



The Pakistan Credit Rating Agency Limited

## Rating Report

### Gul Ahmed Textile Mills Limited

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
07-Mar-2024	AA-	A1	Stable	Maintain	-
07-Mar-2023	AA-	A1	Stable	Upgrade	-
07-Mar-2022	A+	A1	Stable	Upgrade	-
07-Sep-2021	A	A1	Positive	Maintain	-
03-Sep-2020	A	A1	Stable	Maintain	-
03-Sep-2019	A	A1	Stable	Maintain	-
05-Mar-2019	A	A1	Stable	Maintain	-
05-Sep-2018	A	A1	Stable	Maintain	-

#### Rating Rationale and Key Rating Drivers

The rating reflects the appreciable presence of Gul Ahmed Textile Mills Limited (“the Company” or “GATM”) in the textile industry of Pakistan. The rating takes comfort from the consolidated financial strength of the Gul Ahmed group which primarily divest into Gul Ahmed Textile Mills Limited and Ideas (Pvt) Limited. Ideas (Pvt) Ltd. has built a strong forte in the retail space of the country and now has around 111 retail stores, offering a diverse range of products from home accessories to fashion clothing. In terms of topline contribution, mainly vest in home textile followed by spinning and apparel. During FY23, the Company generated a revenue of PKR 112bln, ~65.0% contributed by direct export sales. The Company optimally parks their revenue streams both in the local and export domains providing comfort to assigned ratings. The clientage base of the GATM is comprised of stable entities that exist in multiple export destinations including Germany, USA, other European countries and Singapore, providing a cushion to keep align performance with their financial projection has augmented the sustainability. However, the spinning segment is still the pinnacle in the Company's profitability generation. The expensive raw material procurement, inflated energy cost, operating expenses, and surge in finance cost have impacted the margins and profitability matrix of the Company. However, the execution of CAPEX for mega solar installation is under consideration to manage escalating energy cost risk. The Financial risk profile of the Company is considered moderate. The cash flows of the Company are viewed as sufficient as the working capital requirements are met through an optimal mix of internally generated cash and short-term borrowings. The coverage of the Company is considered adequate with a leveraged capital structure. The size of the textile industry in Pakistan is estimated to be PKR 2.62Trn ~3.0% of the total GDP as of FY23. The composite & garment segment in the textile sector has a contribution of ~ PKR 1.6Trn mainly dominated by knitwear, readymade garments, bedwear, and towels followed by PKR 775bln from spinning and PKR 637bln from weaving. The escalation in energy tariffs & finance costs, PKR devaluation, and ensuring the availability of optimum quality raw materials are prime challenges specific to the industry to assess the international market and stay price-wise competitive.

The ratings are dependent on the Company's ability to sustain its business profile while maintaining its profitability matrix at an optimal level. The sustainability of margins and improvement in coverages while expanding business volumes remain critical. The sufficient generation of cashflows to meet working capital requirements while retaining the debt matrix at a moderate level is a prerequisite. The sponsor's commitment to providing support gives comfort to the ratings.

#### Disclosure

<b>Name of Rated Entity</b>	Gul Ahmed Textile Mills 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   Composite and Garments(Dec-23)
<b>Rating Analysts</b>	Muhammad Harris Ghaffar   harris.ghaffar@pacra.com   +92-42-35869504

## Profile

**Legal Structure** Gul Ahmed Textile Mills Limited (Gul Ahmed) has been operating in Pakistan since 1953 and is listed on the Pakistan Stock Exchange.

**Background** Gul Ahmed is the flagship company of Gul Ahmed Group, which commenced spinning and weaving operations in 1953 as a private limited company and subsequently converted into a public limited company in 1955. The Company is a composite textile unit and is engaged in the manufacturing and sale of a broad variety of textile products

**Operations** The Company's operations are broadly divided into five main segments: Spinning, Weaving, Apparel, Home Textile, and Retail, with all segments operating as separate profit centers. The retail segment was demerged from Gul Ahmed in 2021. The Company has a presence in the retail segment - through a wholly owned subsidiary - "Ideas" in the local market adds up to a stronger business risk profile. The Company also has captive power generation with a capacity exceeding its in-house requirements.

## Ownership

**Ownership Structure** Gul Ahmed is a subsidiary of Gul Ahmed Holdings (Private) Limited (GAHPL), which owns 55.86% of shares, while the remaining stake vests with associated companies, financial institutions, and the general public. The Company has two wholly-owned subsidiaries that are engaged in trading of textile-related products.

**Stability** Gul Ahmed Holdings, the Group's holding company, is formed solely for the purpose of investments in Gul Ahmed and is owned by the Bashir Family. The presence of the holding company bodes fairly well for stability

**Business Acumen** Bashir Family has over five decades of experience in the textile industry. In addition to textiles, the Family has interests in chemicals and IT through other group companies. The sponsors of the Company carry significant industrial experience and are actively involved in their respective roles

**Financial Strength** Bashir Family has demonstrated commitment and support for Gul Ahmed, in the years of expansion, injecting cash in the form of the right issue.

