



The Pakistan Credit Rating Agency Limited

## Rating Report

### Engro Eximp Agriproducts (Pvt.) Limited

#### Report Contents

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
13-Oct-2023	A-	A2	Stable	Maintain	-
14-Oct-2022	A-	A2	Stable	Maintain	-
14-Oct-2021	A-	A2	Stable	Maintain	-
16-Oct-2020	A-	A2	Stable	Maintain	-
19-Nov-2019	A-	A2	Stable	Maintain	-
27-Jun-2019	A-	A2	Stable	Maintain	-
27-Dec-2018	A-	A2	Stable	Maintain	-
28-Jun-2018	A-	A2	Stable	Maintain	-
29-Dec-2017	A-	A2	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

Rice is among the five major crops of Pakistan and is the second main staple food, after wheat. The segment contributes about 3.5% in agriculture value addition and 0.7% to GDP. Local consumption includes ~95% of basmati rice and ~5% non-basmati. During FY23, the rice crop area decreased to ~3.2mln Hec (FY22: ~3.4mln Hec), reflecting a decrease of ~6%. Rice production decreased by ~17%, standing at ~7.4mln MT in FY23 (FY22: ~8.9mln MT). During Aug-22, floods razed rice crops, causing an average crop loss of ~20-25%. New higher-yielding hybrid rice varieties and improved agronomic practices are factors minimizing the production loss. Around ~4mln MT of rice is consumed locally, while, the remaining is exported. During FY23, Pakistan exports decreased to ~USD 2.1bln (FY22: ~USD 2.5bln). Thus, impacting the industry's overall topline. However, PKR depreciation provided some cushion to the export players. The industry's overall margins and cashflows may become stretched. Industry poses a developing outlook for the ongoing year. The ratings reflect the strength of the ownership structure of Engro Eximp Agriproducts (Pvt.) Ltd. ('Engro Eximp' or 'the Company'), a wholly owned subsidiary of Engro Corp Ltd., one of the largest conglomerates in Pakistan (rated AA+ by PACRA). In terms of financial strength Group total assets, total equity, revenue and profit stood at PKR 801bln, PKR 221bln, PKR 105bln, and PKR 12bln respectively. The CEO of Engro Corp Ltd. is also the Chairman of Engro Eximp. Ratings take comfort from the strong corporate governance framework inherited from the parent company. The Company faces stiff competition in the international markets in the basmati segment. However, the Company managed to sustain its profitability in 6MCY23. The Company anticipates decline in its revenues during 6MCY23 as compared to 6MCY22. Despite the country's economic challenges and the aftermath of last year's floods, Engro Eximp has maintained a track record of steady profitability. During 6MCY23, the Company's gross margin improved and stood at 26.3% (6MCY22: 15.7%), whereas its net margin stood at 8.2% during 6MCY23 (6MCY22: 4.9%) due to improved profits. The Company's capital structure remained adequate, as the Company remained dependent on short term borrowing required to manage the working capital. During 6MCY23, the Company remained leveraged at 76.5% (6MCY22: 76.4%). Rupee devaluation came in favorable, as dealing in a product – basmati - a high priced commodity assisted the Company in increasing its revenues. Engro Eximp's financial risk profile has also recovered adequately, while, slightly dwindling due to high-end debt profile. Moreover, coverages remain stressed. Going forward, the management anticipates that the Company will be able to improve its financial performance and position.

The ratings are dependent upon growth in business volume and redemption of profits. Adherence to sound financial discipline while strengthening debt servicing capacity through improved cash position is vital for the ratings. Positive outcome of future projects and sustainability of profits remains imperative for the sustenance of ratings.

#### Disclosure

<b>Name of Rated Entity</b>	Engro Eximp Agriproducts (Pvt.) Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Corporate Rating(Jul-23),Methodology   Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology   Rating Modifiers(Apr-23)
<b>Related Research</b>	Sector Study   Rice(Oct-22)
<b>Rating Analysts</b>	Muhammad Zain Ayaz   zain.ayaz@pacra.com   +92-42-35869504

## Profile

**Legal Structure** Engro Eximp Agriproducts (Pvt.) Ltd. (herein referred to as "Engro Eximp" or "the Company") is a Private Limited Company

**Background** The Company was incorporated in Nov-2009 as a Private Limited Company. It entered into the rice processing business in 2010 with a view to bring value addition to the agriculture sector of the country. The Company's inclusive business model concentrates on improving the competitiveness of Basmati rice for farmers to ensure enhanced yield/acre and reduction in cost of production/ton to benefit the farmers.

