



Holding Company 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 holding companies in Pakistan.

Holding companies are entities whose primary activity is holding controlling and non-controlling stakes in private or publicly traded companies, for the purpose of generating capital gains and/or dividend income. The need for a separate framework for rating of holding companies arises to account for the unique risks emanating from their investment portfolios and its impact on their credit quality. While some holding companies' activities are restricted to holding stakes in investees, others have their own operations as well. This methodology applies to both, while, in case of the latter, the relevant sector methodology or PACRA's Corporate Rating Methodology is applied too.

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1. Introduction

1.1 Scope: This methodology outlines PACRA’s approach to rating holding companies (hereon referred to as “HoldCos”). While HoldCos are categorized as corporates, the need for a separate framework for rating HoldCos arises to account for the unique risks emanating from their investment portfolios and the resulting impact on their credit quality.

1.1.1 PACRA defines HoldCos as entities, which are primarily involved in holding controlling and/or non-controlling stakes (equity participation) in other companies (hereon referred to as “investees”) for the purpose of generating capital gains and/or dividend income. These stakes may be in group companies or outside the group.

1.1.2 It should be noted that PACRA’s definition of HoldCos encompasses a greater range of entities, as compared to the definition of HoldCos laid out in the Companies Act’17. Furthermore, PACRA’s definition of group, for the purpose of this methodology, may also be broader than that laid out in the SECP’s Group Companies Registration Regulations’08 and SBP’s Prudential Regulations for Corporate/ Commercial Banking. For the purpose of its analysis, PACRA may consider entities, which do not fulfill the criteria under these definitions, as part of the HoldCo’s group.

Companies Act’17

Companies Act’17 defines HoldCo as “a company which is another company’s holding company if, but only if, that other company is its subsidiary” while a subsidiary is defined a company in which the HoldCo “controls the composition of the Board” or “exercises or controls more than one-half of its voting securities either by itself or together with one or more of its subsidiary companies”.

[SECP] Group Companies Registration Regulations’08

“Group” means a holding company and its subsidiaries registered with the Commission” (i.e., Securities and Exchange Commission of Pakistan.

[SBP] Prudential Regulations for Corporate/ Commercial Banking (Revised till Jan’15)

“Group means persons, whether natural or juridical, if one of them or his dependent family members or its subsidiary, have control or hold substantial ownership interest (as defined in these regulations) over the other. For the purpose of this definition:

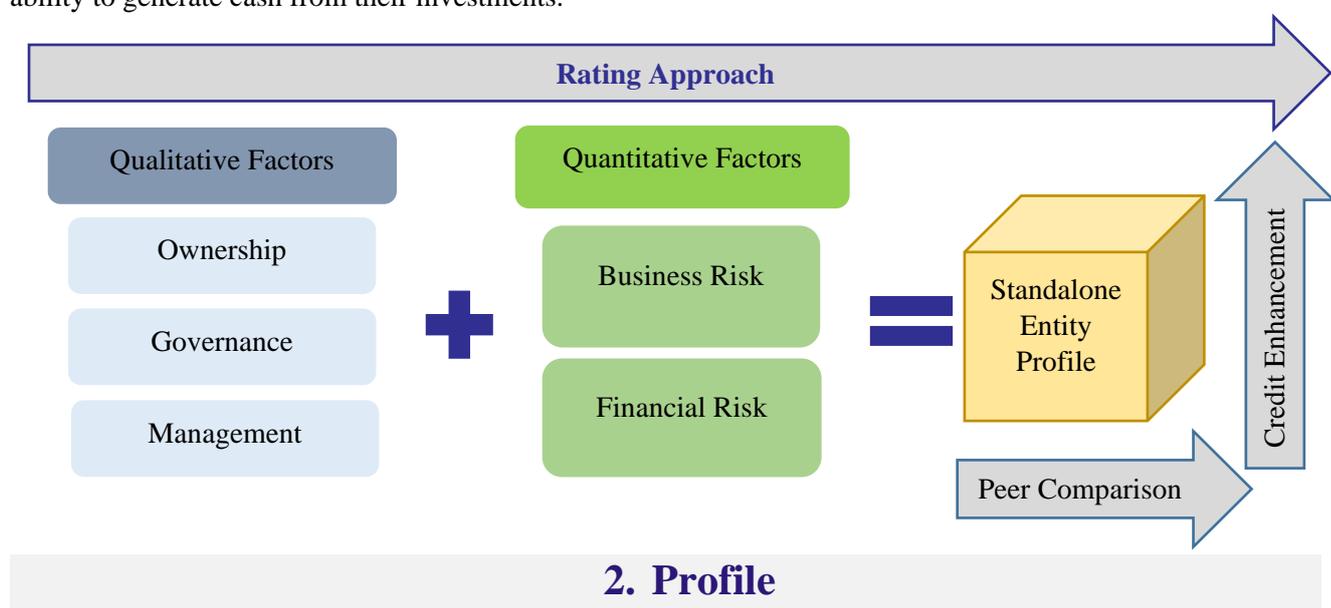
- a. Subsidiary will have the same meaning as defined in section 3 of the Companies Ordinance, 1984 i.e., a company or a body corporate shall deem to be a subsidiary of another company if that other company or body corporate directly or indirectly controls, beneficially owns or holds more than 50% of its voting securities or otherwise has power to elect and appoint more than 50% of its directors.
- b. Control refers to an ownership directly or indirectly through subsidiaries, of more than one half of voting power of an enterprise.

