The Pakistan Credit Rating Agency Limited

# Rating Report

# Engro PowerGen Thar (Pvt.) Limited

**Report Contents**



**Rating History**

| Dissemination Date | Long Term Rating | Short Term Rating | Outlook | Action | Rating Watch |
|---|---|---|---|---|---|
| 22-Sep-2023 | AA- | A1 | Stable | Maintain | - |
| 23-Sep-2022 | AA- | A1 | Stable | Maintain | - |
| 23-Sep-2021 | AA- | A1 | Stable | Maintain | - |
| 25-Sep-2020 | AA- | A1 | Stable | Upgrade | - |
| 29-Oct-2019 | A | A1 | Stable | Maintain | - |
| 29-Apr-2019 | A | A1 | Stable | Maintain | - |
| 27-Dec-2018 | A | A1 | Stable | Maintain | - |
| 27-Jun-2018 | A | A1 | Stable | Maintain | - |
| 22-Dec-2017 | A | A1 | Stable | Maintain | - |

## Rating Rationale and Key Rating Drivers

Engro Energy Limited (EEL) along with China Machinery & Engineering Corporation (CMEC) has set up a Thar coal based (2 x 330 MW) power plant (Complex) - Engro PowerGen Thar (Pvt.) Limited (EPTL). Since its COD in July'19, EPTL is running its operations smoothly and sustainably and achieving operational benchmarks. The primary fuel is Thar Coal. A 30-year coal supply agreement is signed with Sindh Engro Coal Mining Company (SECMC), which is operating a coal mine in Thar Block-II. Company's both units were successfully connected to and are providing electricity to the grid. During 1HCY23 the plant generated net electrical output of ~1,464GWh (CY22: ~3,686GWh, CY21: ~4,225GWh) and subsequently recorded revenue of PKR ~48,240mln (CY22: ~74,859mln, CY21: PKR ~76,915mln) against Energy and Capacity invoices. Throughout the period, the plant was able to meet its operational benchmarks of availability and efficiency as agreed in the PPA. The financial strength and experience in the energy chain of the sponsoring companies – EEL and CMEC – is positive to the ratings. The Government of Pakistan has given payment guarantee against dues from CPPA-G. However, mounting trade receivables of PKR ~52,042 as on June 2023, remains a cause of concern. EPTL is efficiently managing its net cash cycle days by stretching its payables to SECMC which stood at ~PKR 46,081 as on June 2023. To finance its working capital needs, the company has availed short-term borrowing lines of PKR 18,750mln (~96% utilized) as of June 2023. Going forward, the Company plans to manage its operations through adequate cashflow generation and efficient utilization of working capital lines. The Company has successfully repaid approximately 30% of its foreign debt and 21% of its local debt relating to the plant construction cost. As of June 2023, the company has long term debt obligations of PKR 121,686mln along with current maturity of PKR 17,921mln.

The assigned ratings reflect the sponsors strength along with guarantee provided by the power purchaser. Going forward, the Company's main focus would be to keep the plant operational and meet required benchmarks along with timely repayment of debt obligations.

**Disclosure**

| | |
|---|---|
| **Name of Rated Entity** | Engro PowerGen Thar (Pvt.) Limited |
| **Type of Relationship** | Solicited |
| **Purpose of the Rating** | Entity Rating |
| **Applicable Criteria** | Methodology \| Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology \| Independent Power Producer Rating(Jul-23),Methodology \| Rating Modifiers(Apr-23) |
| **Related Research** | Sector Study \| Power(Jan-23) |
| **Rating Analysts** | Hashim Yazdani \| hashim.yazdani@pacra.com \| +92-42-35869504 |

## Profile

**Plant** Engro PowerGen Thar (Pvt.) Limited is operating 2 x 330 MW mine mouth Coal-based Power Plant. The Company is a subsidiary of Engro Energy Limited (EEL). The project, which comes under the CPEC corridor is the first indigenous coal-based Power Plant of Pakistan in Thar Block–II, Sindh.

**Tariff** EPTL has been provided a levelized tariff of 11.3475 US¢/kWh. The tariff is indexed to the Pakistan Rupee-US Dollar exchange rate, Pakistan CPI inflation, LIBOR, KIBOR and US CPI inflation. Principal and interest repayments, ROE, Insurance, Fixed and Variable O&M costs are part of the scalable (adjustable) component.

**Return On Project** EPTL's key source of earnings would be the revenue generated through sale of electricity to the Power Purchaser, CPPA-G. The IRR of the project, as agreed with NEPRA, is 20%. The ROE of the project is at 30.65%.