**Operations** The principal activity of the Company is processing, export and trade of rice. The Company procures high standard of paddy from the farmer and after processing those, exports the prepared rice to business to business customers across the globe. The Company operates with an advanced integrated processing plant having a design capacity of 144,000 tons for milling and 3 months design capacity of 270,000 tons for drying.

## Ownership

**Ownership Structure** Engro Eximp is a wholly owned subsidiary of Engro Corporation.

**Stability** Being a subsidiary of a renowned Multinational Corporation of Pakistan - Engro Corporation, is the key driving force of stability for the Company

**Business Acumen** Engro Corporation, the parent company, is one of the largest conglomerates of Pakistan, having diversified businesses in fertilizer, food, chemical storage & handling, trading, digital technologies, mining, energy and petrochemicals sector.

**Financial Strength** Robust sponsorship continues to add strength to the financial muscle of the Company. during Jun-23 Group's financial strength including total assets, total equity, revenue, and profit stood at PKR 801bln, PKR 221bln, PKR 105bln, and PKR 12bln respectively.

## Governance

**Board Structure** The Company's Board includes three non-Executive Directors. Governance reflects status of a private limited entity which is necessitated to evolve as the business size grows.

**Members' Profile** Mr. Ghias Khan, serves as the Chairman of the board – and is also the CEO of Engro Corp. The other members on the Board are Mr. Khawaja Bilal Hassan, who holds Senior Vice President position at Engro Corp, and Mr. Sulaiman Ijaz, who is Vice President - Supply Chain at Engro Fertilizers.

**Board Effectiveness** The Board is currently aligned with the private status of the Company. Board meetings are conducted on a quarterly basis where company's financial performance and other pertinent matters are reviewed.

**Financial Transparency** AF Ferguson & Co. Chartered Accountants are the external auditors of the Company. Auditors gave an unqualified opinion and review report on financial statements for the year ended Dec-22

## Management

**Organizational Structure** The Company has an optimized organizational structure, reporting lines, and segregation of duties. All departmental heads report to the CEO.

**Management Team** The CEO – Mr. Mohsin Hassan, before being appointed as the CEO, held several roles across the Group, most recently being the Head of Specialty Fertilizers Business at Engro Fertilizers Limited. Mr. Umair Ali Bhatti has lately joined the position of Chief Financial Officer in Jul-23.

**Effectiveness** In pursuance of effective business management, Engro Eximp has a culture of weekly management committee meetings, which comprises all Departmental Heads and the CEO. A Corporate planning meeting is also held every year for ensuring performance management.

**MIS** The Company has an ERP software implemented for their safety management, financial management and inventory management

**Control Environment** Engro Eximp being a subsidiary of Engro Corp, follows the best practices and has a robust control environment and an inhouse internal audit function.

## Business Risk

**Industry Dynamics** Rice is among the five major crops of Pakistan and is the second main staple food, after wheat. The segment contributes about 3.5% in agriculture value addition and 0.7% to GDP. Local consumption includes ~95% of basmati rice and ~5% non-basmati. During FY23, rice crop area decreased to ~3.2mln Hec (FY22: ~3.4mln Hec), reflecting a decrease of ~6%. Rice production decreased by ~17%, standing at ~7.4mln MT in FY23 (FY22: ~8.9mln MT). Floods during Aug-22 razed rice crops, causing an average crop loss of ~20-25%. New higher-yielding hybrid rice varieties, and improved agronomic practices are factors minimizing the production loss. Around ~4mln MT of rice is consumed locally, while, the remaining is exported. During FY23, Pakistan exports decreased to ~USD 2.1bln (FY22: ~USD 2.5bln). Thus, impacting the industry's overall topline. However, rupee depreciation provided some cushion to the export players. Industry's overall margins and cashflows may become stretched. Industry poses a developing outlook for the ongoing year.

