The Pakistan Credit Rating Agency Limited

Rating Report

Bulleh Shah Packaging (Pvt.) Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
05-Sep-2023	AA-	A1	Stable	Maintain	-
05-Sep-2022	AA-	A1	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Bulleh Shah Packaging (Private) Limited 'BSP' or ('The Company') ratings reflect the strong sponsor's profile, established market position, and adequate financial profile. The Company is a wholly-owned subsidiary of Packages Limited. The assigned rating takes into account the strong governance framework, strong control environment, and qualified and experienced management team. BSP is predominately manufacturing i) Corrugated boxes and ii) Paper & Paper boards. As per management representation, the Company's market share in the overall industry (Paper & Board) is almost ~15%. Liquid packing board (falls under the purview of paper & Board) - the Company is the sole manufacturer in this segment, and Corrugated board – BSP is the major supplier and holds 16% market share. During CY22, the utilization level remained on the higher side Corrugator~97% and paper and board 85%. In order to improve productivity and capture further market share of imported paperboard, BSP has performed BMR on its paper and board mill.
As far the financial performance is concerned, the top line of the Company has shown an increasing trend due to an increase in sale price but the increase in prices of products has impacted demand. Though, an industry-wide volumetric decrease in sales has been reported but, the selling prices have absorbed the impact to much extent. During 6MCY23, the Company generated a top line of ~PKR 31,391mln (6MCY22: ~PKR 21,631mln, CY22: ~PKR 47,589mln), showing an increase of ~ 32% in revenue. However, considering i) PKR depreciation ii) foreign exchange losses, and iii) finance cost, the bottom line of the Company clocked in at ~PKR 996mln in 6MCY23 decreased from ~PKR 2,031mln in 6MCY22 (CY22: ~PKR 3,280mln). The Company is strengthening its revenue base by devising new business strategies in the export segment. The Company has received ~PKR 6bln insurance claim during the period which is partially utilized for BMR and working capital management. On the other side, leverage indicators continue to remain elevated on account of higher utilization of short-term and long-term borrowings for funding working capital requirements and performing BMR work on its paper and board mill respectively. However, STB has been reduced due to efficient working capital management. The Company is also exploring ways to reduce the reliance on imported raw materials so that, the supply chain can be made more efficient. Going forward, the impact of higher finance costs & overheads on profitability is expected to be offset by an improvement in margins and an increase in the top line. However, the Company has been managing its energy requirements by using a mix of Biomass, Gas, and supply from WAPDA.

The ratings are dependent upon the management's ability to improve margins while sustaining its market share. Prudent management of the working capital, and maintaining sufficient cash flows and coverages are imperative for the ratings. Any significant decrease in margins, profitanility and coverages will impact the ratings.

Disclosure

Name of Rated Entity	Bulleh Shah Packaging (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Rating(Jun-22),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology | Rating Modifiers(Jun-22)
Related Research	Sector Study | Paper and Packaging(Nov-22)
Rating Analysts	Muhammad Atif Chaudhry | Atif.Chaudhry@pacra.com | +92-42-35869504

Profile

Legal Structure Bulleh Shah Packaging (Private) Limited 'BSP' or 'The Company') was incorporated as a private limited company on September 16, 2005 under the Companies Act,2017. The Company's primary object is to carry on the business of manufacture and sale of paper & paper board of all kind and corrugated boxes.

Background The Company was established in new green project incorporated as a separate entity under the name of Bulleh Shah Paper Mills (BSPM). In September 2012, joint venture between Stora Enso (35%) and Packages Limited (65%) was established and the name has been changed to Bulleh Shah Packaging (Pvt.) Ltd. Lately, in 2017 Stora Enso took an exit making the Company wholly owned by Packages Limited.

Operations Bulleh Shah Packaging (Private) Limited is engaged in the manufacturing and sale of Corrugated boxes, Paper, paper board and Other products of paper. The Installed capacity of paper& paper board is 360,000 MT per annum, while that of corrugated box is 130,000 MT per annum.

Ownership

Ownership Structure Bulleh Shah Packaging (pvt.) limited is 100% owned subsidiary of Packages Limited.

