The Pakistan Credit Rating Agency Limited

Corporate Rating Criteria

Methodology

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Summary

PACRA's methodology documents lay out the umbrella framework guiding its credit ratings. This document provides an overview of PACRA's approach to assigning credit ratings to non-financial corporate entities in Pakistan.

This methodology applies to credit ratings across all corporate sectors. Where entities in certain sectors require additional or unique considerations, those are captured accordingly in sector-specific methodologies.

PACRA's corporate rating opinions are based on a mix of qualitative and quantitative assessment factors, including: Profile, Ownership, Governance, Management, Business Risk and Financial Risk. While standalone credit quality is addressed, PACRA incorporates the relative positioning of a corporate to arrive at the final rating. In certain cases, the final rating may be constrained by the nature of the sector in which a corporate operates.

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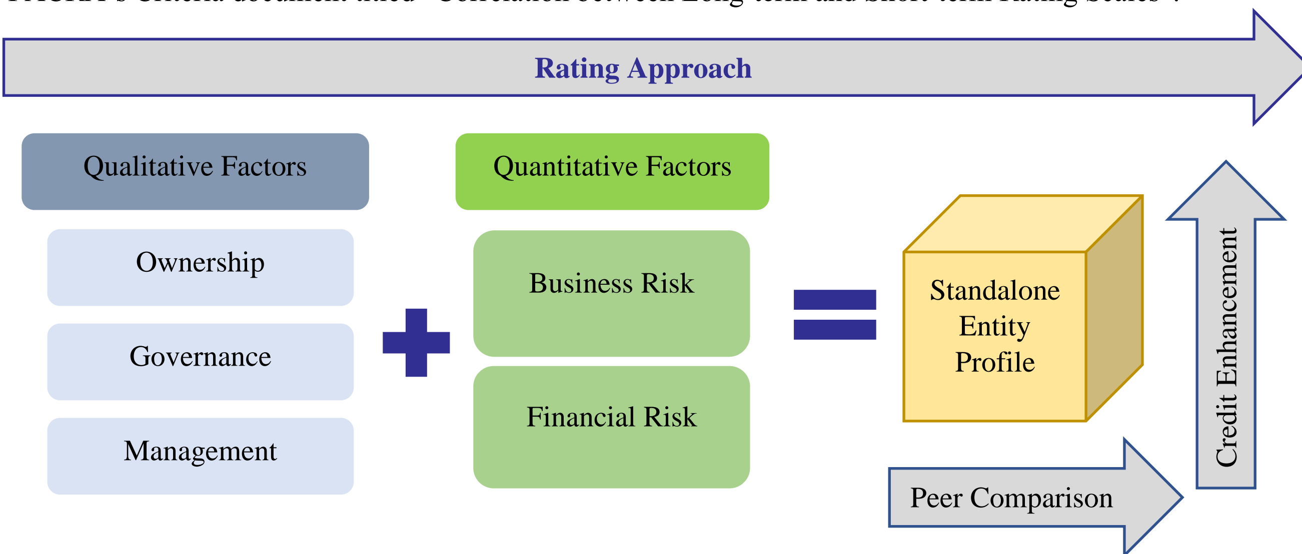
1. Introduction

1.1 Scope: This methodology applies to non-financial corporate entities in Pakistan. These are regulated primarily by Securities and Exchange Commission of Pakistan under a comprehensive set of laws and regulations. This methodology document covers entities in all corporate sectors. However, since the corporate universe consists of a broad range of entities in various sectors with different sizes and other distinguishing characteristics, PACRA has evolved separate methodologies to cater to the distinct features of some them. In such cases, the respective sector-specific methodologies take precedence while this methodology supports.

1.2 Rating Framework: PACRA's framework for assessing credit quality of corporates employs a mix of qualitative and quantitative analyses. The quantitative factors help in achieving objectivity in the rating assessment while the qualitative factors help establish the sustainability of the rating in the foreseeable future. Neither can all factors be quantified, nor do quantitative metrics portray the complete picture. PACRA seeks to employ an optimal combination of both and applies it consistently to ensure comparability between ratings over time. The assessment is categorized within six key areas: Profile, Ownership, Governance, Management, Business Risk and Financial Risk.

