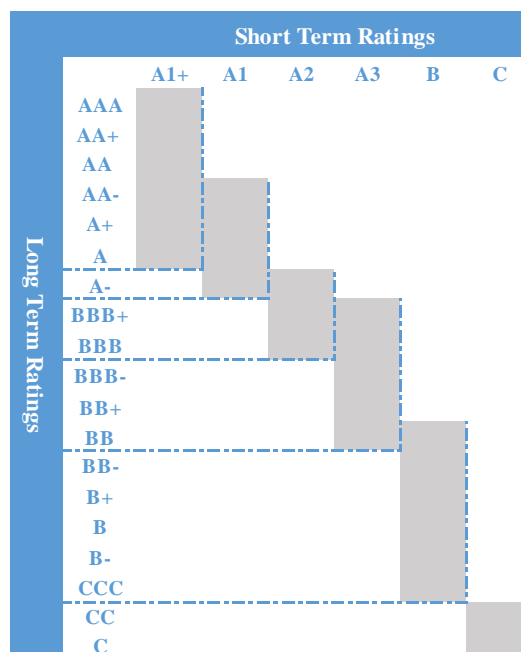
PKR mln

| H. Sheikh Noor-ud-Din & Sons<br>Relief                              | Sep-19<br>3M | Jun-19<br>12M | Jun-18<br>12M | Jun-17<br>12M |
|---------------------------------------------------------------------|--------------|---------------|---------------|---------------|
| <b>A BALANCE SHEET</b>                                              |              |               |               |               |
| 1 Non-Current Assets                                                | 8,628        | 8,757         | 7,317         | 6,384         |
| 2 Investments                                                       | -            | -             | -             | -             |
| 3 Related Party Exposure                                            | 1,457        | 1,385         | -             | -             |
| 4 Current Assets                                                    | 10,996       | 10,453        | 9,915         | 9,690         |
| a Inventories                                                       | 3,079        | 3,624         | 3,323         | 3,375         |
| b Trade Receivables                                                 | 3,866        | 3,500         | 3,002         | 3,016         |
| 5 Total Assets                                                      | 21,081       | 20,594        | 17,232        | 16,074        |
| 6 Current Liabilities                                               | 945          | 939           | 1,154         | 2,074         |
| a Trade Payables                                                    | 560          | 594           | 805           | 797           |
| 7 Borrowings                                                        | 9,300        | 9,123         | 6,517         | 6,131         |
| 8 Related Party Exposure                                            | 58           | 29            | -             | 10            |
| 9 Non-Current Liabilities                                           | 63           | 63            | 41            | 23            |
| 10 Net Assets                                                       | 10,715       | 10,441        | 9,519         | 7,836         |
| 11 Shareholders' Equity                                             | 10,715       | 10,441        | 9,519         | 7,836         |
| <b>B INCOME STATEMENT</b>                                           |              |               |               |               |
| 1 Sales                                                             | 2,851        | 11,904        | 19,596        | 19,838        |
| a Cost of Good Sold                                                 | (2,092)      | (8,828)       | (15,886)      | (16,594)      |
| 2 Gross Profit                                                      | 759          | 3,076         | 3,710         | 3,244         |
| a Operating Expenses                                                | (180)        | (943)         | (1,251)       | (1,214)       |
| 3 Operating Profit                                                  | 580          | 2,133         | 2,458         | 2,030         |
| a Non Operating Income                                              | (12)         | (41)          | (91)          | (77)          |
| 4 Profit or (Loss) before Interest and Tax                          | 568          | 2,092         | 2,367         | 1,954         |
| a Total Finance Cost                                                | (274)        | (1,085)       | (487)         | (466)         |
| b Taxation                                                          | (21)         | (88)          | (198)         | (185)         |
| 6 Net Income Or (Loss)                                              | 274          | 918           | 1,683         | 1,302         |
| <b>C CASH FLOW STATEMENT</b>                                        |              |               |               |               |
| a Free Cash Flows from Operations (FCFO)                            | 586          | 2,335         | 2,553         | 2,059         |
| b Net Cash from Operating Activities before Working Capital Changes | 371          | 1,453         | 2,037         | 1,625         |
| c Changes in Working Capital                                        | (102)        | (2,184)       | (1,190)       | (3,394)       |
| 1 Net Cash provided by Operating Activities                         | 269          | (731)         | 847           | (1,769)       |
| 2 Net Cash (Used in) or Available From Investing Activities         | (103)        | (1,178)       | (1,219)       | (900)         |
| 3 Net Cash (Used in) or Available From Financing Activities         | (186)        | 1,963         | 340           | 2,679         |
| 4 Net Cash generated or (Used) during the period                    | (20)         | 54            | (33)          | 10            |
| <b>D RATIO ANALYSIS</b>                                             |              |               |               |               |
| 1 Performance                                                       |              |               |               |               |
| a Sales Growth (for the period)                                     | -4.2%        | -39.3%        | -1.2%         | 30.0%         |
| b Gross Profit Margin                                               | 26.6%        | 25.8%         | 18.9%         | 16.4%         |
| c Net Profit Margin                                                 | 9.6%         | 7.7%          | 8.6%          | 6.6%          |
| d Cash Conversion Efficiency (EBITDA/Sales)                         | 24.3%        | 21.7%         | 14.4%         | 11.7%         |
| e Return on Equity (ROE)                                            | 10.4%        | 9.2%          | 19.4%         | 18.1%         |
| 2 Working Capital Management                                        |              |               |               |               |
| a Gross Working Capital (Average Days)                              | 225          | 206           | 118           | 118           |
| b Net Working Capital (Average Days)                                | 207          | 185           | 104           | 102           |
| c Current Ratio (Total Current Assets/Total Current Liabilities)    | 11.6         | 11.1          | 8.6           | 4.7           |
| 3 Coverages                                                         |              |               |               |               |
| a EBITDA / Finance Cost                                             | 2.6          | 2.5           | 6.3           | 5.6           |
| b FCFO / Finance Cost+CMLTB+Excess STB                              | 1.8          | 1.8           | 4.5           | 0.8           |
| c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)  | 0.8          | 0.7           | 0.1           | 1.4           |
| 4 Capital Structure (Total Debt/Total Debt+Equity)                  |              |               |               |               |
| a Total Borrowings / Total Borrowings+Equity                        | 46.6%        | 46.7%         | 40.6%         | 43.9%         |
| b Short-Term Borrowings / Total Borrowings                          | 0.9          | 0.9           | 1.0           | 0.6           |
| c Average Borrowing Rate                                            | 11.4%        | 13.3%         | 7.0%          | 8.7%          |