## Governance

**Board Structure** The seven-member Board of Directors comprises four directors from the sponsoring family. Further, two directors are independent and one is non-executive director.

**Members' Profile** Mr. Mohamed Bashir – Chairman of the Group – is a business veteran entrusted with various honorary consular positions by the Government of Pakistan. He also serves on the Board of various other companies. The other Board members also possess diversified experience and have a reasonably long association with the Company

**Board Effectiveness** Although the Board is dominated by the sponsoring family, the due challenge is brought in by independent directors, enhancing the Company's governance profile. Furthermore, attendance of board members remains satisfactory and board meeting minutes are properly documented.

**Financial Transparency** The Company has outsourced its internal audit function to M/s Grant Thornton Anjum Rahman Chartered Accountants while KPMG Taseer Hadi & Co. Chartered Accountants is the external auditor of the Company. Both auditors are listed in the "A" category of the State Bank's panel of auditors. The auditor gave an unqualified opinion on the Company's financial statement for the year ended June 30th, 2023.

## Management

**Organizational Structure** The business profile is segregated into different divisions headed by their respective managers, resulting in effective control and management. Operations are segregated into five segments, i) Spinning ii) Weaving, iii) Apparel, iv) Home textiles, and v) Retail.

**Management Team** Mr. Mohamed Bashir is entrusted with overall oversight of the Company while his youngest son, Mr. Zaki Bashir, is the CEO. The family members have structured themselves well in terms of roles and responsibilities with defined management roles. With the support of a qualified and experienced team of professionals, the Company is building its operational strength.

**Effectiveness** The functions of the management are defined clearly to effectively achieve its underlying goals and objectives. Further, weekly one-to-one meetings are held with all departmental heads where the performance of each department is discussed at length

**MIS** The Company has deployed Oracle EBS 12.1 and Microsoft Dynamics as ERP solutions, used by Ideas (pvt.) limited which integrate the company's business functions and help the management in timely decision-making. Meanwhile, Microsoft Dynamics Cloud has also been successfully implemented in the retail segment.

**Control Environment** The Company's monthly MIS comprises comprehensive segment and unit-wise performance reports reviewed frequently by the senior management. Gul Ahmed is also accredited with International certifications for compliance including ISO 9001.

## Business Risk

**Industry Dynamics** The size of the textile industry in Pakistan is estimated to be PKR 2.62Trn ~3.0% of the total GDP as of FY23. The composite & garment segment in the textile sector has a contribution of ~ PKR 1.6Trn mainly dominated by knitwear, readymade garments, bedwear and towels followed by PKR 775bln from spinning and PKR 637bln from weaving. The escalation in energy tariffs & finance costs, PKR devaluation and ensuring the availability of optimum quality raw materials are prime challenges specific to the industry to assess the international market and stay price-wise competitive.

**Relative Position** Gul Ahmed is one of the largest vertically integrated textile unit in the country. Overall, it is among the largest exporters of the country, with an approximate share of 1.7% in Pakistan's total textile exports, while "Ideas by Gul Ahmed" is a leading textile retail brand.

**Revenues** The majority of the sales revenue for the Company comes from export sales, which account for 89% of total net sales revenue. Exports largely comprise home textiles and apparel while yarn, fabric etc, are sold locally. During FY23 the Company's top line improved to PKR 112bln growth of 12% (FY22: PKR 100bln). The gross profits were reported at PKR 16.7bln (FY22: PKR 17.3bln). The net profitability of the Company declined and clocked in at PKR 3.9bln (FY22: PKR 8.9bln). Furthermore, during 6MFY24 the topline stood at PKR 69.1bln. While the profitability of the Company was reported at PKR 1.3bln.

**Margins** During FY23, the gross profit margin stood at 14.9% (FY22: 17.3%). The operating margin declined 9.9% (FY22: 13.2%), owing to the increase in operating expenses to PKR 5.6bln (FY22: PKR 4.2bln). Hence, the net profit margin clocked at 3.6% (FY22: 8.8%). However, in 6MFY24, the gross margin of the Company recorded 11.8%, and the operating profit margin stood at 7.1%.

**Sustainability** The Company regularly undertakes BMR which has resulted in significantly enhanced capacity utilization and margins over the years, particularly in the spinning and home textile segments. The Company incurred significant capex in the weaving segment during FY22, including enhancements for value-addition as well as the replacement of old looms. These measures are expected to help sustain margins, going forward.