1.2.1 PACRA also achieves a clear perspective on the relative position of an entity in its peer group. In addition, a sensitivity analysis is performed through several "what if" scenarios to assess its capacity to cope with changes in the operating environment. PACRA's analysis typically involves at least three years of operating history and financial data as well as entity and rating agency forecasts of future performance. The assessment culminates in the assignment of a long-term and short-term credit rating to an entity. More information on the distinction between the long-term and short-term ratings and the relationship between them may be found in PACRA's Criteria document titled "Correlation between Long-term and Short-term Rating Scales".



2.2.1 This methodology helps in identifying key rating drivers that may create vulnerability in an entity's capacity and willingness to service financial obligations in a timely manner. Key rating drivers are pivotal for assessing the financial flexibility of the entity, which depends, in large part, on the entity's ability to generate cash from operations.

2. Profile

2.1 Background: PACRA reviews the background of the entity to understand its evolution from where it started to where it currently stands. We analyze how and through what means the entity has achieved the desired expansion. PACRA looks at the progress of the entity from its historical past and its track record. This helps PACRA in determining the ability of the entity to successfully realize its strategy. The significant factor here for PACRA is to assess whether the entity has achieved the desired expansion through organic growth or acquisitions. Meanwhile, the source of funding for growth is also critical.

2.2 Operations: The operational profile of the entity is important because it greatly influences the sustainability of its operations. This helps in understanding the entity's ability to manage its supply chain and access to critical resources – customer, supplier, and human resources. Analysis of manufacturing facility's useful life, production capacity and efficiency are critical factors that provide competitive advantage. Meanwhile, operational location provides meaningful insight. The assessment of operations depends on the type of the industry and lifecycle stage the business is in. Here, PACRA also reviews the diversity of product slate, geographic spread of operations, scale, growth and expected life of production capacity. In commodity industries, scale of operations, at times takes lead, since the ability of one participant to influence price is usually not significant and cost position brings advantages. Meanwhile, entities with geographically concentrated production facilities generally face greater operational risk while entities with production facilities near raw material sources enjoy greater flexibility during supply and demand imbalances. PACRA also places the entity in the value chain of its industry, as value-added products typically have more stable revenues.

3. Qualitative Factors

3.1 Qualitative assessment helps to establish the sustainability of the rating in the foreseeable future. Qualitative considerations here refer to rating factors which do not pertain to an entity's business or financial risk. Rather, they focus more on internal processes, people and systems, and thus are essential to incorporate a forward-looking perspective into rating opinions. This section is meant to provide a brief overview of how PACRA generally factors qualitative considerations into its assessment, insofar as they can impact an issuer's ability to meet financial obligations. PACRA's detailed approach undertaken to conduct this analysis is documented in its methodology titled **"Qualitative Rating Considerations Criteria"**.

3.2 Incorporating the potential impact of qualitative considerations into the rating opinion can be challenging because it is generally inferred or estimated based on information which may not be standardized and is difficult to quantify. This often requires some degree of subjectivity and analyst judgement, supplemented by PACRA's own experience and experience of the underlying entity or other entities with similar risks. Three factors underlying PACRA's qualitative analysis at entity level include: Ownership, Governance and Management. The scope of analysis for each category is briefly described below.

3.3 Ownership: The analysis of ownership is driven by the consideration that the key owner is the man at the last mile and the ultimate stakeholder of the entity's financial obligations. This makes it important for PACRA to gauge the clarity and stability in the entity's ownership structure, succession planning at the key owner's level, owner's experience and prowess in the underlying business and industry, and their willingness and ability to extend extraordinary financial support to the entity in distressful circumstances.

3.4 Governance: The role of an entity's Board of Directors in providing critical and impartial oversight of management while steering the entity to its performance objectives makes it important for PACRA to look at the composition, profile and effectiveness of the entity's Board. The Board's success in in establishing a robust oversight and control framework to ensure appropriate management oversight, alignment between shareholder

and management objectives, transparency in reporting and disclosures, and adherence to applicable regulatory requirements are also among the key parameters of assessment.