**Relative Position** The years prior to CY18 have been difficult for Engro Eximp as it was recovering from the after effects of over trading. CY18 brought fortune for the Company as it returned to stability. The Company is still in the growth phase; therefore, market share is relatively very small (less than ~5%) in terms of production and revenues.

**Revenues** Engro Eximp generates revenue from basmati rice exports (~68%) and only ~32% through local sales. During 2QCY23, the topline of the Company witnessed decrease and stood at ~PKR 3,044mln (2QCY22: ~PKR 4,631mln), depicting a ~34% decrease, primarily aided by a volumetric decrease and less exports during the year. (2QCY23: ~PKR 2,571mln, 2QCY22: ~PKR 3,893mln) amidst volumetric decrease resulting from crop loss caused by flood. The revenues of the Company are expected to follow an increasing trend resulting from rupee devaluation and increase prices of rice, going forward.

**Margins** During 2QCY23, the Company's gross margin witnessed improvement and stood at ~26.3% aided by slight decrease in material costs. Operating profit margin witnessed similar trend (2QCY23: ~22.1%, 2QCY22: ~11.7%). The Company's net profit dipped to PKR 251mln during 2QCY23 (2QCY22: PKR 227mln) resulting in net profit margin of ~8.2% (2QCY23: ~4.9%).

**Sustainability** As the Company turned around to stable financial results, it is now expected to explore new business ventures. With an idea of diversification, the Company also plans to test export trade of maize.

## Financial Risk

**Working Capital** In 2QCY23, the net working capital days of the Company improved to 95 days (2QCY22: 201 days). During 2QCY23, inventory days stood at 78 days (2QCY22: 182 days) as the Company holds small amount of finished goods. Receivable days remains at 22 days. The Company procures paddy on cash; thus, the payable days remains minimal at ~5 days. The Company's short term trade leverage stood at ~ -69% and total leverage at ~ -65% indicating limited room to borrow against trade assets and total current assets

**Coverages** The return of profits enabled the Company to produce positive FCFO of ~PKR 769mln in 2QCY23 (2QCY22: ~PKR 519mln) due to better profits. The finance cost of the Company stood at ~PKR 347mln (2QCY22: ~PKR 226mln) caused by high interest rates. As a result, the interest coverage ratio stood at 2.2x in 2QCY23 (2QCY22: 2.3x) and debt coverage ratio remained at 0.7x.

**Capitalization** Engro Eximp's capital structure is dominated by short-term borrowings -particularly ERF-Part II and running finance obtained from a consortium of banks to support working capital management. Total debt of the Company stood at ~PKR 3,093mln as of 2QCY23 (2QCY22: ~PKR 5,221mln) against an equity base of ~PKR 950mln (2QCY22: ~PKR 1,612mln). As a result, debt to debt plus equity ratio remains stable and moderate and stood at ~76% as of 2QCY23. Going forward, the total debt load on the Company balance sheet is expected to decrease through Export finance scheme and may impact the leverage ratio.