## Financial Risk

**Working Capital** Gul Ahmed's working capital requirements are a function of its inventory and receivables for which the Company relies on a mix of internal generation and short-term borrowing. A significant portion of the working capital cycle is the inventory turnover period which stood at 138 days as of end-Dec'23 (end-Jun'23: 170days; end-Jun'22: 168days) owing to the procurement of cotton while finished inventory levels remained high to cater to international orders and local retail demand. The Company's short-term trade leverage stood at 31.6% as of end-Dec'23 (end-Jun'23: 37.2%; end-Jun'22: 34.3%).

**Coverages** During FY23, free cash flow from operations (FCFO) displayed a decline to PKR 13.7bln (FY22: PKR 15.1bln). During FY23, the interest coverage clocked to 2.9x (FY22: 7.0x) and debt coverage stood to 1.8x (FY22: 2.7x)

**Capitalization** Gul Ahmed has a highly leveraged capital structure (6MFY24: 57.0%, FY23: 57.3%). The equity base of the Company recorded good growth to PKR 41.3bln as of end-Dec'23 (end-Jun'23: PKR 40bln; end-Jun'22: PKR 36.1bln)



The Pakistan Credit Rating Agency Limited

Gul Ahmed Textile Mills Limited Composite & Garments	Dec-23 6M	Jun-23 12M	Jun-22 12M	Jun-21 12M
<b>A BALANCE SHEET</b>				
1 Non-Current Assets	50,951	50,361	46,118	38,582
2 Investments	671	70	70	70
3 Related Party Exposure	3,521	3,521	3,521	3,525
4 Current Assets	76,543	69,514	68,417	52,287
<i>a Inventories</i>	42,112	38,450	34,430	24,568
<i>b Trade Receivables</i>	25,079	23,422	25,583	20,412
5 Total Assets	131,686	123,466	118,127	94,464
6 Current Liabilities	34,919	29,123	20,882	14,993
<i>a Trade Payables</i>	14,158	10,708	6,996	5,471
7 Borrowings	54,652	53,554	59,404	50,431
8 Related Party Exposure	82	131	69	38
9 Non-Current Liabilities	661	587	1,638	1,738
10 Net Assets	41,371	40,071	36,133	27,263
11 Shareholders' Equity	41,372	40,071	36,133	27,263
<b>B INCOME STATEMENT</b>				
1 Sales	69,102	111,968	100,257	78,774
<i>a Cost of Good Sold</i>	(60,980)	(95,289)	(82,889)	(65,905)
2 Gross Profit	8,121	16,679	17,368	12,869
<i>a Operating Expenses</i>	(3,221)	(5,629)	(4,178)	(5,705)
3 Operating Profit	4,901	11,050	13,189	7,164
<i>a Non Operating Income or (Expense)</i>	581	247	(51)	342
4 Profit or (Loss) before Interest and Tax	5,482	11,297	13,138	7,506
<i>a Total Finance Cost</i>	(3,167)	(5,348)	(2,669)	(1,944)
<i>b Taxation</i>	(1,014)	(1,963)	(1,607)	(1,137)
6 Net Income Or (Loss)	1,300	3,986	8,862	4,425
<b>C CASH FLOW STATEMENT</b>				
<i>a Free Cash Flows from Operations (FCFO)</i>	7,238	13,715	15,168	9,392
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	4,050	9,772	13,212	7,789
<i>c Changes in Working Capital</i>	(1,333)	2,554	(9,627)	(9,710)
1 Net Cash provided by Operating Activities	2,716	12,326	3,585	(1,921)
2 Net Cash (Used in) or Available From Investing Activities	(3,412)	(7,931)	(10,736)	(9,581)
3 Net Cash (Used in) or Available From Financing Activities	1,376	(5,463)	12,590	6,838
4 Net Cash generated or (Used) during the period	680	(1,068)	5,439	(4,664)
<b>D RATIO ANALYSIS</b>				
1 Performance				
<i>a Sales Growth (for the period)</i>	23.4%	11.7%	27.3%	46.0%
<i>b Gross Profit Margin</i>	11.8%	14.9%	17.3%	16.3%
<i>c Net Profit Margin</i>	1.9%	3.6%	8.8%	5.6%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	8.5%	14.5%	5.5%	-0.4%
<i>e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity) ]</i>	6.4%	10.5%	28.0%	19.3%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	170	199	191	177
<i>b Net Working Capital (Average Days)</i>	138	170	168	154
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	2.2	2.4	3.3	3.5
3 Coverages				
<i>a EBITDA / Finance Cost</i>	3.2	3.2	7.6	6.5
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	1.8	1.8	2.7	2.2
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	2.1	2.6	1.8	2.7
4 Capital Structure				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	57.0%	57.3%	62.2%	64.9%
<i>b Interest or Markup Payable (Days)</i>	110.7	122.0	103.8	78.9
<i>c Entity Average Borrowing Rate</i>	8.5%	7.9%	3.9%	3.4%

### 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.

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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(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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- (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).
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- (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)

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- (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)

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- (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 | 17-(a)
- (19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)

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