3.5 Management: PACRA's management analysis revolves around the entity management structure, composition and team profile. Management track record and proficiency in executing strategy, maintaining strong information systems and utilizing the same for efficient decision making, and ensuring adherence to the entity's ethical and quality standards is considered. Meanwhile, identification of key persons and formal succession planning to mitigate key-person risk, is also a part of the process.

4. Business Risk

4.1 Industry Dynamics: The process for anchoring corporate ratings of the entity builds on PACRA's understanding of the industry dynamics. This understanding, following an in-depth research approach, is documented as a sector study. The analysis captures the placement of the local industry in the international context to see the points of identity and distinction. In points of identity, the risks and challenges identified for the international industry are re-evaluated for the local industry players, with a view to see whether the local players have established effective mitigants against those risks and taken due measures to meet the challenges. For instance, commodity-based businesses such as those in the energy, oil and agricultural sectors, are strongly linked to international markets wherein change in market dynamics including upturn/downtick in prices is expected to impact businesses. At the same time, we identify the risks and challenges specific to the local context of the industry. While conducting the analysis, PACRA takes a view on the industry alone, independent of the market players. This exercise helps PACRA to form a view on industry's significance in the economic environment of the country, its attractiveness for investment, barriers to entry, and the power of suppliers and customers.

4.1.1 PACRA explores the possible risks and opportunities for an industry resulting from social, demographic, regulatory and technological changes. It considers the effects of geographical diversification and trends in industry expansion or consolidation required to maintain a competitive position. Industry overcapacity is a key issue because it creates pricing pressure and, thus, can erode profitability. Also important are the stages of an industry's life cycle and the growth or maturation of product segments, which determine the need for expansion and additional capital spending.

4.1.2 PACRA determines an entity's rating within the context of each of its industry fundamentals. Industries that are in decline, highly competitive, capital intensive, cyclical or volatile are inherently riskier than stable industries with oligopolistic structures, high barriers to entry, national rather than international competition and predictable demand levels. For instance, the automobile industry requires intensive capital investment, increasing levels of competition, high cyclicality and dependence on overall economic conditions compared to the power and gas distribution sectors which are characterized by high degree of regulation resulting in fixed prices and margins for players, guaranteed payments, and low threat of new entrants. Major industry developments are considered in relation to their likely effect on future performance. Entities belonging to cyclical sectors are considered inherently riskier compared to those belonging to sectors displaying predictable demand levels. This may result in an absolute ceiling for ratings within that industry unless the entity exhibits unique attributes to mitigate industry specific risks. Therefore, an entity in such an industry is unlikely to receive the highest rating possible ('AAA') despite having a conservative financial profile, while not all entities in low-risk industries can expect high ratings. Instead, many credit issues are weighed in conjunction with the risk characteristics of the industry to arrive at an accurate evaluation of credit quality.

4.1.3 Cyclicality: Industries can be cyclical based on their sensitivity to: i) overall economic conditions, ii) seasonal demand or iii) commodity prices. Entities belonging to cyclical industries see their performance correlated to these factors and thus witness significant volatility in performance metrics including revenues and

profitability. This can significantly impact their debt servicing ability and ensuing credit quality. For instance, the oil and metal industries are highly effected due to various changes in global prices and fluctuations in economy impact their production and buying trends. In rating such entities, PACRA analyzes credit protection measures and profitability through the cycle to identify an entity's equilibrium or mid-cycle position. The primary challenge in rating a cyclical entity is deciding when a fundamental shift has occurred in financial policy or the operating environment that would necessitate a rating change.

4.1.4 Regulatory Environment: Regulatory role of the government in the form of taxes and subsidies, price controls and import/export restrictions (incl. tariffs and customs), among others, can range from that of a facilitator to a controller. This can significantly impact industry structure and level of competitiveness. In some cases, it may lead to monopolistic or oligopolistic industry structures, such as the OMCs, utilities and pharmaceutical sectors. PACRA evaluates the degree of regulatory intervention and the extent of the players' susceptibility to changes in it. The objective here is to gauge the players' exposure to regulatory risks and assess whether (and how) they would be able to cope if regulatory support is withdrawn or experiences sudden changes due to change in economic strategy or political regime.