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

Engro Eximp Agriproducts (Pvt.) Limited Rice	Jun-23 6M	Mar-23 3M	Dec-22 12M	Jun-22 6M	Dec-21 12M	Jun-21 6M	Dec-20 12M
<b>A BALANCE SHEET</b>							
1 Non-Current Assets	2,458	2,526	2,578	1,101	1,150	1,106	1,121
2 Investments	-	-	100	-	-	-	-
3 Related Party Exposure	2	2	2	2	2	10	10
4 Current Assets	2,086	2,629	2,986	5,976	6,032	4,485	4,492
a Inventories	729	1,643	1,860	4,225	5,005	3,522	3,352
b Trade Receivables	632	56	116	579	472	345	546
5 Total Assets	4,546	5,156	5,665	7,079	7,184	5,601	5,623
6 Current Liabilities	434	337	240	246	205	217	208
a Trade Payables	108	44	47	63	40	142	81
7 Borrowings	3,093	4,138	4,696	5,221	5,594	3,985	4,038
8 Related Party Exposure	68	28	29	1	0	-	-
9 Non-Current Liabilities	-	-	-	-	-	-	-
10 Net Assets	950	654	699	1,612	1,384	1,400	1,378
11 Shareholders' Equity	950	654	699	1,612	1,384	1,400	1,378
<b>B INCOME STATEMENT</b>							
1 Sales	3,044	805	7,085	4,631	4,309	2,392	4,703
a Cost of Good Sold	(2,244)	(585)	(7,927)	(3,904)	(3,713)	(2,037)	(4,152)
2 Gross Profit	801	220	(842)	727	595	355	551
a Operating Expenses	(127)	(27)	(436)	(187)	(268)	(155)	(262)
3 Operating Profit	674	193	(1,278)	540	328	200	289
a Non Operating Income or (Expense)	4	(30)	1,221	(20)	(28)	(23)	(11)
4 Profit or (Loss) before Interest and Tax	678	163	(58)	520	300	177	278
a Total Finance Cost	(402)	(203)	(563)	(242)	(257)	(133)	(201)
b Taxation	(25)	(5)	(65)	(51)	(36)	(21)	(44)
6 Net Income Or (Loss)	251	(46)	(685)	227	6	23	33
<b>C CASH FLOW STATEMENT</b>							
a Free Cash Flows from Operations (FCFO)	769	211	(1,495)	519	368	195	311
b Net Cash from Operating Activities before Working Capital Changes	431	74	(1,994)	274	133	70	91
c Changes in Working Capital	768	304	3,459	672	(1,596)	22	(1,279)
1 Net Cash provided by Operating Activities	1,200	378	1,465	946	(1,463)	92	(1,189)
2 Net Cash (Used in) or Available From Investing Activities	(7)	96	(56)	(6)	(63)	(30)	(99)
3 Net Cash (Used in) or Available From Financing Activities	(1,642)	(11)	(2,461)	(373)	1,557	(53)	1,304
4 Net Cash generated or (Used) during the period	(450)	463	(1,053)	567	30	9	16
<b>D RATIO ANALYSIS</b>							
1 Performance							
a Sales Growth (for the period)	-14.1%	-54.6%	64.4%	114.9%	-8.4%	1.7%	28.5%
b Gross Profit Margin	26.3%	27.3%	-11.9%	15.7%	13.8%	14.8%	11.7%
c Net Profit Margin	8.2%	-5.7%	-9.7%	4.9%	0.2%	0.9%	0.7%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	50.5%	64.1%	27.7%	25.7%	-28.5%	9.1%	-20.6%
e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/Sh	60.8%	-27.1%	-65.7%	30.4%	0.5%	3.2%	2.4%
2 Working Capital Management							
a Gross Working Capital (Average Days)	100	208	192	203	397	296	252
b Net Working Capital (Average Days)	95	203	190	201	392	288	247
c Current Ratio (Current Assets / Current Liabilities)	4.8	7.8	12.4	24.3	29.5	20.7	21.6
3 Coverages							
a EBITDA / Finance Cost	2.3	1.2	-2.9	2.5	1.7	1.7	1.8
b FCFO / Finance Cost+CMLTB+Excess STB	0.7	0.3	-0.7	2.1	1.4	1.4	1.4
c Debt Payback (Total Borrowings+Excess STB)/(FCFO-Finance Cost)	1.7	13.0	-0.9	0.2	1.0	1.1	1.1
4 Capital Structure							
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	76.5%	86.4%	87.0%	76.4%	80.2%	74.0%	74.6%
b Interest or Markup Payable (Days)	90.5	97.4	91.8	46.0	91.4	65.5	71.8
c Entity Average Borrowing Rate	16.1%	15.3%	9.8%	10.1%	5.8%	7.0%	6.3%

### 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.

Scale	Long-term Rating Definition
AAA	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	<b>Very high credit quality.</b> 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	<b>High credit quality.</b> 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+	<b>Good credit quality.</b> 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	
BBB-	
BB+	<b>Moderate risk.</b> 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	
BB-	
B+	
B	<b>High credit risk.</b> 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	<b>Very high credit risk.</b> Substantial credit risk "CCC" Default is a real possibility.
CC	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	Short-term Rating 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
- 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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### **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

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(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)

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(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)

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