



The Pakistan Credit Rating Agency Limited

**Rating Report**

**K.K. Rice Mills (Pvt.) Limited**

**Report Contents**

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**Rating History**

| Dissemination Date | Long Term Rating | Short Term Rating | Outlook | Action   | Rating Watch |
|--------------------|------------------|-------------------|---------|----------|--------------|
| 18-Feb-2023        | BBB              | A2                | Stable  | Maintain | -            |
| 19-Feb-2022        | BBB              | A2                | Stable  | Maintain | -            |
| 19-Feb-2021        | BBB              | A2                | Stable  | Maintain | -            |
| 19-Feb-2020        | BBB              | A2                | Stable  | Upgrade  | -            |
| 20-Aug-2019        | BB+              | A3                | Stable  | Maintain | -            |
| 01-Mar-2019        | BB+              | A3                | Stable  | Upgrade  | -            |
| 27-Dec-2018        | BB               | B                 | Stable  | Maintain | -            |
| 28-Jun-2018        | BB               | B                 | Stable  | Maintain | -            |
| 08-Jan-2018        | BB               | B                 | 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 FY22, rice crop area increased to ~3.4mln Hec (FY21: ~3.3mln Hec), reflecting an increase of ~3%. Rice production increased by ~6%, standing at ~8.9mln MT in FY22 (FY21: ~8.4mln MT). New higher-yielding hybrid rice varieties, improved agronomic practices, and increased planting area, as farmers shift out of cotton, are factors driving the increased production. Around ~4mln MT of rice is consumed locally, while, the remaining is exported. During FY22, Pakistan exports increased to ~USD 2.5bln (FY21: ~USD 2bln). Going forward, 2022 floods are anticipated to cause ~12% loss to the forecasted rice production for FY23. The rupee depreciation is anticipated to compensate for the reduction in export volumes. However, with an increase in the policy rate and lately, in ERF rate, the interest cost is likely to be impacted. Cashflows and coverages of the industry may become stretched. Due to the current economic scenario, the outlook of the industry seems to be developing, going forward.

The ratings incorporate K.K Rice Mills (Pvt.) Ltd. (KK Rice) strong presence in the rice exporting market with a sizable business volume. K.K Rice strategizes on adopting a top-line centric approach mainly targeting the Middle East and African region to explore growth avenues. Competitiveness in the international market in terms of pricing and branding remain a key challenge for the rice exporters. The Company's growth centric strategy encompasses maximizing returns through expansion; which comprises addition of a new plant which became operational, lately. The ratings derive comfort from the progress in financial performance as indicated in better margins trajectory over the periods. Sponsor's invested efforts are reflected in the development of a corporate culture through enhanced business practices & clarity on the succession to the next generations.

The ratings are dependent upon sustained business volumes and growing profitability margins. Meanwhile, rationalizing short-term borrowings and adherence to sound financial discipline remains imperative for ratings. Strengthening governance structure will benefit the ratings.

**Disclosure**

|                              |  |
|------------------------------|--|
| <b>Name of Rated Entity</b>  | K.K. Rice Mills (Pvt.) Limited   |
| <b>Type of Relationship</b>  | Solicited  |
| <b>Purpose of the Rating</b> | Entity Rating  |
| <b>Applicable Criteria</b>   | Methodology   Corporate Rating(Jun-22),Methodology   Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology   Rating Modifiers(Jun-22) |
| <b>Related Research</b>      | Sector Study   Rice(Oct-22)  |
| <b>Rating Analysts</b>       | Ahmad Faraz Arif   ahmad.faraz@pacra.com   +92-42-35869504   |

## Profile

**Legal Structure** KK Rice Mills (Pvt.) Ltd. ('KK Rice' or 'the Company') was incorporated as a private limited company in 2009.

**Background** The Sponsors were in commodity trading business for three decades, formally named as Meskay & Femtee (Pvt.) Ltd. In 2005, the Sponsors decided to separate their businesses. In 2006, KK Rice Commodities was setup by Mr Chela Ram as a sole proprietorship concern. In 2009, the Company was registered as a private limited company and was renamed as KK Rice (Pvt.) Ltd. The Company received the license to export from Rice Export Association (REAP) in Sept-09.

