The Pakistan Credit Rating Agency Limited

Rating Report

K.K. Rice Mills (Pvt.) Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
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% in GDP. Pakistan cultivates both basmati and non-basmati rice, most of which is exported. In Pakistan, rice is grown in most of the Sindh and Punjab Province. Sindh specializes in producing the long grains white rice IRRI-6 and IRRI-9, while Punjab produces world-class Basmati rice. Pakistan locally consumes ~95% of Basmati Rice (~95%), which is a long, thin aromatic type of rice that's considered to be the premium and luxury category across the globe, and ~5% of Non-Basmati Rice. The major players in rice exports include Pakistan, India, Thailand, and Vietnam. Pakistan is in direct competition with India, while Thailand and Vietnamese rice are considered premium. During FY21, rice crop area increased to ~3.3mln hec (FY20: ~3mln hec), reflecting an increase of ~10%. This led to an increased rice production by ~13%, standing at ~8.4mln MT (FY20: ~7.4mln MT). Out of this, around 3.5mln MT of rice is consumed locally. While ~3.7mln MT is exported to generate ~ PKR 325bln of export revenue. The maximum contribution is from non-basmati rice (~72%) exports, as basmati rice is locally consumed and minimal quantity (~28%) is exported. During FY21, rice exports deteriorated to ~USD 2bln (FY20: ~USD 2.2bln) owing to the Indian strategy of dumping the commodity in the international market at cheaper rates. Going forward, the depreciating rupee is expected to supplement the export volumes for rice.
The ratings incorporate K.K Rice Mills' strong presence in the rice exporting market with a sizable business volume. K.K Rice Mills 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 remains a key challenge for rice exporters in FY21. An uptick in topline is supported by increased prices. Being an exporter, the Company remains exposed to the inherent risk related to currency fluctuations which led to exchange loss, contributing to a slight dip in bottom-line. The ratings derive comfort from the progress in business performance as indicated in a stable growth trajectory in revenues over the periods. Sponsor's invested efforts are reflected in the development of corporate culture through enhanced business practices and 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 remain imperative for ratings. Strengthening governance structure will benefit the ratings.

Disclosure

Name of Rated Entity	K.K. Rice Mills (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Rating(Jun-21),Criteria | Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria | Rating Modifiers(Jun-21)
Related Research	Sector Study | Rice(Oct-21)
Rating Analysts	Ahmad Ziaf | ahmad.ziaf@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 two different locations, Port Qasim and Nooriabad. Lately, the Company has installed new plant at Nooriabad which become operational after Jun-20. During FY21, the production stood at 171,350MT (FY20: 169,568MT) with the capacity utilization of ~35% (FY20: ~35%). 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, the Company's 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 6.0bln, supported by an equity base of ~PKR 1.3bln.

Governance

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

Members' Profile Mr. Chela Ram, CEO of the Company, 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 Rice Export Association of Pakistan.

Board Effectiveness There are no Board Committees in place at KK Rice. Minutes of the meetings are adequately kept. 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% in GDP. Local consumption includes ~95% of basmati rice and ~5% non-basmati. The major players in rice exports include Pakistan, India, Thailand, and Vietnam. Pakistan is in direct competition with India, while Thailand and Vietnamese rice are considered premium. During FY21, rice cropped area increased to ~3.3mln Hec (FY20: ~3mln Hec), reflecting an increase of ~10%. This led to an increased rice production by ~13%, standing at ~8.4mln MT (FY20: ~7.4mln MT). Out of this, around 3.5mln MT of rice is consumed locally, while, ~3.7mln MT is exported. During FY21, rice exports deteriorated to ~USD 2bln (FY20: ~USD 2.2bln) owing to stiff competition from India. Going forward, the industry's cashflows and in turn liquidity are expected to remain afloat due to the stability in demand for rice.

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% till FY22.

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.