Substantial ownership/affiliation means beneficial shareholding of more than 25% by a person and/or by his dependent family members, which will include his/her spouse, dependent lineal ascendants and descendants and dependent brothers and sisters. However, shareholding in or by the Government owned entities and financial institutions will not constitute substantial ownership/affiliation, for the purpose of these regulations.”

1.2 Rating Framework: PACRA’s framework for rating HoldCos makes use of both qualitative and quantitative analyses. Overall factors are categorized under seven key areas: Profile, Ownership, Governance, Management, Investment Strategy, Business Risk and Financial Risk.

1.2.1 The quantitative factors help in achieving objectivity in the rating process while the qualitative side helps in establishing the sustainability of the relevant factors in the foreseeable future. Neither all factors can be quantified nor do quantitative values portray the whole story. PACRA, therefore, seeks to employ a best combination of both and would stick to it to ensure comparability between ratings over time. Meanwhile, PACRA achieves a clearer perspective on relative positioning of a HoldCo compared to that of others.

1.2.2 This methodology helps in identifying the factors that may create vulnerability in capacity and willingness of HoldCos to service their own financial obligations in a timely manner. Key rating drivers are pivotal for assessing the financial flexibility of an entity, which, in the case of HoldCos, depends largely on their ability to generate cash from their investments.



2.1 Background: Until recently, in Pakistan, most companies were operating on a standalone basis and very few had subsidiaries or associates. Even where the term “group company” was used, it was usually used to refer to other company(s) with common shareholding or common management but not necessarily having legal beneficial interest. The HoldCo structure gained momentum when business houses realized that they could manage their investment portfolio in a more efficient manner by focusing on performance monitoring of investee companies, efficient capital allocation, talent management within group companies and control structures.

2.1.1 PACRA looks at the progress of the HoldCo since its inception in order to understand its evolution by acquiring stakes in other companies over a span of time or through internal restructuring process where group shareholding in various companies is consolidated at the HoldCo level. Understanding the HoldCo’s background helps PACRA in assessing how and through what means the HoldCo has achieved the desired expansion. Meanwhile, the group/major shareholders’ thought process behind establishment of the HoldCo helps PACRA to understand its strategy, going forward.