4.2 Relative Position: Relative position reflects the standing of the entity in the related market. The stronger this standing is, the stronger the entity's ability to sustain pressures on its business volumes and profit margins. This standing takes support from three major factors: i) market share ii) growth trend, and iii) competitiveness.

4.2.1 Market Share: Market size represents the entity's penetration in the chosen market. Size is advantageous as it provides ability to acquire larger business, pricing power and better expense management. There is a positive correlation between an entity's absolute and relative size and its market position and brand value. The large entities exercise greater power over the pricing, while ensuring commensurate profits. Small entities struggle to obtain business; and with less flexibility in the cost structure, their profits remain low. While absolute size is important, it is basically the relative proportion which provides a clear yardstick to analyze the comparative strength of the market players. The more distant a player is from the average on the positive side, the stronger is its ability to reflect the characteristics just mentioned. In a dynamic industry, which is not characterized by concentration, PACRA believes that relative size would better capture the strength of the entity's standing in the related market.

4.2.2 Growth Trend: While evaluating the size, PACRA looks at the rate of growth. Growth is important as it ensures that the entity continues to have the ability to meet the industry's benchmarks. As the industry grows, it uplifts the scale of its operational context. This reflects in the ability of the players to invest in human resource, upgrade the control environment, enhance the product slate, increase the outreach and improve the quality of product/service. To lag the industry's growth trend means to remain short on these avenues, putting pressure on the market position.

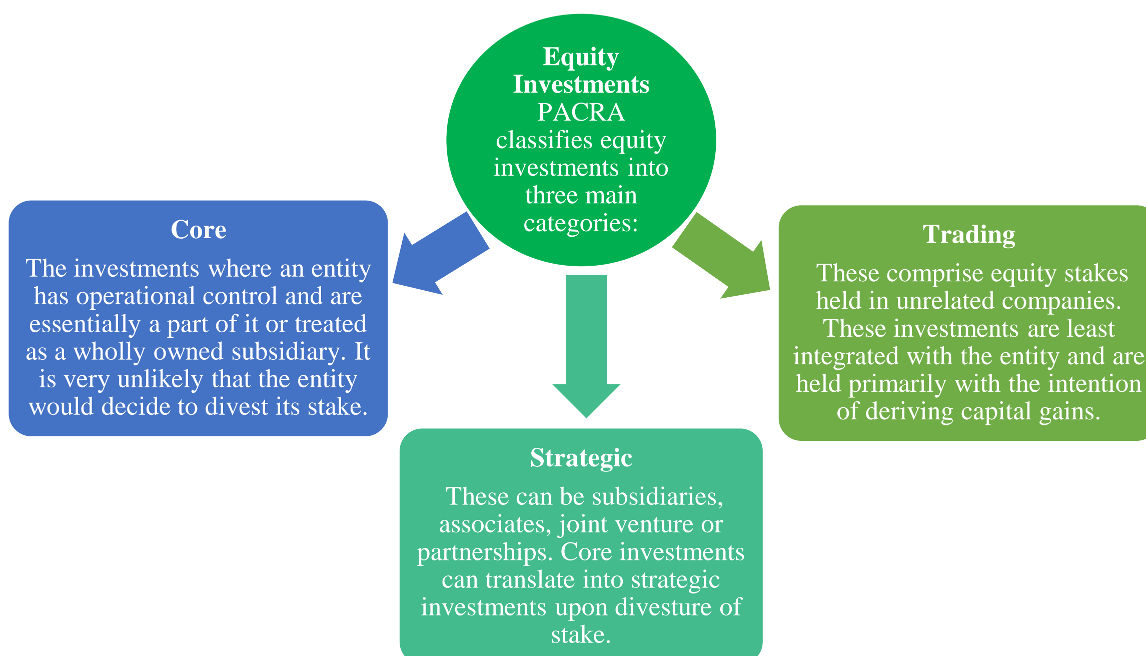
4.2.3 Competitiveness: PACRA looks for what differentiates an entity from its competitors – this could be a strong brand, established relationships with customers, easy access to raw material, wide distribution network or technological advantage. Ultimately, this competitive advantage determines the robustness of an entity's business model. While assessing this, a key concern is the durability of the competitive advantage. If it is one which is temporary or easily replicable, it is unlikely to prevent the entity from losing its competitive position over time.

