The Pakistan Credit Rating Agency Limited

Rating Report

Fauji Fertilizer Company Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
30-Jul-2021	AA+	A1+	Stable	Maintain	-
30-Jul-2020	AA+	A1+	Stable	Maintain	-
01-Aug-2019	AA+	A1+	Stable	Maintain	-
30-Jan-2019	AA+	A1+	Stable	Maintain	-
30-Jul-2018	AA+	A1+	Stable	Upgrade	-
04-Aug-2017	AA	A1+	Stable	Maintain	-
04-Aug-2016	AA	A1+	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Pakistan has an agrarian economy, thus fulfills around ~ 84% of its fertilizer requirement through local production while the remaining is met through imports. The Country's total fertilizer production capacity sails around ~ 7.1mln MT of Urea and CAN and ~ 1.7mln MT of DAP, NP, and NPK. In 5MCY21, Urea's offtake share in total fertilizer has increased to ~65% (CY20: ~62%). Meanwhile, DAP's offtake share decreased to ~12% (CY20: ~22%). The overall margins of the industry registered a healthy growth on the gross and net levels due to unchanged gas rates and effective cost controls despite inflationary pressures. In the local market, Urea's price has decreased due to GIDC reduction. Earlier, the GIDC charge was reduced on feed and fuel stock. Subsequently, the GIDC was made payable in full by all manufacturers in 48 installments, as per the ruling of the Supreme Court in Aug-20. In the international market, prices of Urea and DAP witnessed an upward trend supported by increased demand after easing of COVID-19 induced restrictions and high input cost. However, any Government subsidy scheme would reduce DAP prices.
The ratings reflect the dynamic business profile and robust financial position of Fauji Fertilizer Company Limited ('FFC' or 'the Company') while incorporating the derived strength from Fauji Foundation (FF). FFC combined with FFBL has a sizeable production capacity and product offtake of both Urea and DAP. The Company's strong business footprint has enabled it to build 'Sona' a household name in the farming community, in Pakistan. The production facilities are secured by a dedicated and uninterrupted gas supply line from the Mari fields. This ensures sustainable business volumes for the Company. FFC has continued to post the highest production levels and a strong top-line. Moreover, the Company has maintained a growth trajectory in margins and profitability. Stable dividend and interest income further enhances the Company's bottom line. The Company has a moderately leveraged capital structure with very strong coverages and significant liquidity depicting a robust financial profile. The rating factor in FFC's strong organizational structure is designed to control its subsidiaries' strategic direction and strong governance framework.

The ratings are dependent on the sustainability of operations and maintaining its market share. Sustainability in the performance of subsidiaries, stable dividends, and effective management of financial profile is important.

Disclosure

Name of Rated Entity	Fauji Fertilizer Company Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Rating(Jun-21),Criteria | Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria | Rating Modifiers(Jun-21)
Related Research	Sector Study | Fertilizer(Jan-21)
Rating Analysts	Faiqa Qamar | faiqa.qamar@pacra.com | +92-42-35869504

Profile

Legal Structure Fauji Fertilizer Company Limited ('FFC' or 'the Company') is a public listed company, incorporated in 1978.

Background FFC was established as a joint venture between Fauji Foundation (FF) – a Charitable Trust incorporated under the Charitable Endowments Act 1890 and Haldor Topsoe A/S of Denmark – a world leader in catalysts. FFC set up its first plant in Goth Machhi with the capacity if 570,000MT p.a in 1968. In 1993, the Company increased its urea production by setting up Plant-II in Goth Machhi and made its initial investment in Fauji Fertilizer Bin Qasim Limited (FFBL). In 2003, FFC acquired Ex-Pak Saudi Fertilizers Limited Urea plant situated in Mirpur Mathelo (Plant-III). Over the years, the Company has invested into various sectors i.e., banking, power, food and cement sectors.

Operations FFC is engaged in the manufacturing and marketing of fertilizer products. The Company sells Urea, DAP, SOP, MOP, Boron and Zinc. The Company has three urea production facilities, out of which two are located at Goth Machhi (Plant I and Plant II) and one at Mirpur Mathelo (Plant III). The total designed capacity of FFC's urea plants (Plant I: 695,000MT, Plant II: 635,000MT, Plant III: 718,000MT). During CY20, 2.49mln MT of Urea was produced, with a capacity utilization of 121%.