2.2 Structural Analysis: For structural analysis, it is crucial for PACRA to develop a clear understanding of the linkages between a HoldCo and its investees. This depends on the degree of operational involvement, and

economic and financial significance of the investees to the HoldCo. Based on this analysis, PACRA classifies investees into four main categories:

Categories	
Core	<ul style="list-style-type: none"> •The entities where the HoldCo has operational control and are essentially a part of the HoldCo or treated as a wholly owned subsidiary. Financial stress for core entities will have a significant effect on the HoldCo’s credit profile. It is very unlikely that the HoldCo would decide to divest.
Strategic	<ul style="list-style-type: none"> •These entities may not act as flagship companies. They can be subsidiaries, associates, joint venture or the HoldCo may have partnerships in them. Core investments can translate into strategic investments upon divestiture of holdings or change in group’s business philosophy.
Trading	<ul style="list-style-type: none"> •These comprise listed equity stakes held in other companies classified as ‘Available for Sale’ and/or ‘Held for Trading’. These investments are least integrated and are held primarily with the intention of deriving trading income. The key risks involved here are liquidity and market risks.
Operations	<ul style="list-style-type: none"> •Operational segment(s) which are treated as core business. These are embedded in the legal structure of the entity, offering full ownership with complete operational control. Major resource allocation is involved in operations and the management of those operations. Financial stress on operations can create a significant drag on the overall credit profile. •When rating a holdco with operations, the sector methodology relevant to the entity’s area of operations, or PACRA’s Corporate Rating Methodology, is used alongside this methodology.

2.2.1 Following the structural analysis, PACRA maps the HoldCo’s investment chart in detail to identify all direct and indirect stakes, including minority stakes. This is where structural complexity is examined. This can be determined on the basis of cross holdings, inter-company or related party transactions and/or availability of multiple debt funding sources. A complex structure, where it is difficult to separate the HoldCo from its investees, is viewed negatively.

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 Considerations”.

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: This section provides an overview of the risks pertaining to the structure and stability of the entity's ownership structure, owners' experience and prowess in the entity's industry, and willingness and ability to extend extraordinary financial support in distressful circumstances.

3.4 Governance: This section provides an overview of the risks pertaining to the Board of Director's role 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. Additionally, given that frequent asset rotation with high exposure to equity risk is a typical feature of HoldCo activity, capital structure metrics are relatively more challenging to forecast compared to other corporates. A HoldCo's financial policy indicates the level of risk tolerance of a HoldCo's Board and helps predict the direction of future investment and financing decisions. Clearly defined leverage targets are an important component of this.

3.5 Management: This section provides an overview of the risks pertaining to the management team's 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. PACRA also carries out a qualitative assessment of the HoldCo's investment strategy for a long-term view on its business profile and how it is likely to behave, going forward. PACRA also looks at how investment decisions are made in a HoldCo, and on which forum. Since investment decision-making is not a legal function, the structure of the forum can vary between HoldCos. Investment decision-making may be done at Board level, management level, a mixture of both, or at group level. PACRA considers this forum to be the HoldCo's Investment Committee (hereon referred to as "IC") and evaluates its composition, quality and effectiveness. Due to the significance of this function for a HoldCo, a separate section has been dedicated to PACRA's analysis of the same in this methodology.

4. Investment Strategy

4.1 Investment Decision-making: Being the primary point of reference for any investment decision made and implemented, the IC is an integral part of the decision-making process. PACRA reviews the composition of the IC by looking at the profile of individual members, including their skills and experience, in order to gauge the investment acumen. Meanwhile, dominance of any particular member is carefully scrutinized through review of IC meeting minutes.

4.2 Investment Policy: When viewing the investment policy, PACRA analyzes how the management plans on managing its investment portfolio to strike a favorable balance between conservative and riskier investments. Here, exposure limit for each investment type – core, strategic and non-strategic – in relation to sectors, groups and individual entities/securities is considered important. PACRA also reviews relevant guidelines, how well they are documented and their level of clarity and transparency. Clearly defined investment guidelines, which offer long-term visibility of business profile are viewed positively. Transparent strategies revealing management intent and commitment towards maintaining a conservative and/or stable risk profile through exposure to mature companies, safer asset classes and liquid investments can be viewed more positively as opposed to more speculative and opportunistic strategies.