## Ownership

**Ownership Structure** EPTL's majority ordinary shares are owned by Engro Energy Limited (EEL) (50.1%) and China Machinery Engineering Company (CMEC) (35%). The remaining stake is owned by Habib Bank Limited (HBL) (9.5%) and Liberty Mills Limited (LML) (5.4%). Additionally, Preference shares equivalent to USD 85mln all are subscribed by CMEC.

**Stability** Stability in the IPPs is drawn from the agreements signed between the company and power purchaser. However, Company's association with Engro group, China Manufacturing & Engineering Company and Habib Bank Limited will continue to provide comfort.

**Business Acumen** Sponsor groups have significant experience in the power, coal mining, textile, banking and engineering contracting solutions and services.

**Financial Strength** Company’s sponsors have the ability and willingness to support the entity both on a continuing basis and in times of crisis. Additionally, the financial strength of the sponsors is considered strong as the sponsors have well diversified profitable businesses.

## Governance

**Board Structure** EPTL's Board of Directors (BoD) comprises of nine members from the sponsoring groups. Five members represent EEL, three members are from CMEC and one from HBL. The board members have diverse experience from different industries.

**Members’ Profile** The board members have diversified experience. Mr. Yousuf Siddiqui has joined the board of EPTL as Chairman from July 2022. He has 25 years of experience leading upstream, downstream and renewable energy ventures.

**Board Effectiveness** The BOD has two sub-committees called Audit committee and Board Compensation Committee to assist and supervise the management in respective areas.

**Financial Transparency** A.F Ferguson & Co. is the external auditor of the company. The auditor has given an unqualified opinion on the financial statements year ended as at 31st December 2022.

## Management

**Organizational Structure** IPPs are generally featured by a flat organizational structure, mainly comprising finance and technical staff, while the engineering, construction and operations of the plant are outsourced.

**Management Team** The management team is headed by Mr. Athar Abrar Khawaja. He has been appointed as Chief Executive Officer of the Company with effective from August 15, 2023 and replaced Syed Manzoor Hussain Zaidi.

**Effectiveness** The management of EPTL is mostly engaged in the finance related activities. The operations and maintenance of the plant have been outsourced to O&M contractor, Engro Energy Services Limited, which is a 100% owned subsidiary of Engro Energy Limited for a period of 5 years.

**Control Environment** The company maintains an adequate MIS which helps management to keep track of all operations and liaison with O&M operator.

## Operational Risk

**Power Purchase Agreement** The electricity generated will be sold to Central Power Purchasing Agency - (CPPA-G) under a 30-year Power Purchase Agreement (PPA). Further, the obligations of the power purchaser are guaranteed by the Government of Pakistan. Moreover, a stable revenue stream is also ensured through the guaranteed capacity charge (the component of the tariff received irrespective of electricity production).

**Operation And Maintenance** EPTL has an O&M contract with Engro Energy Services Limited which is a 100% owned subsidiary of Engro Energy Limited for a period of 5 years. The O&M operator ensures adherence of the plant to meet minimum performance benchmarks.

**Resource Risk** The Coal Supply Agreement of EPTL is with Sindh Engro Coal Mining Company for 30 years where SECMC will provide 320,000 tonnes coal per month. The Agreement is an exclusive contract by which EPTL will be allowed to use the substitute coal (Imported coal) only in case of non-availability of coal by the Supplier.

**Insurance Cover** The Company has attained reasonable insurance cover for operational period for Property, Plant & Equipment physical damage, third party liability, and business interruption affecting the profits. Additionally, Marine, Terrorism/Political Violence, and Excess Third Party Liability Insurances are also held. An amount of USD 4.56 million has been claimed by the company against the fire incident that took place in March 2022 at one of the plant's conveyor belt system.

## Performance Risk

**Industry Dynamics** As on June 2022, total installed capacity of Pakistan (CPPAG and KE) stood at 43,775MW. During 11MFY23, total power generation of Pakistan stood at 115,877GWh (FY22: 143,175 GWh) with major contribution from Thermal (48.2%) followed by Hydel (27.7%), Nuclear (19.2%) and Renewables (4.5%). Electricity generation by coal IPPs stood at 18,315GWh during the eleven months. With other Thar coal based IPPs becoming operational during FY23, generation from local coal has increased due to its low cost.

**Generation** The plant generated net electrical output of ~1,464GWh during 1HCY23 (CY22: ~3,686GWh, CY21: ~4,225GWh). The delivered energy depends on the electricity demand from the power purchaser and the plants availability.