Stability Packages Limited is the flagship investment holding company of the Ali Group which has a history spanning over a period of more than 65 years. Packages'© investment book comprises entities engaged in the manufacturing and sale of inks, flexible packaging material, paper, paperboard, and corrugated boxes, biaxially oriented polypropylene film and cast polypropylene film, production and sale of ground calcium carbonate products, entities engaged in insurance, power generation, real estate segment of the economy and recently diversifying into manufacturing of corn-based starch.

Business Acumen The Group is ranked amongst the leading industrial groups of the country with interests in paper and packaging, financial institutions, education. Packages Limited has significant successful joint ventures with international conglomerates and long standing relationship with various multinational companies.

Financial Strength Packages has a consolidated total assets of ~ PKR 172bln and equity of ~ PKR 66.7bln and generated a turnover of ~PKR 121.8bln during CY22.

Governance

Board Structure The Company has a seven members board comprising one independent directors, five non-executive directors and one executive directors (including the CEO). The board is chaired by Mr. Syed Hyder Ali. Apt Board size and presence of independent oversight supplements good governance framework.

Members' Profile The BoD, with a well-diversified background and relative expertise of its members, is a key source of oversight and guidance for the management. The Chairman of the Board Mr. Syed Hyder Ali is a seasoned business professional and carries a track record of successful business ventures with him. All other members are professionally qualified with extensive experience and diversified skill mix.

Board Effectiveness The Board met six times during CY22, with the majority attendance to discuss pertinent matters. The minutes of the meetings are documented properly. To ensure effective governance, the Board has formed three committees, namely, (i) Audit Committee (ii) Executive Committee (iii) Human Resource and Remuneration Committee Both committees are chaired by non-executive directors.

Financial Transparency M/s A.F. Ferguson & Co, are the external auditors of the Company. They gave an unqualified opinion on the Company's financial statements for the year ended Dec 31, 2022. The board has also established an internal audit department.

Management

Organizational Structure The Company has established a well-defined management structure divided into functional departments with clear lines of responsibilities.

Management Team The Company's CEO, Mr. Asghar Abbas has joined Packages Limited in 1998 and developed strategic and functional level expertise in packaging business over the years while serving at various positions in different companies of the Packages Group.

Effectiveness The experience of the sponsors along with a professional management team has helped the Company to streamline their operations and cut down on their costs. The production facilities have minimal wastage which is effectively managed through re-cycling and re-using in the process 250 tons of paper per day.

MIS To generate MIS and operational reports, ERP software, SAP ECC6 is used.

Control Environment To ensure operational efficiency, the Internal Audit Function is in place that identifies and reports risks. The audit committee reviews the internal audit department reports and planned activities.

Business Risk

Industry Dynamics Pakistan's packaging industry consists of four major segments, paper, plastic, tinplate and glass. Paper and plastic segments occupy the major share in total market. Despite, the economic slowdown caused by several issues, demand for the segment remained almost consistent as it falls in the supply chain of various essential products and industries. The segment's direct costs consist largely of imported raw materials. Chemical wood pulp is one of the main raw materials in the production of paper packaging. Therefore, volatility in exchange rates and international price trends has an impact on costs.

Relative Position The Company's market share in the overall industry (Paper & Board) is almost ~15%. Liquid packing board (falls under the purview of paper & Board) - the Company is the sole manufacturer in this segment, and Corrugated board – BSP is the major supplier and holds 16% market share.

Revenues The Company's top line shows an increasing trend due to increase in sale price but the increase in prices of products has impacted demand. Though, an industry-wide volumetric decrease in sales has been reported the selling prices have absorbed the impact to much extent. During 6MCY23, the Company generated a top line of ~PKR 31,391mln (6MCY22: ~PKR 21,631mln, CY22: ~PKR 47,589mln, CY21: ~PKR 36,938mln), showing an increase of ~ 32% in revenue.

Margins In 6MCY23, the gross margin and operating profit margin both decreased as compared to 6MCY22. The GP margin decreased from ~ 23% in 6MCY22 to ~ 20.4% in 6MCY23 (CY22: ~20.5%, CY21: ~18.3%) while the OP margin decreased from ~ 20.3% in 6MCY22 to ~ 17.8% in 6MCY23. However, during CY22 and 6MCY23 considering i) PKR depreciation ii) foreign exchange losses, and iii) finance cost, the net profit margin of the Company decreased from ~ 9.4% in 6MCY22 to ~ 3.2% in 6MCY23 (CY22: ~6.9%, CY21: ~8.4%).