4.3 Investment Committee Effectiveness: The investment decision making process is the pivotal stone of portfolio management. The effectiveness of the IC needs to be evaluated to ensure that it is discharging its responsibilities in the best possible manner and in the best interests of all stakeholders. Herein, the regularity and frequency of IC meetings is considered. Meanwhile, IC’s track record of adherence to stated investment guidelines and policies, wherever available, is considered an important and reliable indicator of management’s commitment to goals.

Information Required on Investment Strategy

- Profile of investment committee members
- Investment policy
- Investment committee meeting minutes

5. Business Risk

5.1 PACRA has identified three main factors as drivers of HoldCo performance: level of diversification, portfolio assessment and income assessment. Level of diversification in a portfolio is an important indicator as it minimizes concentration risks. Meanwhile, portfolio assessment and income assessment are considered important indicators of performance over the long term.

5.2 Diversification: PACRA considers the diversity of the HoldCo’s exposure, both, in terms of business sectors (including own operations, if any) and individual investments. The key concern here is that investments and income should be well-spread over various sources to minimize the impact on the HoldCo in case a particular sector/investment is impacted by the operating environment. This could be in the form of a simultaneous cut in inflows through dividends and/or sale of investments. Therefore, the larger the number of sectors invested in, and the lower the degree of correlation between them, the more favorably it is viewed. Further depth is added to this analysis by examining the nature of sectors to identify inherent volatility/cyclicality of these sectors.

5.3 Portfolio Assessment: Since the overall quality of a HoldCo’s portfolio is the product of the quality of its underlying investments, portfolio assessment is an essential part of business risk assessment. PACRA forms an opinion on each investee regarding the risk of becoming impaired and potentially losing value. Formation of an opinion for a listed and/or rated investee is relatively easier since detailed and timely disclosures are available. Where investees are unlisted and/or unrated, the opinion is conservative and primarily relies on information provided in the consolidated financials of the HoldCo. PACRA recognizes that holding controlling stakes – core and strategic – in unlisted concerns has its own benefits. HoldCos tend to keep a balance between listed and unlisted investments with a view of increasing their cash inflows and target growing sectors on a long-term horizon, since unlisted companies are not subject to stringent regulations and public scrutiny, and can be developed at a slower pace.

5.3.1 Cash Consumers vs. Cash Producers: All investments in a HoldCo’s portfolio may not be at similar developmental stages at a given point in time. Rather, some investments, particularly those in growing phase, i.e., emerging investments, may be cash consumers which means they need capital/financial support from the HoldCo. The HoldCo may divest its trading investments or rely on external financing to support their capital needs based on their potential. However, their capacity to support the HoldCo in repaying the debt would likely be limited. On the other hand, mature investments and cash-cows, which generate dividend income and unrealized capital gains for the HoldCo without creating a drag on its capital structure, would be cash producers.

Maintaining a good balance between cash consumers and cash producers is critical for a HoldCo's sustainability. This ensures that the HoldCo has sufficient cash inflows to support emerging/non-performing investments without incurring significant debt burden.

5.3.2 PACRA gives prime consideration to the ability and flexibility of the HoldCo to liquidate its stake or part of its investment portfolio as this remains the ultimate source of debt repayment, if the HoldCo is unable to refinance maturing obligations or has limited cash inflows. Herein, there are two key concerns: investment mix and liquidity.

5.3.3 Investment Mix: PACRA looks at the mix of core, strategic and non-strategic investments in a HoldCo's portfolio. PACRA recognizes that a HoldCo may be unwilling and/or unable to liquidate core and strategic investments as these investments may hold strategic importance and/or carry reputational risk for the HoldCo. Further, other limitations such as cross default provisions or guarantees may also restrict abandonment of strategic investments. On the other hand, portfolios dominated by non-strategic investments can carry significant price risk. Thus, PACRA looks for a well-balanced portfolio.

