



## The Pakistan Credit Rating Agency Limited

### Rating Report

## Mughal Iron & Steel Industries Limited

#### Report Contents

1. Rating Analysis
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#### Rating History

| Dissemination Date | Long Term Rating | Short Term Rating | Outlook  | Action   | Rating Watch |
|--------------------|------------------|-------------------|----------|----------|--------------|
| 15-Oct-2024        | A+               | A1                | Stable   | Maintain | -            |
| 16-Oct-2023        | A+               | A1                | Stable   | Maintain | -            |
| 21-Oct-2022        | A+               | A1                | Stable   | Maintain | -            |
| 22-Oct-2021        | A+               | A1                | Stable   | Upgrade  | -            |
| 23-Oct-2020        | A                | A2                | Stable   | Upgrade  | -            |
| 24-Sep-2020        | A-               | A2                | Positive | Maintain | -            |
| 24-Sep-2019        | A-               | A2                | Positive | Maintain | -            |
| 25-Mar-2019        | A-               | A2                | Positive | Maintain | -            |
| 18-Dec-2018        | A-               | A2                | Positive | Maintain | -            |

#### Rating Rationale and Key Rating Drivers

Mughal Iron & Steel Industries Limited (“Mughal” or “the Company”) is a prominent player in the steel industry. The Company is sustaining the pressures that have engulfed other mentionable players in the sector. These are emanating from subdued demand, higher cost of doing business especially the power tariff and the impact of rising finance cost. Mughal has been able to fare the challenges, though the hit on margins is evident, due to some of the peculiar strengths which the Company possesses. There is diversity in its product slate, having girders and T-iron, apart from rebars. The Company has deep penetration in the distribution system of the country. Additionally, there is altogether a different and alternative revenue stream, i.e. the copper ingot. This is entirely export oriented, providing shield against the import exposure. This shielded the Company from LC related issues when imports were being a challenge. It is a state of the art plant, which not only produces copper but also provides sustainable supplies to the steel mill. The business has a good history of rising export. This has provided an edge to the Company over other players. The sector dynamics are not yet promising and the management is expected to keep an eye, especially on two things: volume and margin. The Company is making investments in cheap and alternative energy. Profits margins are expected to take benefit from two things: one once the alternative energy channel becomes operational, and second due to decline in the policy rate. The exports of copper ingots and granules to China accounted for ~21% of revenue in FY24. This not only bolstered the top line but also secured a sustainable profit stream for the future. Recently, the board approved a PKR 2bln Balancing, Modernization, and Replacement (BMR) project for the existing steel bar re-rolling mill, aimed at enhancing operational efficiency. In FY24, the Company’s top line surged to PKR 92.383bln, representing a considerable year-over-year growth of ~37% from PKR 67.390bln in FY23. This growth was fueled by both increased sales volumes and higher sales prices. However, despite this growth, there was a slight decline in gross margins due to industry related challenges, as explained. Additionally, net margins faced pressure from higher finance costs, with the Company’s leverage ratio reported at ~57% in June 2024, up from 50.6% in June 2023. To support its funding requirements, the Company has relied on banking facilities and debt instruments.

The ratings are dependent upon the Company’s ability to sustain its healthy business profile amidst exposure to overall economic slowdown and higher costs.

#### Disclosure

|                              |                                                                                                                                                              |
|------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Name of Rated Entity</b>  | Mughal Iron & Steel Industries Limited                                                                                                                       |
| <b>Type of Relationship</b>  | Solicited                                                                                                                                                    |
| <b>Purpose of the Rating</b> | Entity Rating                                                                                                                                                |
| <b>Applicable Criteria</b>   | Methodology   Rating Modifiers(Apr-24),Methodology   Corporate Rating(Jul-24),Methodology   Correlation Between Long-term & Short-term Rating Scales(Jul-24) |
| <b>Related Research</b>      | Sector Study   Steel(Sep-24)                                                                                                                                 |
| <b>Rating Analysts</b>       | Ali Arslan Malik   Ali.Arslan@pacra.com   +92-42-35869504                                                                                                    |

## Profile

**Legal Structure** Mughal Iron & Steel Industries Ltd. is a listed Company since March 2015. Its shares are traded on Pakistan Stock Exchange Limited (PSX). The Company's shares are quoted under the Engineering Sector.

**Background** Incepted in the early 1950s in the form of a proprietorship firm, the Company was incorporated in 2010. The Company operates through its registered head office located in Lahore while the factory is located at 17 KM's Sheikhpura Road with sales centers located at Badami Bagh Lahore.

**Operations** Mughal Iron & Steel Industries Limited (Mughal) is primarily engaged in the manufacturing and sale of billets, girders, and rebars and has also diversified into non-ferrous segment through exports of copper.