Sustainability The Company has a well-established brand name in the market, especially in consumer products. Going forward, in order to strengthen its market position, BSP has recently done BMR to enhance the production capacity of the paper and board division and corrugator division. Going forward the Company is also planning for further expansion plans including new projects which will majorly reduce the dependence of BSP on imported pulp.

Financial Risk

Working Capital The Company has reduced the working capital requirement by efficiently managing the inventory and reducing receivable days by collecting sales in advance. the Company's net inventory days decreased to ~119 days from ~129 days in CY22 which inventory days are still very high because BSP has imported raw materials in huge quantities due to the rise in raw material prices and currency rate fluctuations. Meanwhile, trade receivable days also decreased to ~30 days from ~36 days during the same period. During 6MCY23 the trade payable days increased to ~55 days from ~53 days during CY22. Consequently, the Company's net working capital days decreased to ~94 days during 6MCY23 from ~111 days at the end of CY22.

Coverages In 6MCY23, the Company's FCFOs stood at ~PKR 6,587mln increasing from ~PKR 4,619mln in 6MCY22 (CY22: ~PKR 8,734mln, CY21: ~PKR 6,504mln). But during 6MCY23, FCFO/Finance cost stood at ~ 2.6x decreased from ~ 5.9x of coverage during 6MCY22 (CY22: ~3.8x, CY21: ~7.6x) due to a significant increase in the finance cost. The finance cost stood at ~PKR 2,534mln increased from ~PKR 790mln (CY22: ~PKR 2,296mln, CY21: ~PKR 860mln); however, this is still a healthy coverage level for the Company.

Capitalization The Company has a highly leveraged capital structure. Long-term debt is related to expansion activities, whereas short-term debt is related to working capital management. The Company has planned to finance CAPEX partially with a mix of debt and equity. At the end of 6MCY23 the long-term borrowing has increased to ~PKR 14,999mln from ~PKR 10,551mln end-CY22 (end-CY21: ~PKR 4,732mln) and the fixed assets increased to ~PKR 29,910mln from ~PKR 26,144mln end-CY22 (end-CY21: ~PKR 17,534mln). While the short-term borrowing has decreased to ~PKR 14,038mln from ~PKR 19,148mln during the same period (end-CY21: ~PKR 9,665mln). Consequently, at the end of 6MCY23, the total borrowing has decreased to ~PKR 30,805mln from ~PKR 31,585mln at the end of CY22 (end-CY21: ~PKR 16,507mln). The long-term liabilities are ~111% of equity at the end of 6MCY23 (CY22: ~81%, CY21: ~42%). Its gearing ratio has decreased from ~66.7% at the end of CY22 to ~65.6% at the end of 6MCY23 due to a decrease in total borrowings, while it has remained at ~53.8% in CY21.