Ownership

Ownership Structure FFC is majority owned by Fauji Foundation (~44%). General public holds ~22%. Rest of the ownership lies with public sector companies (~12%), foreign companies (~7%), financial institutions (~7%) and others (~8%).

Stability The ownership structure is seen stable as majority of the shareholding vests with the sponsors through FF.

Business Acumen Fauji Foundation (FF), founded in 1954, has emerged as one of the leading conglomerates of the country, with established business interests in various diversified sectors i.e., banking, power, food and cement sectors.

Financial Strength Besides holding formidable equity strength in FFC, the sponsors have an extensive investment book, comprising 3 subsidiaries, 4 associated companies and 1 joint venture of FFC, which fortifies their sound financial strength. In CY20, FFC has consolidated equity of ~PKR 79bln with an asset base of ~PKR 216bln. Through its diverse set of business, it is generating a turnover of ~PKR 103bln and posted a PAT of ~PKR 30bln.

Governance

Board Structure The BoD comprises thitreen members. There are nine Non-Executive Directors, three Independent Directors and one Executive Director.

Members' Profile The Company's Board is chaired by Mr. Waqar Ahmed Malik. He has professional experience of over three decades. All members on the BoD have diversified experience and majority of the members have long association with the BoD.

Board Effectiveness The Board has four committees to assist in governing the affairs of the Company. These comprise: a) Audit Committee, b) HR and Remuneration Committee, c) System & Technology Committee, and d) Investment Committee. The BoD met six times during CY20 with full participation.

Financial Transparency FFC's external auditor, A.F Ferguson & Co., Chartered Accountants, has issued an unqualified opinion on CY20's financial statements.

Management

Organizational Structure The Company has a well defined organizational structure that is divided into twelve main departments. All functional Heads reports to the Company's CEO, who then reports to the BoD. However, Head of Internal Audit and Human Resource reports administrative matters to the CEO and functionally to the Audit and HR and Remuneration Committee, respectively.

Management Team Lt Gen Tariq Khan, HI-(M) (Retired), the CEO, has been associated with the Group since Mar-18. He is also the CEO of Fauji Fresh n Freeze Limited and FFC Energy Limited, wholly owned subsidiaries of FFC. He is aided by a team of experienced professionals.

Effectiveness The Company has formed three committees i.e., Executive Committee , Business Strategy Committee and Corporate Social Responsibility Committee. Meetings of the committee are held on periodic basis to ensure efficiency and strategic planning.

MIS FFC has a state of the art IT infrastructure in place, including SAP software. The Company has maintained a profound management system that enables smooth operations of business processes and provides an end to end solution for financial, logistical, distribution, inventory, plant maintenance and human capital management.

Control Environment FFC has an effective in-house internal audit function which assists the Company to monitor internal controls while reporting to the Audit Committee.

Business Risk

Industry Dynamics The production capacity of country's fertilizer industry comprises 7.1mln MT of Urea and CAN and 1.7mln MT of DAP, NP and NPK. Pakistan fulfils around ~84% of its fertilizer requirement through local production while the remaining is met through imports. In 5MCY21, Urea's offtake share increased by 3% and stood at ~65% (CY20: ~62%). Meanwhile, DAP's share decreased to ~12% (CY20: ~22%), since it is largely utilized in the Rabi Season. The overall margins of the industry registered a healthy growth on the gross and net levels in 1QCY21, due to unchanged gas rates, reduction in GIDC and low fuel costs and interest rates. However, International prices of Urea and DAP witnessed an upward trend, supported by increased demand after easing of COVID-19 induced restrictions and high input cost. Local price of urea has slightly decreased due to GIDC reduction.

Relative Position FFC is the largest player in the fertilizer segment in Urea and DAP with a market share (including FFBL) of ~51% and ~51%, respectively, in CY20.

Revenues FFC's top-line comprises sales of Urea (~82%), DAP (~17%) and Others (~1%). During CY20, the Company posted a dip of ~8%, however, remained strong (CY20: ~PKR 97.7bln, CY19: ~PKR 105.8bln). The decline is due to lower Urea prices in CY20, despite minor rise in volumes sold. In 1QCY21, the Company managed to post an increase in the top-line (1QCY21: ~PKR 21.6bln, 1QCY20: ~PKR 20.6bln) owing to significant rise in DAP prices.