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

K.K Rice Mills (Private) Limited	Jun-21	Dec-20	Jun-20	Dec-19	Jun-19	Dec-18	Jun-18
Rice	12M	6M	12M	6M	12M	6M	12M
A BALANCE SHEET							
1 Non-Current Assets	860	836	817	812	690	844	647
2 Investments	-	-	-	-	-	-	-
3 Related Party Exposure	-	-	-	-	-	-	3
4 Current Assets	5,162	5,962	4,606	4,162	5,160	3,348	2,391
a Inventories	*4,655*	*4,209*	*3,244*	*3,208*	*3,501*	*2,088*	*1,622*
b Trade Receivables	*385*	*1,497*	*990*	*492*	*1,066*	*1,173*	*517*
5 Total Assets	6,023	6,799	5,422	4,974	5,850	4,191	3,041
6 Current Liabilities	1,131	1,625	1,337	932	1,551	254	518
a Trade Payables	*603*	*1,288*	*938*	*476*	*1,292*	*145*	*343*
7 Borrowings	3,497	3,789	2,868	3,055	3,492	3,246	2,213
8 Related Party Exposure	81	63	81	-	-	-	-
9 Non-Current Liabilities	-	-	-	-	0	-	-
10 Net Assets	1,315	1,322	1,136	988	806	691	310
11 Shareholders' Equity	1,315	1,322	1,136	988	806	691	310
B INCOME STATEMENT							
1 Sales	10,821	5,238	9,543	3,872	8,646	3,114	7,244
a Cost of Good Sold	*(9,600)*	*(4,616)*	*(8,267)*	*(3,150)*	*(7,449)*	*(2,701)*	*(6,677)*
2 Gross Profit	1,221	622	1,276	723	1,197	413	566
a Operating Expenses	(657)	(259)	(716)	(378)	(696)	(186)	(379)
3 Operating Profit	564	363	560	345	501	227	187
a Non Operating Income or (Expense)	*(105)*	*(57)*	*21*	*(24)*	*152*	*(7)*	*(11)*
4 Profit or (Loss) before Interest and Tax	458	306	581	321	653	220	176
a Total Finance Cost	*(160)*	*(67)*	*(165)*	*(97)*	*(157)*	*(41)*	*(71)*
b Taxation	*(116)*	*(48)*	*(99)*	*(43)*	*(82)*	*(25)*	*(70)*
6 Net Income Or (Loss)	183	191	317	181	415	154	34
C CASH FLOW STATEMENT							
a Free Cash Flows from Operations (FCFO)	*427*	*279*	*592*	*305*	*772*	*215*	*125*
b Net Cash from Operating Activities before Working Capital Changes	*324*	*212*	*371*	*195*	*622*	*215*	*60*
c Changes in Working Capital	*(1,020)*	*(1,147)*	*350*	*323*	*(1,910)*	*(1,267)*	*(728)*
1 Net Cash provided by Operating Activities	(696)	(935)	721	518	(1,288)	(1,052)	(668)
2 Net Cash (Used in) or Available From Investing Activities	(91)	(89)	(130)	(130)	(68)	(205)	(315)
3 Net Cash (Used in) or Available From Financing Activities	(21)	899	(433)	(438)	1,244	1,160	922
4 Net Cash generated or (Used) during the period	(807)	(125)	158	(49)	(111)	(97)	(60)
D RATIO ANALYSIS							
1 Performance							
a Sales Growth (for the period)	13.4%	9.8%	10.4%	-10.4%	19.4%	-14.0%	39.6%
b Gross Profit Margin	11.3%	11.9%	13.4%	18.7%	13.8%	13.2%	7.8%
c Net Profit Margin	1.7%	3.6%	3.3%	4.7%	4.8%	5.0%	0.5%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	-5.5%	-16.6%	9.9%	16.2%	-13.2%	-33.8%	-8.3%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	14.7%	32.1%	26.9%	33.7%	67.7%	51.8%	13.8%
2 Working Capital Management							
a Gross Working Capital (Average Days)	156	173	168	195	142	158	84
b Net Working Capital (Average Days)	130	134	126	153	107	144	71
c Current Ratio (Current Assets / Current Liabilities)	4.6	3.7	3.4	4.5	3.3	13.2	4.6
3 Coverages							
a EBITDA / Finance Cost	4.9	8.2	5.4	4.9	10.6	9.7	4.7
b FCFO / Finance Cost+CMLTB+Excess STB	3.1	5.7	4.1	3.6	7.7	9.0	0.4
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.4	0.3	0.3	0.3	0.2	0.4	4.1
4 Capital Structure							
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	73.1%	74.4%	72.2%	75.6%	81.2%	82.5%	87.7%
b Interest or Markup Payable (Days)	83.0	61.5	38.8	0.0	0.0	0.0	0.0
c Entity Average Borrowing Rate	3.4%	2.7%	3.9%	4.3%	2.7%	1.7%	2.4%

Credit Rating

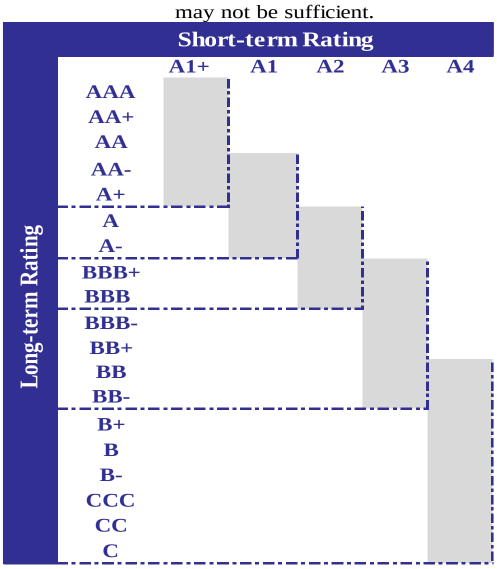
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+ AA AA-	**Very high credit quality.** Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A+ A A-	**High credit quality.** Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
BBB+ BBB BBB-	**Good credit quality.** Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BB+ BB BB-	**Moderate risk.** Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
B+ B B-	**High credit risk.** A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
CCC CC C	**Very high credit risk.** Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
D	Obligations are currently in default.

Short-term Rating

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



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

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

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

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

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

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

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

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

Entities

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

Instruments

a) Basel III Compliant Debt Instrument Rating
b) Debt Instrument Rating
c) Sukuk Rating

Regulatory and Supplementary Disclosure

(Credit Rating Companies Regulations,2016)

Rating Team Statements

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

2) **Conflict of Interest**

i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)

ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)

iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

Restrictions

(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)

(4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)

(5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

(6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)

(7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.

(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)

(9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)

(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)

(11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest

(12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA´s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity

(13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)

(14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)

(15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)

(16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)

(17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)

(19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)

(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)

(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

Probability of Default

(22) PACRA´s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA´s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA´s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(f-VII)

Proprietary Information