**Operations** The Company is primarily involved in the business of exporting non-basmati rice. KK Rice has two rice processing plants located at Port Qasim and Nooriabad. Lately, the Company has installed new plant at Nooriabad which become operational after Jun-20. The Company utilised upto ~35% of its production capacity. The Company's registered office is situated at Beamount Road, Karachi.

## Ownership

**Ownership Structure** The Company's major ownership resides with Mr. Chela Ram (~55%). The remaining stake resides with his wife, Mrs. Khami Bai (~20%), nephew, Mr. Dileep Kumar (~20%), and son Mr. Jatindar Kumar (~5%).

**Stability** The Company is completely owned by the sponsoring family. Although, no formal succession plan exists, second generation has been gradually inducted in the family business.

**Business Acumen** Mr. Chela Ram, CEO and founder, is an experienced professional. He was the Chairman of Pakistan Hindu Council from 2014-2016 and has also served as the Senior Vice Chairman of Rice Export Association of Pakistan (REAP). Mr. Chela Ram comes from an entrepreneurial background and has been in commodity trading since last three generations. His family is well known veterans in trading of rice, wheat and sugar.

**Financial Strength** The Sponsors of the Company have adequate net-worth to support the business. Furthermore, as of FY21, the Company has an asset base of ~PKR 6bln, supported by an equity base of ~PKR 1.3bln.

## Governance

**Board Structure** The Company's Board comprises three Executive Directors and one non-Executive Director. All four Directors are from the sponsoring family.

**Members' Profile** Mr. Chela Ram, the CEO, is an experienced professional. He was the Chairman of Pakistan Hindu Council from 2014-2016. He has also served as the Senior Vice Chairman of REAP.

**Board Effectiveness** There are no Board Committees in place. The governance frame work needs improvement as the director and shareholders are engaged in the management of the Company.

**Financial Transparency** A.M Laliawala & Co. Chartered Accountants are the auditors for the Company. The firm is QCR rated but not on the SBP's panel of auditors. The auditors issued an unqualified opinion on the Company's financial statements for the year ended Jun-21.

## Management

**Organizational Structure** The organizational structure has been optimized as per the operational needs. The Company operates through three functions: Export, Finance, Admin and HR. All functional managers' report to the Company's CEO. The CEO makes all pertinent decisions of the Group. As the Company's CEO is responsible for the whole unit, thus highlighting the key man risk of management.

**Management Team** Mr. Chela Ram, CEO of the Company, is assisted by a team of experienced professionals. Mr. Dileep Kumar has been overseeing the affairs of the Company for the past 13 years. Mr. Anil Kumar, Director Finance, manages the Company's finances.

**Effectiveness** There are no management committees in place and the management meets informally to discuss pertinent matters.

**MIS** The Company uses a customized software as per its needs, installed by Sidat Hyder. Reports are generated as per requirements.

**Control Environment** The Company has established an internal audit function to implement policies and procedures.

## 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 FY22, rice crop area increased to ~3.4mln Hec (FY21: ~3.3mln Hec), reflecting an increase of ~3%. Rice production increased by ~6%, standing at ~8.9mln MT in FY22 (FY21: ~8.4mln MT). New higher-yielding hybrid rice varieties, improved agronomic practices, and increased planting area, as farmers shift out of cotton, are factors driving the increased production. Around ~4mln MT of rice is consumed locally, while, the remaining is exported. During FY22, Pakistan exports increased to ~USD 2.5bln (FY21: ~USD 2bln). Going forward, 2022 floods are anticipated to cause ~12% loss to the forecasted rice production for FY23. The rupee depreciation is anticipated to compensate for the reduction in export volumes. However, with an increase in the policy rate and lately, in ERF rate, the interest cost is likely to be impacted. Cashflows and coverages of the industry may become stretched. Due to the current economic scenario, the outlook of the industry seems to be developing, going forward.

**Relative Position** The Company has a limited market share ~2% in terms of revenue and ~2.3% in terms of production in the rice industry of the country.

**Revenues** The Company generates revenue by exporting non-basmati Rice. The Company's top 10 export regions generate around ~80% revenue for the Company. The remaining ~20% is exported to the Middle-East and Europe. During FY21, the top-line of the Company witnessed a healthy growth of ~13% and stood at ~PKR 10.8bln (FY20: ~PKR 9.5bln) on the back of higher rice prices. Going forward, the revenues are expected to remain stable at current levels.