5.3.4 Marketability: Marketability of investment portfolio is considered an important factor as highly marketable investments ensure a cushion for urgent cash in stressed times. While listings are a typical indicator of asset marketability, even listed majority stakes can be difficult to liquidate timely. Thus, these are excluded from the assessment or discounted. Similarly, even listed minority stakes may not offer a high degree of comfort. Investments in inherently volatile sectors can actually create additional risk as a sudden shock can erode equity price and make it difficult to dispose. While HoldCos typically take long-term positions in equity participations, ancillary investments in non-equity securities, such as fixed income investments, are also common. These usually do not represent a significant portion of the overall portfolio but can boost liquidity, especially in case of government securities.

5.4 Income Assessment: After portfolio assessment, PACRA examines the quality of HoldCo's income stream. PACRA looks at the standalone income performance, including yield on investments. The HoldCo's income is also analyzed relative to a suitable benchmark index for a holistic view on performance. Taking the limitations of standalone analyses into account, these figures are compared to other HoldCos. Historic volatility in the income stream is also factored in. Within this framework, PACRA also looks at how much control the HoldCo exhibits over its income. Internationally, HoldCos do not generally hold majority or large minority stakes in the entities in their investments. However, this is a norm in the local context. PACRA looks at controlling stakes to determine the level of influence and/or control the HoldCo can exhibit over an investee's dividend policy and distribution and/or major strategic decisions which can impact income, going forward. An important aspect of income assessment is its sustainability. PACRA looks at financial projections of the HoldCo to develop a view on future performance. Herein, the management's track record in providing reliable projections with minimal deviation reflected in actual performance, is also taken into account.

5.4.1 Event Risk: Incorporating the risk of unforeseen events into an entity's rating opinion is challenging, given their unpredictable nature. These events may be external (e.g., M&As, regulatory changes, litigations, or a natural disaster) or may be internally driven (e.g., 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 magnitude of 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

- Annual and quarterly financial statements of the HoldCo for the past three years
- Details of individual investees, including HoldCo’s stake and total group stake in each investee, book value and market value
- Annual and quarterly financial statements of each investee (separately) for the past three years
- Break-up of dividend income from each investee
- Financial projections, along with detailed underlying assumptions

Business Risk – Key Ratios

Diversification

- Value of Investment in Single Largest Sector / Total Investments
- Value of Top 3 Investments / Total Investments

Portfolio Assessment

- Blended Asset Quality Assessment (average credit quality of investments portfolio)
- Marketable Investments/ Total Investments

Income Assessment

- Alpha Return on Portfolio (Portfolio Investment Yield / KSE 100 Index Return)
- Volatility in Income Stream
- Controlling Stake / Total Investments

6. Financial Risk

6.1 In its financial risk analysis, PACRA emphasizes the coverages and capital structure of the HoldCo on a standalone and consolidated basis. A HoldCo’s asset base mainly comprises investments, the fair/market value of which can deviate significantly from book value. Thus, PACRA incorporates market valuation in its analysis, where relevant. When rating HoldCos with operations, additional indicators of financial risk relevant to corporates, including working capital management, are factored in.

6.2 Coverages: PACRA emphasizes coverages as the key element in evaluating the liquidity and solvency of a HoldCo. Since a HoldCo’s recurring cash income emanates mainly from its investment portfolio instead of internal generation, it is important to determine whether this, along with the cash balances maintained, is sufficient to service debt and withstand downturns in the economic environment. Apart from quantum, the timing of cash flows vs debt repayments is also critical. A cluster of debt repayments falling in a short time frame can create a liquidity shortfall. Generally, longer debt maturity profiles allow for greater flexibility in repayment. Insufficient liquidity can necessitate selling off assets, or require refinancing, which may be difficult during times of economic stress/disruption. PACRA also evaluates whether the HoldCo has adequate cushion available to cater to the financial needs of its investees by analyzing its cash flows vis-à-vis commitments to investees.