4.3 Revenues: In measuring revenue quality of an entity, stability and diversification are very important factors. Revenue stability is measured through historical trend analysis of the entity's revenues. Meanwhile, PACRA assesses diversification at product, customer and geographical levels. In addition, the analysis of target markets to which an entity serves forms a part of the assessment.

4.3.1 Diversification: Diversification is desirable since it enhances the entity's ability to meet challenges, both present and upcoming. Lack of diversification limits the entity's ability to ensure sustainability in its business. At the same time, it increases the risk of disruption if the area of concentration goes wrong. This does not entail that a company specializing in a certain product/segment would necessarily be at a disadvantage. The disadvantage would only arise if the company's business model gives rise to concentration risk.

Types of Diversification	
Product	• Entities that have a wider range of product or service offerings are exposed to lower revenue risk compared to entities deriving revenues from a single/narrow range of products. However, simply having a larger variety is insufficient to diversify risk; the competitive standing of products and their positioning in the product life cycle is crucial to this analysis.
Customer	• PACRA looks at concentration in an entity's customer base. A narrow customer base or overreliance on a large customer can expose an entity to unpredictable variability in demand if there is disruption in the business from the large customer. Even so, PACRA recognizes the value of long-term relationships with established customers (particularly in B2B models) and factors the same in its analysis.
Geographic	• An adequate degree of geographic diversification is desirable to the extent that it can protect an entity from variability in demand of a certain region. However, it must be weighed against exposure to other risks such as currency risk (if overseas diversification) and regulatory restrictions (e.g., protectionism, consumer protection laws etc.)

4.3.2 Non-operating Income: Any income derived from non-core activities of the entity is treated as non-operating income. Income may emanate from financial assets (including dividends from equity investments and interest payments from fixed-income investments, in related and unrelated parties) and non-financial assets (including rental income from property). While non-operating income is usually not critical to the entity's overall success, it can often provide a valuable contribution, particularly during times when core operations are stressed. PACRA positively views entities which have recurring non-operating income streams in place to support core profitability and boost liquidity. This factor gains prominence especially when ratings move into the higher bands as this is usually accompanied by increase in entity size, wherein deriving inflows from multiple sources becomes important.



4.4 Cost Structure: It is essential to analyze the entity's cost structure to assess its impact on performance. PACRA looks at the key costs of the entity including raw material procurement (sources and terms with suppliers), energy and labor to assess the entity's conversion cost. A key concern here is supplier concentration. PACRA reviews the extent of an entity's reliance on a single supplier for any of its raw materials, since this can lead to disruption in operations, compromising operational efficiency and possibly impacting relationships with customers. Moreover, the capacity utilization of production facilities is also reviewed. Ultimately, the goal is to gauge the entity's operating efficiency relative to peers. It is utmost desirable for entities, particularly in the commodity business, to minimize fixed costs and per unit variable costs as this allows for price competitiveness which can become the key to survival in scenarios where demand declines significantly or there is oversupply.

4.4.1 Margins: While PACRA performs traditional ratio analysis, e.g., Gross margin, Operating margin, Net profit margin, due weightage is given to EBITA margins. This is due to its importance as a cash flow generation measure. Overall analysis of business margins suggests the level of strength of the entity's business profile and is viewed in comparison to its industrial peers.

4.4.2 Foreign Currency Risk: If there is a currency mismatch between entities' revenues and costs, or, their assets/cash flows and sources of funding, foreign currency risk becomes an important concern. This is especially relevant for export-oriented sectors and sectors dependent largely on imported raw material. PACRA gauges the magnitude of the currency risk relative to the entity's overall business profile and its ability to pass on the risk to its consumers, which, in certain cases, may be a function of the industry it operates in.