**Margins** Gross margin of the Company observed a dip (FY21: ~11%, FY20: ~13%) owing to cost-push inflation. Similarly, the operating margin deteriorated to ~5% (FY20: 6%) due to trickle-down effect. Finance cost of the Company remained at the same level (FY21: ~PKR 160mln, FY20: ~PKR 165mln). However, the Company's bottom-line declined to PKR 183mln (FY20: PKR 317) owing to exchange loss. As a result, the net margins deteriorated to ~2% (FY20: ~3%).

**Sustainability** The Company is planning to diversify its revenue stream by adding sesame seed to its list. Moreover, the Company also plans to increase its production capacity by around 20-30%.

## Financial Risk

**Working Capital** The Company's inventory days stood at 133 days in FY21 (FY20: 129 days). The Company's receivables and payables decline to 23 and 26 days respectively, during FY21 (FY20: 39 and 43 days), respectively. The decline in receivable days is attributed to revised credit policy of collecting receivables within 30 days. Consequently, the net working capital days stood at 130 days (FY20: 126 days). As of FY21, the Company's room to borrow remains limited against trade and total assets.

**Coverages** Interest cover is a function of free cash flows and finance cost. Free cash flows declined to PKR 427mln in FY21 (FY20: PKR 592mln) on back on lower margins. In FY21, finance cost stood at PKR 160mln (FY20: PKR 165mln). As a result, interest cover deteriorated to 3.7x in FY21 (FY20: 4.8x). Core and Total interest cover stood at 3.1x each in FY21 (FY20: 4.1x). Moreover, debt payback stood at 0.4 days in FY21 (FY20: 0.3 days). Going forward, the coverages are expected to improve slightly contingent upon margins regressing towards the previous levels.

**Capitalization** The Company has highly leveraged capital structure with debt-to-equity ratio at 73% (FY20: 72%). Short term debt comprised of 99% of the total borrowings to procure raw material. The total debt of the company increased to PKR 3.5bln in FY21 (FY20: PKR 2.7bln). The increased leveraging represents the scale of operations in FY21. Going forwards, the leveraging is expected to remain at the current levels.



| K.K Rice Mills (Private) Limited<br>Rice | Jun-21<br>12M | Jun-20<br>12M | Jun-19<br>12M | Jun-18<br>12M |
|--|---------------|---------------|---------------|---------------|
|--|---------------|---------------|---------------|---------------|

**A BALANCE SHEET**

|                                |              |              |              |              |
|--------------------------------|--------------|--------------|--------------|--------------|
| 1 Non-Current Assets           | 860          | 817          | 690          | 647          |
| 2 Investments                  | -            | -            | -            | -            |
| 3 Related Party Exposure       | -            | -            | -            | 3            |
| 4 Current Assets               | 5,162        | 4,606        | 5,160        | 2,391        |
| <i>a Inventories</i>           | 4,655        | 3,244        | 3,501        | 1,622        |
| <i>b Trade Receivables</i>     | 385          | 990          | 1,066        | 517          |
| <b>5 Total Assets</b>          | <b>6,023</b> | <b>5,422</b> | <b>5,850</b> | <b>3,041</b> |
| 6 Current Liabilities          | 1,131        | 1,337        | 1,551        | 518          |
| <i>a Trade Payables</i>        | 603          | 938          | 1,292        | 343          |
| 7 Borrowings                   | 3,497        | 2,868        | 3,492        | 2,213        |
| 8 Related Party Exposure       | 81           | 81           | -            | -            |
| 9 Non-Current Liabilities      | -            | -            | 0            | -            |
| <b>10 Net Assets</b>           | <b>1,315</b> | <b>1,136</b> | <b>806</b>   | <b>310</b>   |
| <b>11 Shareholders' Equity</b> | <b>1,315</b> | <b>1,136</b> | <b>806</b>   | <b>310</b>   |