6.2.1 It is important to establish whether the HoldCo's asset base (mainly investment portfolio) provides sufficient cover to its debt obligations. For this, PACRA incorporates market value of investments into its analysis, wherever possible, since this gives a more accurate picture of the ability of the asset base to cover debt. This approach ensures that asset values are not overstated or understated relative to liabilities, which remain close to market value. In case of unavailability of market value of assets, as in the case of unlisted equity stakes, PACRA refers to the investment's book value, which, in certain cases, may be applied with a haircut.

6.3 Capital Structure: PACRA analyzes the HoldCo's capital structure to determine its reliance on external funding. This is evaluated relative to its peers. Off-balance sheet exposure (contingencies and commitments) is a critical concern when analyzing HoldCo's capital structure, particularly guarantees a HoldCo may have extended to its investees. If these exist, PACRA incorporates the same in its leverage metrics to reflect the burden of the respective obligations as well as the HoldCo's own debt liabilities.

6.3.1 Downstream Guarantees: It is highly desirable that funding arrangements between a HoldCo and its investees be strictly separate, with no recurring or extraordinary financial support flowing between them. However, in case of investments in subsidiaries and/or associates, a HoldCo may provide guarantees or collateral. These can potentially become a financial burden if the related entity defaults or needs support to avoid default. PACRA views the quantum of the obligation and the credit quality of the investee to more accurately assess the likelihood of the contingency to materialize.

6.3.2 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.

6.4 Consolidated Position: PACRA incorporates the consolidated credit profile of the group in its analysis by looking at the HoldCo's consolidated financial statements. For the purpose of its analysis, PACRA may also consider entities, which are not consolidated in the HoldCo's financial statements as part of the group, if considered relevant to the analysis. The overall objective is to evaluate financial flexibility at group level. PACRA looks at the group's coverages, leverage metrics and borrowing cushion in the form of unutilized credit

lines from financial institutions. This allows PACRA to assess financial strength at group level and the possibility of the HoldCo deriving support from the group in case needed.

Information Required on Financial Risk

- Complete schedule of all long-term borrowings
- Bank wise detail of available credit lines and the extent of their utilization
- Spread calculations for investments acquired through external (commercial & bank) borrowing
- Details of future financing needs, and how the HoldCo aims to arrange the same (i.e., internal generation vs. external financing)
- Nature and status of intergroup lending and borrowing positions
- Group level dividends/revenues, profits, debt, equity of each company in the Group

Financial Risk – Key Ratios

Coverages

- Total Cash Flow / Gross Interest (times)
- Total Cash Flow / Debt Servicing (times)
- Total Available Liquidity / Debt Servicing (times)
- Loan to Value (times)

Capital Structure

- Levaraging (%)
- Levaraging + Off Balance Sheet Exposure

Consolidated Position

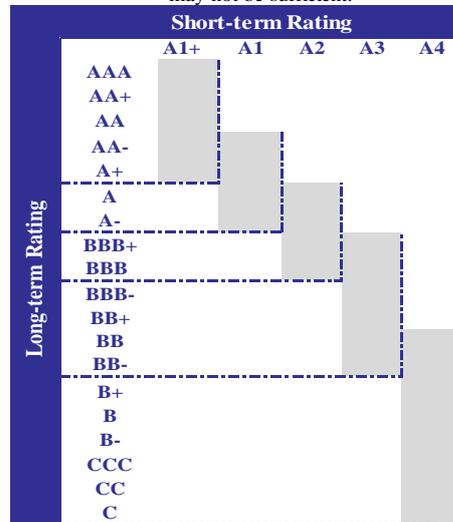
- Consolidated Total Cash / (Subsidiaries' Debt Servicing + Subsidiaries' Excess Borrowings)
- Consolidated Levaraging (%)
- Total Available Liquidity / (Dues to Related Parties + Consolidated Off Balance Sheet Exposure) (%)

Credit Rating

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

Scale	Definition
Long-term Rating	
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
AA-	
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.
A-	
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.
BBB-	
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.
BB-	
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.
B-	
CCC	
CC	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.
C	
D	Obligations are currently in default.

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 conditions.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



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

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

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

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

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

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

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

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

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