**Performance Benchmark** The required availability for EPTL under the PPA is 82.5% during first five years and 85.5% for next 25 years. Meanwhile, the required efficiency of the plant is 37%. On average the plant maintained its required benchmarks throughout the period.

## Financial Risk

**Financing Structure Analysis** Debt financing constitutes 75% of the project cost i.e. USD 831mln. The USD facility between the China Development Bank and EPTL is for USD 621mln with a tenure of 14 years with semiannual payments. The local debt facility is between a consortium of multiple local banks, with HBL as the lead arranger, and EPTL for USD 210mln with a tenure is of 14 years with semiannual payments. Ratio of foreign to local financing is 75:25.

**Liquidity Profile** At end June'23, trade receivables of the company stood at PKR 52,042 (Dec'22: PKR 51,526mln). Circular debt continues to be an issue for companies operating in power sector. Consequently, IPPs have to manage their liquidity requirements from short-term borrowings. As per the PPA with CPPA-G, EPTL will receive capacity payments, given the plant meets contract availability, even if no off take by the power purchaser.

**Working Capital Financing** Along with increase in receivables company manages to stretch its trade payable days and its net cash cycle recorded to 49 days (End Dec'22: 73 days). EPTL has successfully issued a Sukuk of PKR 3bln in August-2019 to meet its working capital financing from a consortium of investors, led by Meezan Bank Limited. Additionally, the company has arranged working capital lines of PKR 18,750mln (~96% utilized) as of June 2023.

**Cash Flow Analysis** The company's debt service coverage [FCFO / Finance Cost+ CMLTD+ Excess TB] stood at 1.5x for 1HCY23. During 1HCY23, free cash flows from operations (FCFO) stood at PKR 23,365 (CY22: PKR 30,393mln).

**Capitalization** The Company’s equity stands at PKR 69,046mln as on June 2023. With 30% foreign debt repaid and 21% local debt repaid, total outstanding long term project debt stands at PKR 121,696mln along with current maturity of PKR 17,291mln as on June 2023. As a result, leveraging ratio is at 70.8% (June 2022: 68.7%).