## Ownership

**Ownership Structure** Mughal's ownership structure has changed post listing. Presently, the company is majority (~76%) owned by Mughal family, followed by Financial Institutions, and general public.

**Stability** The ownership structure of the Company is seen as stable as no ownership changes are expected in near future. The majority stake will rest with Mughal family.

**Business Acumen** The sponsors – the Mughal family – carry over five decades of experience in steel and allied business.

**Financial Strength** The sponsors have demonstrated their commitment towards the company by injecting funds on as and when required basis. Given that Mughal is the flagship entity of sponsors, willingness to support the company in case need arises is considered high.

## Governance

**Board Structure** The overall control of the Company vests in the nine members' board of directors, wherein six are from sponsoring family including the Chairman and the CEO, while three are independent members.

**Members' Profile** Mughal's Board Members carry requisite skills, competence, diversified knowledge background, and experiences, which is considered positive.

**Board Effectiveness** Two board committees in place, include (i) Audit, and (ii) Human Resource & Remuneration. Furthermore, presence of independent directors and good attendance in board meetings reflect on good governance framework of the Company.

**Financial Transparency** M/s Fazal Mahmood & Company, Chartered Accountants, classified in category 'C' by SBP in 2017 and having a QCR rating and M/s Muniff Ziauddin & Company, Chartered Accountants are the external auditors of the Company who expressed an unqualified opinion for the Financial statements of end-June'24.

## Management

**Organizational Structure** Mughal has a streamlined organizational structure with clearly demarcated roles and a high degree of delegation. The reporting lines are segregated between two executive directors and CEO which in turn report to the BoD. The current structure results in strong decision-making and brings operational efficiencies.

**Management Team** Mr. Khurram Javaid (CEO) has been instrumental in improving the overall HR quality of the Company. He is supported by a team of experienced individuals equipped with the necessary technical skills and relevant industry experience.

**Effectiveness** Mughal has no formal management committees in place. All departments have their own meetings and their heads review key performance areas of the department and report to respective executive directors.

**MIS** MIS reports are customized as per the requirements of the management on a daily, weekly, and monthly basis. Some of the reports generated include re-ordering sheets, financial facilities status, etc.

**Control Environment** The Company has an ERP system deployed which is currently being used for reporting purposes.

## Business Risk

**Industry Dynamics** During FY24, overall local steel production clocked it at ~8.4mln MT, a YoY decrease of ~5.6%. The production of Billets and Ingots (Long Steel) declined ~7.5% YoY to ~4.9mln MT in FY24, while Coil & Plates (Flat Steel) production clocked in at ~3.5mln MT, down ~2.7% YoY. Steel imports increased to ~2.9mln MT in FY24, up ~31.8% YoY, as imports restrictions imposed due to economic imbalances on steel products and scrap in FY23 were lifted in Jun'23. In FY24, overall local supply of steel products clocked in at ~11.3mln MT (FY23: ~11.1mln MT), a YoY increase of ~1.8%. This was in response to the increase in imports of finished steels by ~31.8% as higher imports shows higher demand and lower local production of steel.

**Relative Position** The "Long Steel Products" segment's prominent players include Amreli Steel, Mughal Steel and Agha Steel. Mughal Steel has diversity in its product slate and its profiling has significantly improved post listing on PSX. The expansion projects related to 'Additional power and melting capacity', 'Replacement of Re-Rolling Bar Mill', additional furnace in ferrous segment as well as achievement of COD of project relating to feedstock processing plant for non-ferrous segment in June'23. In addition to this, the board recently approved a PKR 2bln Balancing, Modernization, and Replacement (BMR) project for the existing steel bar re-rolling mill, aimed at enhancing operational efficiency that enabled Mughal to further strengthen its market positioning.

**Revenues** During FY24, topline witnessed a ~37% growth and was recorded at PKR 92.383bln (FY23: PKR 67.390bln; FY22: PKR 66.153bln) primarily due to increase in volumes and selling prices while Gross Profit not follow the same trend and was recorded at PKR 7.718bln in FY24 (FY23: PKR 9.671bln; FY22: PKR 10.128bln) due to inflationary pressures. Going forward, we expect further increase in revenues due to nonferrous expansion which shall increase Company's exports, thus hedging it against \$US as well as reducing its reliance on imports as significant requirement of ferrous segment's raw materials will be met in-house.

**Margins** During FY24, Mughal's gross, operating and net margins witnessed decline as per reported figures (Gross: FY24: 8.4%; FY23: 14.4%; FY22: 15.3%), (Operating: FY24: 7.2%; FY23: 13.1%; FY22: 13.9%) & (Net: FY24: 2.2%; FY23: 5.2%; FY22: 8.2%) due to rising inflation, depreciating currency, high discount rates and increase in energy cost which impacted the overall performance of the Company.