Margins During CY20, the gross margin improved to ~32% (CY19: ~29%) owing to better control at cost (including reduction in GIDC rates), despite cost-push inflation. The same trend was reflected in operating margin (CY20: ~24%, CY19: ~21%). Finance cost of the Company witnessed a significant dip to ~PKR 1.9bln (CY19: ~PKR 2.5bln) due to lower KIBOR. Moreover, the bottom-line of the Company is supported by stable dividend income. The net margin stood at ~21% (CY19: ~16%). In 1QCY21: the gross margin increased to ~39% on the back of higher fertilizer prices. Effective control at operating expenses and lower finance cost resulted in increase of operating and net margin to ~30% and ~27%, respectively.

Sustainability FFC carries a sizable investment book, along with an equity portfolio comprising of entities in the banking, power, food and cement sectors. Moreover, the Company is in works to acquire majority stake in Foundation Wind Energy I and II, subject to relevant approvals. FFC is actively evaluating alternate sources of gas with the Government to mitigate the risk of depleting reserves.

Financial Risk

Working Capital In CY20, the inventory days improved to 13 days (CY19: 34 days) as the Company has off-loaded most of its inventory. However, the receivable day remained at the same level (CY20: 29 days, CY19: 30 days). The trade payable days saw a minor increase (CY20: 10 days, CY19: 5 days). In accumulation, the gross and net working capital days witnessed a considerable improvement (CY20: 43 days, CY19: 64 days) and (CY20: 33 days, CY19: 59 days), respectively. In 1QCY21, the Company's net working capital days saw an improvement to 7 days, supported by improved inventory and receivable days.

Coverages In CY20, the Company's free cashflows from operations increased to ~PKR 20.7bln (CY19: ~PKR 19bln) on the back of higher profitability. Finance cost of the Company witnessed a significant dip due to lower KIBOR. Consequently, the interest coverage ratio stood at 11.4x (CY19: 7.7x). Moreover, the core (CY20: 3.3x, CY19: 2.6x) and total coverage (CY20: 3.6x, CY19 3.1x) witnessed the same course. In 1QCY21, the interest coverage improved to 13.8x owing to higher profitability. Core and total coverage followed the same track and stood at 3.7x and 4.0x, respectively.

Capitalization FFC has a moderately leveraged capital structure with a leveraging ratio of ~49% in 1QCY21 (CY20: ~49%). Short term borrowings constituted nearly ~66% of total borrowings. The Company is consistantly reducing its leveraging from past few years, depicting strong financial risk profile.

