



The Pakistan Credit Rating Agency Limited

## Rating Report

### Ghandhara Nissan Limited

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
22-Oct-2021	A	A1	Stable	Maintain	-
05-Nov-2020	A	A1	Stable	Maintain	-
13-Dec-2019	A	A1	Stable	Maintain	-
13-Jun-2019	A	A1	Stable	Maintain	-
12-Dec-2018	A	A1	Stable	Maintain	-
30-Jun-2018	A	A1	Stable	Maintain	-
29-Dec-2017	A	A1	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

Ghandhara Nissan Limited (GNL) ratings reflect reputable business profile and presence in the trucks segment of the automobile sector. The product portfolio of the company is dominated by Chinese brands (including HDTs, LDTs, & LCVs) together with French truck. Ghandhara Nissan has solidified its position in the market through assembling & progressive manufacturing of JAC Trucks, import and sale of Dongfeng & Renault Trucks in complete built-up units, and assembly of other vehicles under contract agreement with Ghandhara Industries Limited and Ghandhara DF (Pvt.) Ltd. During FY21, automobile sales and production accelerated as the scars of COVID-19 pandemic started to reverse. Production and sale of trucks grew by ~29% and ~20%, respectively. The sector's margins improved significantly as compared to preceding year which was majorly impacted by Global Pandemic Crises. However, bottom-line of the sector remains under pressure. It is further gauged that recent currency devaluation which would lead to increase in cost of imported parts could create pressure on the sector's margins. Top-line growth of the company captures the overall performance of the industry and posted a healthy recovery in earnings for the period under review. Financial risk profile of the company is considered strong as both the cash flows and debt coverage metrics witnessed an improvement driven by volumetric growth and margins. The amount of leverage in the company's capital structure moderately stands at lower levels. GNL holds competitive market position, high brand value, and solid sponsorship support. Majority ownership of the company is held by Bibojee Group of Companies. Their business acumen is further enriched by the group's stake in the country's leading tyre manufacturing company. Furthermore, the company has entered into formal arrangements with M/S. Chery International Corporation – Wuhu, China for manufacturing & distributing of Chery passenger cars (SUVs/Crossovers) in Pakistan.

The ratings are dependent on upholding of the company's business as well as financial risk profile. Improvement in margins and intact coverages are imperative. Key element is company's stance on working capital management and leveraged capital structure. Moreover, management's ability to sustain its market share while benefiting from positive demand fundamentals is crucial.

#### Disclosure

<b>Name of Rated Entity</b>	Ghandhara Nissan Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Corporate Rating(Jun-21),Criteria   Correlation Between Long-term & Short-term Rating Scales(Jun-21)
<b>Related Research</b>	Sector Study   Trucks & Buses(Dec-20)
<b>Rating Analysts</b>	Sohail Ahmed Qureshi   sohail.ahmed@pacra.com   +92-42-35869504

## Profile

**Legal Structure** Ghandhara Nissan Limited is a public listed entity with a free float of ~35% shares, as to date Oct'21. It got listed on Karachi Stock Exchange (now "Pakistan Stock Exchange") in 1992.

**Background** Ghandhara Nissan Limited was incorporated on August 8, 1981 as a private limited company and subsequently converted into a public limited company on May 24, 1992. The company is a subsidiary of Bibojee Services (Private) Limited.

**Operations** The principle business of the company is assembly/progressive marketing of vehicles including JAC trucks, import & sale of Nissan, Dongfeng & Renault vehicles in completely built up conditions and assembling of other vehicles under contract agreement. The company has a capacity to manufacture 4,800 units of trucks and buses and 6,000 cars on a single shift basis. The registered office of Ghandhara Nissan is situated in Karachi while its manufacturing facilities are located at Port Qasim.

## Ownership

**Ownership Structure** Bibojee Services (Private) Limited directly owns ~57.76% shares in the company. Other shareholders include Insurance Companies (~7.6%), general public (~20%) and remaining is held by Banks, DFIs, NBFIs and others.

**Stability** Bibojee Group of Companies, representing a family with history of entrepreneurship spanning over four decades. The group operates through holding company "Bibojee Services (Private) Limited" denotes formal structure of the group and given platform for relatively smooth execution of succession matters among family members.