**Sustainability** Going forward, the impact of increase in base discount rate will continue to impact the performance of the Company. The Company is otherwise bullish on the market side and has adopted a policy of transparency as business house.

## Financial Risk

**Working Capital** During FY24, Mughal's working capital requirements, represented by net cash cycle decreased to 118days (end-Jun 23: 145days; end-Jun22: 119days). This is due to decrease in inventory days to 86 days (Inventory days: FY23: 112days; FY22: 94days), which is attributable to rise in volumetric sales. Receivable days stood at 35 days (Receivable days: FY23: 40days; FY22: 30days). The Company manages its working capital requirements through mix of internal generation, privately placed instruments (sukuks) and short-term borrowings.

**Coverages** As at end-June'24, STBs were recorded at PKR 27.992bln (FY23: PKR 20.995bln; FY22: PKR 20.619bln) while FCFO's were recorded at PKR 5.920bln (FY23: PKR 8.245bln; FY22: PKR 8.726bln). The Company has recently issued short term instrument of PKR 3bln to finance its increased working capital requirements. Due to upwelling in debt levels and increased key policy rates, finance cost increased to PKR 6.364bln (FY23: PKR 4.423bln; FY22: PKR 2.622bln). Resultantly dip has been witnessed in Interest coverage ratio which was recorded at 1.0x in FY24 (FY23: 1.9x; FY22: 3.4x).

**Capitalization** Mughal's D/E ratio stood at ~57% at end-June'24 (end-June'23: ~50.6%, end-June'22: ~55.5%). Long-term debt of the Company stood at PKR 2.454bln as at end-June'24 (end-June'23: PKR 3.302bln, end-June'22: PKR 4.028bln). The Company is making timely repayments of the due installments. Short-term borrowing contributed a significant portion to the total debt (STB: end-June'24: 81%; end-June'23: 80.8%; end-June'22: 79.4%). To finance increased WC requirements of the Company, management is in the process of renewal of existing bank lines as well as enhancement of their limits apart from issuance of sukuk.



The Pakistan Credit Rating Agency Limited

Financial Summary  
PKR mln

| Mughal Iron & Steel Industries Limited<br>Steel | Jun-24<br>12M | Jun-23<br>12M | Jun-22<br>12M | Jun-21<br>12M |
|-------------------------------------------------|---------------|---------------|---------------|---------------|
|-------------------------------------------------|---------------|---------------|---------------|---------------|

#### A BALANCE SHEET

|                            |        |        |        |        |
|----------------------------|--------|--------|--------|--------|
| 1 Non-Current Assets       | 19,653 | 19,761 | 16,533 | 15,859 |
| 2 Investments              | 50     | 50     | -      | -      |
| 3 Related Party Exposure   | 3,947  | -      | -      | -      |
| 4 Current Assets           | 45,427 | 40,021 | 36,553 | 25,941 |
| <i>a Inventories</i>       | 23,418 | 20,219 | 21,043 | 13,181 |
| <i>b Trade Receivables</i> | 10,806 | 9,283  | 5,574  | 5,259  |
| 5 Total Assets             | 69,077 | 59,832 | 53,085 | 41,800 |
| 6 Current Liabilities      | 5,500  | 3,905  | 3,314  | 1,992  |
| <i>a Trade Payables</i>    | 2,566  | 1,299  | 1,357  | 455    |
| 7 Borrowings               | 34,576 | 25,983 | 25,941 | 20,809 |
| 8 Related Party Exposure   | -      | 6      | 25     | -      |
| 9 Non-Current Liabilities  | 2,865  | 4,565  | 2,959  | 2,494  |
| 10 Net Assets              | 26,135 | 25,372 | 20,847 | 16,505 |
| 11 Shareholders' Equity    | 26,135 | 25,372 | 20,847 | 16,505 |

#### B INCOME STATEMENT

|                                            |          |          |          |          |
|--------------------------------------------|----------|----------|----------|----------|
| 1 Sales                                    | 92,383   | 67,390   | 66,153   | 44,972   |
| <i>a Cost of Good Sold</i>                 | (84,665) | (57,719) | (56,025) | (38,280) |
| 2 Gross Profit                             | 7,718    | 9,671    | 10,128   | 6,691    |
| <i>a Operating Expenses</i>                | (1,065)  | (837)    | (951)    | (792)    |
| 3 Operating Profit                         | 6,652    | 8,834    | 9,177    | 5,899    |
| <i>a Non Operating Income or (Expense)</i> | 331      | (64)     | (353)    | (367)    |
| 4 Profit or (Loss) before Interest and Tax | 6,983    | 8,770    | 8,824    | 5,532    |
| <i>a Total Finance Cost</i>                | (6,364)  | (4,423)  | (2,622)  | (1,370)  |
| <i>b Taxation</i>                          | 1,381    | (866)    | (791)    | (732)    |
| 6 Net Income Or (Loss)                     | 2,000    | 3,480    | 5,411    | 3,429    |