PKR mln

| Engro Powergen Thar Limited | Jun-23 | Dec-22 | Dec-21 | Dec-20 |
|---|---|---|---|---|
| Power | 6M | 12M | 12M | 12M |
| **A BALANCE SHEET** | | | | |
| 1 Non-Current Assets | 184,393 | 160,454 | 141,836 | 137,319 |
| 2 Investments | - | - | - | - |
| 3 Related Party Exposure | - | - | - | - |
| 4 Current Assets | 137,297 | 112,182 | 81,409 | 59,163 |
| *a Inventories* | *552* | *759* | *390* | *430* |
| *b Trade Receivables* | *52,042* | *51,526* | *39,759* | *37,104* |
| **5 Total Assets** | 321,691 | 272,636 | 223,245 | 196,482 |
| 6 Current Liabilities | 84,100 | 63,929 | 35,298 | 28,072 |
| *a Trade Payables* | *46,081* | *31,400* | *28,345* | *23,909* |
| 7 Borrowings | 167,308 | 143,987 | 125,621 | 121,731 |
| 8 Related Party Exposure | 1,237 | 8,172 | 6,539 | 5,048 |
| 9 Non-Current Liabilities | - | - | - | - |
| **10 Net Assets** | 69,046 | 56,548 | 55,787 | 41,632 |
| **11 Shareholders' Equity** | 69,046 | 56,548 | 55,787 | 41,632 |
| **B INCOME STATEMENT** | | | | |
| **1 Sales** | 48,240 | 74,860 | 76,915 | 80,053 |
| *a Cost of Good Sold* | *(27,779)* | *(45,158)* | *(54,312)* | *(56,158)* |
| **2 Gross Profit** | 20,462 | 29,701 | 22,604 | 23,895 |
| *a Operating Expenses* | (467) | (1,066) | (581) | (379) |
| **3 Operating Profit** | 19,995 | 28,636 | 22,022 | 23,516 |
| *a Non Operating Income or (Expense)* | *934* | *796* | *691* | *605* |
| **4 Profit or (Loss) before Interest and Tax** | 20,929 | 29,432 | 22,713 | 24,121 |
| *a Total Finance Cost* | *(7,742)* | *(12,823)* | *(8,109)* | *(10,311)* |
| *b Taxation* | *(690)* | *(347)* | *(449)* | *(10)* |
| **6 Net Income Or (Loss)** | 12,497 | 16,262 | 14,155 | 13,800 |
| **C CASH FLOW STATEMENT** | | | | |
| *a Free Cash Flows from Operations (FCFO)* | *23,365* | *30,393* | *26,451* | *27,410* |
| *b Net Cash from Operating Activities before Working Capital Changes* | *14,648* | *20,901* | *19,726* | *18,002* |
| *c Changes in Working Capital* | *5,971* | *(6,505)* | *2,775* | *(17,757)* |
| **1 Net Cash provided by Operating Activities** | 20,619 | 14,396 | 22,501 | 245 |
| **2 Net Cash (Used in) or Available From Investing Activities** | (229) | 7 | (744) | 97 |
| **3 Net Cash (Used in) or Available From Financing Activities** | (2,337) | (10,130) | (5,380) | 3,023 |
| **4 Net Cash generated or (Used) during the period** | 18,052 | 4,273 | 16,377 | 3,365 |
| **D RATIO ANALYSIS** | | | | |
| **1 Performance** | | | | |
| *a Sales Growth (for the period)* | 28.9% | -2.7% | -3.9% | N/A |
| *b Gross Profit Margin* | 42.4% | 39.7% | 29.4% | 29.8% |
| *c Net Profit Margin* | 25.9% | 21.7% | 18.4% | 17.2% |
| *d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)* | 60.8% | 31.9% | 38.0% | 12.1% |
| *e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity )]* | 39.2% | 31.6% | 27.0% | 33.1% |
| **2 Working Capital Management** | | | | |
| *a Gross Working Capital (Average Days)* | 198 | 225 | 184 | 171 |
| *b Net Working Capital (Average Days)* | 52 | 80 | 60 | 62 |
| *c Current Ratio (Current Assets / Current Liabilities)* | 1.6 | 1.8 | 2.3 | 2.1 |
| **3 Coverages** | | | | |
| *a EBITDA / Finance Cost* | 3.5 | 2.6 | 3.8 | 3.1 |
| *b FCFO / Finance Cost+CMLTB+Excess STB* | 1.5 | 1.2 | 1.5 | 1.5 |
| *c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)* | 4.2 | 6.4 | 5.5 | 5.8 |
| **4 Capital Structure** | | | | |
| *a Total Borrowings / (Total Borrowings+Shareholders' Equity)* | 70.8% | 71.8% | 69.2% | 74.5% |
| *b Interest or Markup Payable (Days)* | 39.3 | 37.6 | 29.3 | 23.1 |
| *c Entity Average Borrowing Rate* | 8.7% | 8.6% | 5.8% | 7.4% |

## Credit Rating

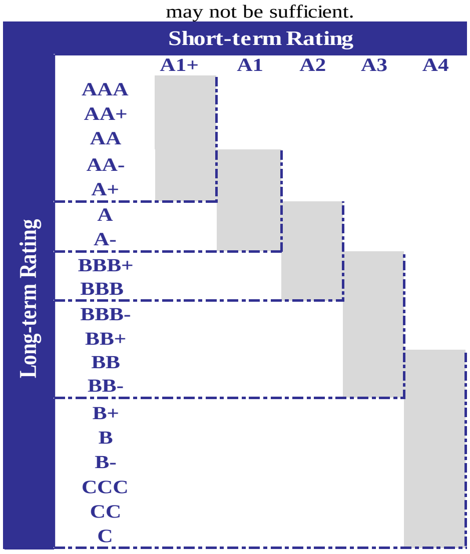
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

### 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+<br>AA<br>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+<br>A<br>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+<br>BBB<br>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+<br>BB<br>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+<br>B<br>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<br>CC<br>C | **Very high credit risk.** Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default. |
| D | Obligations are currently in default. |

### Short-term Rating

| Scale | Definition |
|---|---|
| A1+ | The highest capacity for timely repayment. |
| A1 | A strong capacity for timely repayment. |
| A2 | A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions. |
| A3 | An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial |
| A4 | The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient. |




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

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

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

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

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

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

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

**Note.** This scale is applicable to the following methodology(s):

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

## Regulatory and Supplementary Disclosure
(Credit Rating Companies Regulations,2016)

**Rating Team Statements**
(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) **Conflict of Interest**
i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

**Restrictions**
(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
(4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
(5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

**Conduct of Business**
(6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
(7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report | Clause 11-(A)(p).
(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
(9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
(11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

**Independence & Conflict of interest**
(12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA´s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
(13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
(14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
(15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
(16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
(17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

**Monitoring and review**
(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
(19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)
**Probability of Default**
(22) PACRA´s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA´s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA´s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(f-VII)
**Proprietary Information**