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Financial Summary
PKR mln

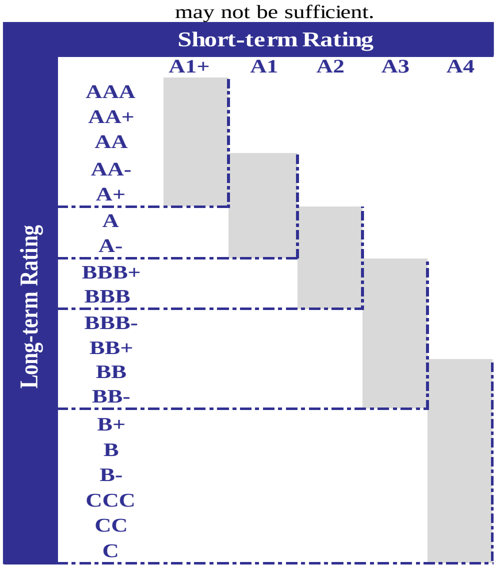
Fauji Fertilizer Company Limited	Mar-21	Dec-20	Mar-20	Dec-19	Dec-18
Fertilizer	3M	12M	3M	12M	12M
A BALANCE SHEET					
1 Non-Current Assets	27,329	26,373	25,128	25,001	24,237
2 Investments	75,750	86,876	46,206	52,422	55,423
3 Related Party Exposure	30,141	29,756	29,172	28,492	26,503
4 Current Assets	36,211	29,945	40,535	47,475	40,327
a Inventories	*5,157*	*320*	*7,001*	*6,795*	*12,932*
b Trade Receivables	*1,909*	*2,287*	*9,789*	*13,460*	*3,679*
5 Total Assets	169,430	172,949	141,041	153,390	146,490
6 Current Liabilities	46,772	49,730	76,998	77,077	61,530
a Trade Payables	*3,067*	*3,349*	*2,011*	*2,015*	*875*
7 Borrowings	42,141	40,415	20,316	33,092	44,348
8 Related Party Exposure	2,049	2,238	3,236	3,242	2,651
9 Non-Current Liabilities	34,491	38,031	4,611	4,412	4,578
10 Net Assets	43,976	42,536	35,880	35,567	33,383
11 Shareholders' Equity	43,976	42,536	35,880	35,567	33,383
B INCOME STATEMENT					
1 Sales	21,589	97,655	20,626	105,783	105,964
a Cost of Good Sold	*(13,154)*	*(66,072)*	*(13,136)*	*(75,046)*	*(77,986)*
2 Gross Profit	8,434	31,583	7,490	30,737	27,979
a Operating Expenses	(2,008)	(7,848)	(2,075)	(8,288)	(8,833)
3 Operating Profit	6,426	23,735	5,416	22,449	19,145
a Non Operating Income or (Expense)	*1,996*	*7,730*	*1,157*	*3,782*	*4,174*
4 Profit or (Loss) before Interest and Tax	8,423	31,465	6,573	26,231	23,320
a Total Finance Cost	*(420)*	*(1,874)*	*(673)*	*(2,477)*	*(1,637)*
b Taxation	*(2,188)*	*(8,772)*	*(1,638)*	*(6,643)*	*(7,244)*
6 Net Income Or (Loss)	5,815	20,819	4,262	17,110	14,439
C CASH FLOW STATEMENT					
a Free Cash Flows from Operations (FCFO)	*5,586*	*20,658*	*5,387*	*18,964*	*16,590*
b Net Cash from Operating Activities before Working Capital Changes	*5,763*	*20,434*	*4,956*	*20,639*	*17,412*
c Changes in Working Capital	*(13,179)*	*21,153*	*2,965*	*8,074*	*7,803*
1 Net Cash provided by Operating Activities	(7,416)	41,587	7,921	28,713	25,215
2 Net Cash (Used in) or Available From Investing Activities	9,368	(39,462)	4,393	(5,784)	(24,002)
3 Net Cash (Used in) or Available From Financing Activities	(2,703)	(6,739)	(16,825)	(25,824)	892
4 Net Cash generated or (Used) during the period	(750)	(4,615)	(4,511)	(2,894)	2,105
D RATIO ANALYSIS					
1 Performance					
a Sales Growth (for the period)	-11.6%	-7.7%	-22.0%	-0.2%	8.9%
b Gross Profit Margin	39.1%	32.3%	36.3%	29.1%	26.4%
c Net Profit Margin	26.9%	21.3%	20.7%	16.2%	13.6%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	-35.2%	42.8%	40.5%	25.6%	23.0%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]*	52.3%	51.9%	45.5%	49.2%	49.7%
2 Working Capital Management					
a Gross Working Capital (Average Days)	20	43	82	64	36
b Net Working Capital (Average Days)	7	33	73	59	31
c Current Ratio (Current Assets / Current Liabilities)	0.8	0.6	0.5	0.6	0.7
3 Coverages					
a EBITDA / Finance Cost	17.8	14.9	9.9	10.3	12.7
b FCFO / Finance Cost+CMLTB+Excess STB	3.7	3.3	2.9	2.6	1.9
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.7	0.8	0.6	0.7	1.1
4 Capital Structure					
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	48.9%	48.7%	36.2%	48.2%	57.1%
b Interest or Markup Payable (Days)	90.7	55.5	84.4	99.9	68.0
c Entity Average Borrowing Rate	5.8%	6.9%	9.9%	7.8%	5.3%

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):

Entities
a) Broker Entity Rating
b) Corporate Rating
c) Financial Institution Rating
d) Holding Company Rating
e) Independent Power Producer Rating
f) Microfinance Institution Rating
g) Non-Banking Finance Companies (NBFCs) Rating

Instruments
a) Basel III Compliant Debt Instrument Rating
b) Debt Instrument Rating
c) Sukuk 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.
(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