#### C CASH FLOW STATEMENT

|                                                                            |         |         |         |         |
|----------------------------------------------------------------------------|---------|---------|---------|---------|
| <i>a Free Cash Flows from Operations (FCFO)</i>                            | 5,920   | 8,245   | 8,726   | 5,564   |
| <i>b Net Cash from Operating Activities before Working Capital Changes</i> | 82      | 4,385   | 6,233   | 3,885   |
| <i>c Changes in Working Capital</i>                                        | (2,597) | (5,024) | (6,247) | (9,982) |
| 1 Net Cash provided by Operating Activities                                | (2,515) | (639)   | (15)    | (6,097) |
| 2 Net Cash (Used in) or Available From Investing Activities                | (4,311) | (1,666) | (1,171) | (1,263) |
| 3 Net Cash (Used in) or Available From Financing Activities                | 7,339   | 27      | 4,126   | 7,235   |
| 4 Net Cash generated or (Used) during the period                           | 512     | (2,278) | 2,941   | (125)   |

#### D RATIO ANALYSIS

|                                                                                      |       |       |       |       |
|--------------------------------------------------------------------------------------|-------|-------|-------|-------|
| 1 Performance                                                                        |       |       |       |       |
| <i>a Sales Growth (for the period)</i>                                               | 37.1% | 1.9%  | 47.1% | 64.7% |
| <i>b Gross Profit Margin</i>                                                         | 8.4%  | 14.4% | 15.3% | 14.9% |
| <i>c Net Profit Margin</i>                                                           | 2.2%  | 5.2%  | 8.2%  | 7.6%  |
| <i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>        | 3.6%  | 4.8%  | 3.7%  | -9.8% |
| <i>e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/STB)]</i> | 7.8%  | 15.1% | 29.0% | 27.8% |
| 2 Working Capital Management                                                         |       |       |       |       |
| <i>a Gross Working Capital (Average Days)</i>                                        | 126   | 152   | 124   | 111   |
| <i>b Net Working Capital (Average Days)</i>                                          | 118   | 145   | 119   | 106   |
| <i>c Current Ratio (Current Assets / Current Liabilities)</i>                        | 8.3   | 10.2  | 11.0  | 13.0  |
| 3 Coverages                                                                          |       |       |       |       |
| <i>a EBITDA / Finance Cost</i>                                                       | 1.2   | 2.3   | 3.8   | 4.6   |
| <i>b FCFO / Finance Cost+CMLTB+Excess STB</i>                                        | 0.6   | 1.4   | 2.3   | 2.6   |
| <i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>            | -26.5 | 1.3   | 0.9   | 1.1   |
| 4 Capital Structure                                                                  |       |       |       |       |
| <i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>                  | 57.0% | 50.6% | 55.5% | 55.8% |
| <i>b Interest or Markup Payable (Days)</i>                                           | 72.2  | 75.9  | 54.5  | 69.1  |
| <i>c Entity Average Borrowing Rate</i>                                               | 21.3% | 16.5% | 10.1% | 7.0%  |

### 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                                                                                                                                                                                                                                                                                                            |
|---------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| AAA                 | <b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments                                                                                                                                                                        |
| AA+<br>AA<br>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.                                                                                                       |
| A+<br>A<br>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.                                                                            |
| BBB+<br>BBB<br>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.                                                           |
| BB+<br>BB<br>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.                           |
| B+<br>B<br>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.                                                                        |
| CCC<br>CC<br>C      | <b>Very high credit risk.</b> 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.                                                                                                                                                                                                                                                                                       |

| Scale | Short-Term Rating                                                                                                                                         |
|-------|-----------------------------------------------------------------------------------------------------------------------------------------------------------|
| 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. |

### Rating Modifiers | Rating Actions

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |                                                                                                                                                                                                                                                                                                                                                                                                                                               |                                                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                                                                              |                                                                                                                   |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------|
| <p><b>Outlook (Stable, Positive, Negative, Developing)</b><br/>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'.</p> | <p><b>Rating Watch</b><br/>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.</p> | <p><b>Suspension</b><br/>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.</p> | <p><b>Withdrawn</b><br/>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.</p> | <p><b>Harmonization</b><br/>A change in rating due to revision in applicable methodology or underlying scale.</p> |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------|

**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. Rating actions may include "maintain", "upgrade", or "downgrade".

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

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

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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

### **Restrictions**

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

### **Conduct of Business**

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

### **Independence & Conflict of interest**

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

### **Monitoring and review**

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

### **Proprietary Information**

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