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

Bulleh Shah Packaging (Pvt.) Limited Paper and Packaging	Jun-23 6M	Dec-22 12M	Dec-21 12M	Dec-20 12M	Dec-19 12M
A BALANCE SHEET					
1 Non-Current Assets	30,250	26,349	17,802	14,826	15,244
2 Investments	6	6	6	6	6
3 Related Party Exposure	154	206	39	15	19
4 Current Assets	30,913	33,257	19,129	12,626	11,149
a Inventories	*19,616*	*21,445*	*12,216*	*7,229*	*5,541*
b Trade Receivables	*4,626*	*5,619*	*3,644*	*2,503*	*2,544*
5 Total Assets	61,323	59,818	36,975	27,472	26,418
6 Current Liabilities	11,511	10,163	5,043	4,557	3,532
a Trade Payables	*9,997*	*9,059*	*4,806*	*3,289*	*3,076*
7 Borrowings	30,805	31,585	16,507	9,797	11,065
8 Related Party Exposure	-	-	-	-	-
9 Non-Current Liabilities	2,887	2,291	1,273	557	707
10 Net Assets	16,120	15,778	14,153	12,561	11,114
11 Shareholders' Equity	16,120	15,778	14,153	12,561	11,114
B INCOME STATEMENT					
1 Sales	31,391	47,589	36,938	28,813	26,414
a Cost of Good Sold	*(24,989)*	*(37,814)*	*(30,185)*	*(23,618)*	*(24,241)*
2 Gross Profit	6,401	9,775	6,754	5,195	2,173
a Operating Expenses	(808)	(1,344)	(979)	(958)	(951)
3 Operating Profit	5,593	8,431	5,774	4,237	1,223
a Non Operating Income or (Expense)	*(792)*	*(650)*	*(559)*	*(303)*	*306*
4 Profit or (Loss) before Interest and Tax	4,801	7,782	5,215	3,934	1,528
a Total Finance Cost	*(2,534)*	*(2,296)*	*(860)*	*(1,209)*	*(1,504)*
b Taxation	*(1,272)*	*(2,206)*	*(1,243)*	*(75)*	*(453)*
6 Net Income Or (Loss)	996	3,280	3,112	2,650	(429)
C CASH FLOW STATEMENT					
a Free Cash Flows from Operations (FCFO)	*6,587*	*8,734*	*6,504*	*5,101*	*2,768*
b Net Cash from Operating Activities before Working Capital Changes	*4,127*	*6,700*	*5,669*	*3,631*	*1,467*
c Changes in Working Capital	*1,074*	*(15,631)*	*(5,590)*	*(1,315)*	*1,003*
1 Net Cash provided by Operating Activities	5,201	(8,931)	79	2,316	2,470
2 Net Cash (Used in) or Available From Investing Activities	(3,186)	(4,847)	(4,348)	(1,014)	(1,534)
3 Net Cash (Used in) or Available From Financing Activities	3,148	4,294	(2,127)	(1,236)	1,234
4 Net Cash generated or (Used) during the period	5,163	(9,483)	(6,396)	66	2,170
D RATIO ANALYSIS					
1 Performance					
a Sales Growth (for the period)	31.9%	28.8%	28.2%	9.1%	0.0%
b Gross Profit Margin	20.4%	20.5%	18.3%	18.0%	8.2%
c Net Profit Margin	3.2%	6.9%	8.4%	9.2%	-1.6%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	24.4%	-14.5%	2.5%	13.1%	14.3%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sha*	12.5%	21.9%	23.3%	22.4%	-3.9%
2 Working Capital Management					
a Gross Working Capital (Average Days)	149	165	126	113	112
b Net Working Capital (Average Days)	94	111	86	73	69
c Current Ratio (Current Assets / Current Liabilities)	2.7	3.3	3.8	2.8	3.2
3 Coverages					
a EBITDA / Finance Cost	2.9	4.3	8.3	4.6	2.0
b FCFO / Finance Cost+CMLTB+Excess STB	1.9	2.1	2.2	2.5	0.8
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	2.1	1.9	1.2	1.7	6.1
4 Capital Structure					
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	65.6%	66.7%	53.8%	43.8%	49.9%
b Interest or Markup Payable (Days)	109.6	176.3	101.3	53.6	111.4
c Entity Average Borrowing Rate	16.2%	10.2%	6.5%	11.5%	13.5%

Credit Rating

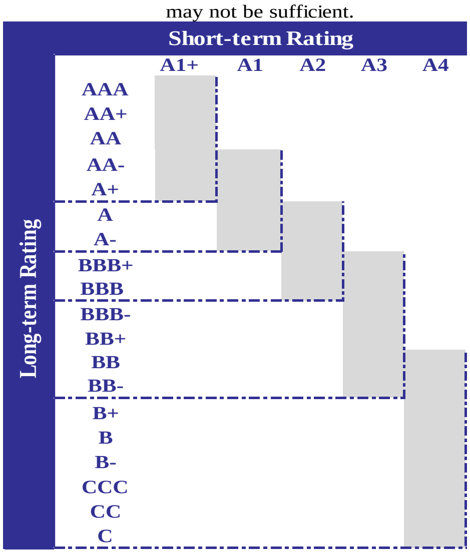
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+ AA AA-	**Very high credit quality.** 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.
A+ A A-	**High credit quality.** 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.
BBB+ BBB BBB-	**Good credit quality.** 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.
BB+ BB BB-	**Moderate risk.** 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.
B+ B B-	**High credit risk.** 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.
CCC CC C	**Very high credit risk.** 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.
D	Obligations are currently in default.

Short-term Rating

Scale	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
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 surveill 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

Regulatory and Supplementary Disclosure

(Credit Rating Companies Regulations,2016)

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)

Proprietary Information