4.5 Sustainability: PACRA evaluates the strategy of the management and the viability of designed path to reach to the goal. Earnings prospects are monitored, based on budgets and forecast prepared by the management. A reality check is performed while analyzing underlying assumption taken by the management as well as management's track record in providing reliable budgets and forecasts.

4.5.1 Project Risk: In the case of entities implementing a project of significant size, PACRA evaluates the risks associated with that project and factors in these risks while arriving at the overall rating. The relative size of the project as compared with the overall operations of the rated entity would indicate the relative significance of the project risk within the overall rating opinion. The project's business risk, particularly in relation to the entity's existing product line, and the management's track record in implementing such projects are key factors. An

assessment is made of the implementation risks such as time and/or cost over-runs, technology risk, and the impact of these on project's viability. Furthermore, funding risks with regard to project's capital structure and funding arrangements are also evaluated.

4.5.2 Event Risk: Incorporating the risk of unforeseen events into an entity's rating opinion is challenging, given their unpredictable nature and magnitude of impact. These events may be external (M&As, regulatory changes, litigations, or natural disasters) or may be internally driven (unrelated diversification or strategic restructuring) and can lead to substantial rating changes. PACRA applies its analytical judgment in assessing the likelihood of such occurrences and potential impact, insofar as may be possible, and assesses the entity's track record, expertise of management team and level of financial discipline to incorporate the same into its ratings.

Information Required on Business Risk

- Market share (%) along with marketing strategy
- Quarterly financial statements of the entity for the past three years
- Geographic breakup of revenue
- Product-wise breakup of revenue
- Top ten largest customers, for each business segment respectively
- Top five suppliers along with respective contribution
- Current capacity utilization of the plant and projected trend for the following year
- Financial projections, along with detailed assumptions

Business Risk – Key Metrics

Revenue (PKR mln)	Market Share (%)	Operating Margin (%)	Net Margin (%)
Recurring non-core income (expenses) / Net income (%)	PBIT / Total Assets (%)	EBITDA Margin (%)	Return on Capital Employed (%)

5. Financial Risk

5.1 In its financial risk analysis, PACRA emphasizes cash flow measures of working capital, coverages and capitalization. Cash flows from operations provide an entity with more secure credit protection than dependence on external sources of capital. PACRA's approach gives more weight to cash flow measures than equity-based ratios. The latter rely on book valuations, which do not always reflect current market values or the ability of the asset base to generate cash flows. Measures such as debt-to-equity are less relevant to a credit analysis because they are based on formalized accounting standards, which are subject to varying interpretation. As the equity account is presented at book value, it does not provide the most accurate assessment of an entity's asset base to generate future cash flows. Thus, asset values may be overstated or understated, while the entity's liabilities remain close to fair market value. However, use of such ratios is prevalent in many parts of the world and they have relevance in helping investors understand an entity's financial profile. The entity may consider that these

transactions provide the best return of available investments, and the reduction in book equity has no effect on its cash flow generating ability.

5.1.1 Notwithstanding the above discussion, the accruals or fair-value based measures are not disregarded entirely. In entity financial analysis, PACRA considers many key measures that are not captured in the cash flow statement, as many financial events that do not have an immediate cash flow impact, may have medium-term and long-term implications for cash flows for which the book adjustments serve as a useful indicator. Examples may include marking of assets to market, taking an impairment charge through a major write-down of goodwill or the entry into a long-term derivative. Other book adjustments – a write-down in inventory, for example – could signal a much more immediate impact on the entity's financial prospects. Another limitation of the cash flow perspective can be observed in the case of movements in foreign currency exposure that are typically not revealed from the cash flow statement, but would be evident from income statement measures and/or the reconciliation of the opening and closing balance sheet data.

5.2 Working Capital: PACRA's financial risk analysis assigns significant importance to an entity's working capital management. In its assessment, PACRA evaluates working capital cycle of the entity. Lengthy working capital cycle may dent the entity financial health in times of even slight external (economic or industry specific) shocks. On the other side, evaluation of funding mix to finance working capital needs becomes important. Higher the funding from equity or profit retention, lesser would-be reliance on short-term borrowing by the entity. Thus, high level of cushion in short-term assets vis-à-vis short-term borrowings is seen positively.