**B INCOME STATEMENT**

|   |              |              |              |            |
|---|--------------|--------------|--------------|------------|
| 1 Sales   | 10,821       | 9,543        | 8,646        | 7,244      |
| <i>a Cost of Good Sold</i>                        | (9,600)      | (8,267)      | (7,449)      | (6,677)    |
| <b>2 Gross Profit</b>                             | <b>1,221</b> | <b>1,276</b> | <b>1,197</b> | <b>566</b> |
| <i>a Operating Expenses</i>                       | (657)        | (716)        | (696)        | (379)      |
| <b>3 Operating Profit</b>                         | <b>564</b>   | <b>560</b>   | <b>501</b>   | <b>187</b> |
| <i>a Non Operating Income or (Expense)</i>        | (105)        | 21           | 152          | (11)       |
| <b>4 Profit or (Loss) before Interest and Tax</b> | <b>458</b>   | <b>581</b>   | <b>653</b>   | <b>176</b> |
| <i>a Total Finance Cost</i>                       | (160)        | (165)        | (157)        | (71)       |
| <i>b Taxation</i>                                 | (116)        | (99)         | (82)         | (70)       |
| <b>6 Net Income Or (Loss)</b>                     | <b>183</b>   | <b>317</b>   | <b>415</b>   | <b>34</b>  |

**C CASH FLOW STATEMENT**

|  |              |              |                |              |
|--|--------------|--------------|----------------|--------------|
| <i>a Free Cash Flows from Operations (FCFO)</i>                      | 427          | 592          | 772            | 125          |
| <i>b Net Cash from Operating Activities before Working Capital C</i> | 324          | 371          | 622            | 60           |
| <i>c Changes in Working Capital</i>                                  | (1,020)      | 350          | (1,910)        | (728)        |
| <b>1 Net Cash provided by Operating Activities</b>                   | <b>(696)</b> | <b>721</b>   | <b>(1,288)</b> | <b>(668)</b> |
| <b>2 Net Cash (Used in) or Available From Investing Activities</b>   | <b>(91)</b>  | <b>(130)</b> | <b>(68)</b>    | <b>(315)</b> |
| <b>3 Net Cash (Used in) or Available From Financing Activities</b>   | <b>(21)</b>  | <b>(433)</b> | <b>1,244</b>   | <b>922</b>   |
| <b>4 Net Cash generated or (Used) during the period</b>              | <b>(807)</b> | <b>158</b>   | <b>(111)</b>   | <b>(60)</b>  |

**D RATIO ANALYSIS**

|  |       |       |        |       |
|--|-------|-------|--------|-------|
| <b>1 Performance</b>   |       |       |        |       |
| <i>a Sales Growth (for the period)</i>                               | 13.4% | 10.4% | 19.4%  | 39.6% |
| <i>b Gross Profit Margin</i>   | 11.3% | 13.4% | 13.8%  | 7.8%  |
| <i>c Net Profit Margin</i>   | 1.7%  | 3.3%  | 4.8%   | 0.5%  |
| <i>d Cash Conversion Efficiency (FCFO adjusted for Working Ca</i>    | -5.5% | 9.9%  | -13.2% | -8.3% |
| <i>e Return on Equity [ Net Profit Margin * Asset Turnover * (To</i> | 14.7% | 26.9% | 67.7%  | 13.8% |
| <b>2 Working Capital Management</b>                                  |       |       |        |       |
| <i>a Gross Working Capital (Average Days)</i>                        | 156   | 168   | 142    | 84    |
| <i>b Net Working Capital (Average Days)</i>                          | 130   | 126   | 107    | 71    |
| <i>c Current Ratio (Current Assets / Current Liabilities)</i>        | 4.6   | 3.4   | 3.3    | 4.6   |
| <b>3 Coverages</b>   |       |       |        |       |
| <i>a EBITDA / Finance Cost</i>                                       | 4.9   | 5.4   | 10.6   | 4.7   |
| <i>b FCFO / Finance Cost+CMLTB+Excess STB</i>                        | 3.1   | 4.1   | 7.7    | 0.4   |
| <i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Fin</i>      | 0.4   | 0.3   | 0.2    | 4.1   |
| <b>4 Capital Structure</b>   |       |       |        |       |
| <i>a Total Borrowings / (Total Borrowings+Shareholders' Equity,</i>  | 73.1% | 72.2% | 81.2%  | 87.7% |
| <i>b Interest or Markup Payable (Days)</i>                           | 83.0  | 38.8  | 0.0    | 0.0   |
| <i>c Entity Average Borrowing Rate</i>                               | 3.4%  | 3.9%  | 2.7%   | 2.4%  |

### 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

### **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)

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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)

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(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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