## Credit Rating Scale & Definitions

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.

| Long Term Ratings |                                                                                                                                                                                                                                                                                                                             | Short Term Ratings |                                                                                                                                            |
|-------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|--------------------------------------------------------------------------------------------------------------------------------------------|
| AAA               | <b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments                                                                                                                                                                        | A1+                | The highest capacity for timely repayment.                                                                                                 |
| 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.                                                                                                       | A1                 | A strong capacity for timely repayment.                                                                                                    |
| AA                |                                                                                                                                                                                                                                                                                                                             | A2                 | A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.   |
| AA-               |                                                                                                                                                                                                                                                                                                                             | A3                 | An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions. |
| 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.                                                                            | B                  | The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.                   |
| A                 |                                                                                                                                                                                                                                                                                                                             | C                  | An inadequate capacity to ensure timely repayment.                                                                                         |
| 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>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                 |                                                                                                                                                                                                                                                                                                                             |                    |                                                                                                                                            |
| B-                |                                                                                                                                                                                                                                                                                                                             |                    |                                                                                                                                            |
| CCC               | <b>Very high credit risk.</b> Substantial credit risk "CCC" Default is a real possibility. 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. |                    |                                                                                                                                            |
| CC                |                                                                                                                                                                                                                                                                                                                             |                    |                                                                                                                                            |
| C                 |                                                                                                                                                                                                                                                                                                                             |                    |                                                                                                                                            |
| D                 | Obligations are currently in default.                                                                                                                                                                                                                                                                                       |                    |                                                                                                                                            |



|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                                                                                                                                                                                                                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                     |                                                                                                                                                                                                                                                                                                                                     |                                                                                                        |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------|
| <b>Outlook (Stable, Positive, Negative, Developing)</b> 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'. | <b>Rating Watch</b> Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. 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 Outlook of the respective opinion. | <b>Suspension</b> 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. | <b>Withdrawn</b> A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults, or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information. | <b>Harmonization</b> A change in rating due to revision in applicable methodology or underlying scale. |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------|

**Disclaimer:** PACRA's ratings are an assessment of the credit standing of entities/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

### **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.
- (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)

### **Proprietary Information**

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