5.2.1 Asset-liability Mismatch: Borrowing short-term to finance long-term investments and/or fund long-term borrowing is viewed negatively by PACRA as the resultant asset-liability mismatch exposes the entity to interest rate risk and refinancing risk. This is an important concern particularly in case of smaller business which carry relatively high operational risk and lower financial flexibility than their larger counterparts. PACRA evaluates the quantum of the mismatch and whether it is a one-off feature or a recurrent feature in an entity's working capital history.

5.3 Coverages: Key elements in determining an entity's coverages are its cash flows, which affect the maintenance of operating facilities, internal growth and expansion, access to capital and the ability to withstand downturns in the business environment. The availability of funds to repay debt without external funding is given special consideration. PACRA also examines capital expenditures to distinguish among maintenance amounts necessary to support an entity's competitive position, regulatory requirements and discretionary expenditures that support growth. PACRA's analysis focuses on the stability of earnings and the continuity of cash flows from the entity's major business lines. Sustained cash flow provides assurance of the entity's ability to service debt and finance operations and capital expansion without sizeable amounts of external funding.

5.3.1 Credit Enhancement: The entity that carry third party commitment to make good an amount obligated to the lenders may provide additional support to its financial risk profile. In this case, in determining the impact on rating, key factors to assess are the financial profile of the third party and the extent of coverage – quantum and duration – it provides.

5.4 Capital Structure: PACRA analyzes capital structure to determine an entity's reliance on external financing. To assess the credit implications of an entity's leverage, several factors are considered, including the nature of its business environment and the funds flows from operations. As industries differ significantly in their need for capital and capacity to support high debt levels, the assessment of leverage in the capital structure is based on industry norms.

5.4.1 Financial Policy: PACRA looks at the entity's financial policy to develop a view on its level of risk tolerance and likely direction of future financial decisions. Documented financial policies with clearly defined

leverage metrics are viewed positively. Moreover, PACRA assesses the entity's commitment towards its financial policy by looking at its track record of sticking to targets through different economic and industry cycles, along with managing to balance the interests of shareholders and creditors.

5.4.2 Financial Flexibility: Financial flexibility allows an entity the latitude to meet its debt service obligations and manage stress without eroding credit quality. In terms of debt, the more conservatively capitalized an entity, the greater its flexibility. Other factors that contribute to financial flexibility include the ability to redeploy assets and revise plans for capital spending, strong banking relationships and equity markets access. Committed, multiyear bank lines along with provide additional strength. The inherent choice of dividend expense and capex investments may warrant an examination of reduction / suspension of one or both for stress cases. Further, presence of contingent obligation such as potential legal liabilities and guarantees extended can pressurize an entity's financial profile in case these materialize. Thus, PACRA considers these in its analysis.

Table 5. Information Required on Financial Risk

- Optimal inventory levels
- Aging analysis of receivables
- Payment terms with creditors
- Complete schedule of all long-term borrowings
- Bank wise detail of available credit lines
- Nature and status of intergroup lending and borrowing positions

Financial Risk – Key Metrics

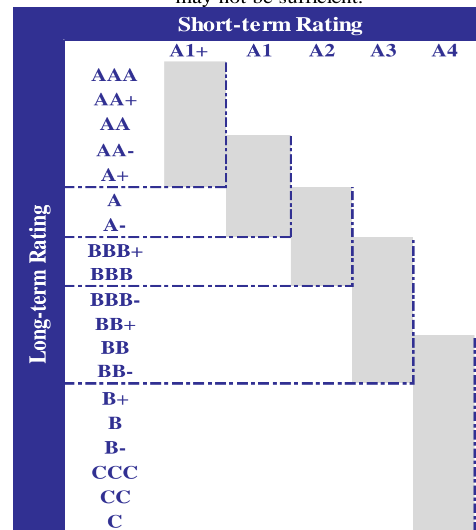
- Gross Cash Cycle (Days)
- Net Cash Cycle (Days)
- Short-term Trade Leveraging (%)
- FCFO / Gross interest (times)
- FCFO / Debt Servicing (times)
- Debt Payback (years)
- Leveraging (%)

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

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