**Business Acumen** Bibojee Services (Pvt) Limited is the holding company of the group companies under whose umbrella comes automobile companies, textile, insurance, construction and tyre manufacturing concern. Bibojee's group understanding of the business is strong.

**Financial Strength** Bibojee Services (Private) Limited has strategic stakes in companies from different sectors including Textile, Insurance, Automobile and construction. Financial strength of the group is strong.

## Governance

**Board Structure** The overall control of the company vests in ten members board of directors. The board structure comprises six non-executive directors, three independent directors and one executive director.

**Members' Profile** Board members are professionals with experiences of managing business affairs in different sectors. Mr. Raza Kuli Khan Khattak is the Chairman of the Board having diverse experience in the Auto and Allied sector, which brings specialized and comprehensive experience and knowledge on the board.

**Board Effectiveness** In line with the guidelines of Code of Corporate Governance, the Board has formed two sub-committees – (i) HR and Remuneration Committee and (ii) Audit Committee. Both Committees are being headed by independent directors and consist of 5 members each. Attendance in meetings held during FY21 was good.

**Financial Transparency** An effective Internal Audit department reporting to the Audit Committee is in place. M/s. Shine Wing Hameed Chaudhari & Company, a QCR rate firm, has expressed unmodified opinion on financial statements of FY21.

## Management

**Organizational Structure** The organizational structure of the company is divided broadly into various functional departments and all the department heads report to Chief Executive Officer. Major departments include (i) Finance, (ii) Human Resources and Admin (iii) Quality control (iv) Sales and Marketing (v) Plant operation.

**Management Team** Management of the company comprises qualified and experienced professionals with a wide range of skills and diversified experience. Mr. Ahmed Kuli Khan is the CEO of the company. He is an experienced professional in the Auto & Allied industry, and is assisted by able management team.

**Effectiveness** Every department head is responsible to manage the affairs of their departments. Clearly defined rules and responsibilities in organization add to the effectiveness of the organization structure.

**MIS** The company has implemented Sidat Hyder Financial-business software package. The company has regular update and technical support agreement with the vendor.

**Control Environment** The corporate structure of the company is diverged into various departments each having an effective Internal Control System. Robust MIS to assist reporting needs of management strengthens the control environment.

## Business Risk

**Industry Dynamics** Pakistan's trucks and buses industry is dominated by domestic players such as Ghandhara Industries, Ghandhara Nissan, HinoPak and Master Trucks. Ghandhara Industries occupies the highest share in the industry followed by Master, HinoPak and Ghandhara Nissan. According to Pakistan Automotive Manufacturers Association, 4,347 units of trucks & Buses were sold during FY21 as compared to 3,647 units in FY20 representing a growth of ~19.19% as compared to decline of ~46% in FY20 which demonstrates that overall demand has revived after Global Pandemic Crisis. Positive macro indicators like lower interest rate, real-time recovery of related industries (OMCs, Steel, Construction) have shown good results, purchasing power has improved which further instigated the demand to rise.

**Relative Position** Ghandhara Nissan - a strong player in the industry, possessing adequate market share as at End Sep-21. Much of the trucks demand of the company is generated through commercial customers, such as oil marketing companies. JAC X-200 trucks has augmented the top-line of the Company during FY21. DongFeng trucks continue to be the major product line whereas Renault trucks are expected to bring further improvement to the revenue. Due to strong relationship with its customers, the company is well poised to retain its market share.

**Revenues** During FY21, negative impacts of COVID started to reverse. Automobile sector showed signs of springing back to life on back of resuming economic activities. Current volumes in truck and bus market improved, resultantly Company managed to show significant growth in its revenue at 94% during FY21 as compared to negative growth at 30% during same period of last year. Revenue of the company stands at PKR 3,226m in FY21 (FY20: PKR 1,663m).

**Margins** Upward shift in company's topline and consumption of economic activities drive the gross profit margin. Gross margin ratio of the company in FY21 recorded at ~10.7% as compared to just ~0.3% during FY20. Increase in gross profit effectively turned operating loss into profit, it stands at profit level of PKR 34m in FY21 as compared to operating loss of PKR 301m in FY20. Other income contributed towards the bottom-line of the company and net profit was recorded at PKR 131m as compared to net loss of PKR 207m in FY20.

**Sustainability** With the turnaround and revival of economic activities, the management anticipates a steady performance of the Company, going forward. As the passenger car segment has witnessed revival, company, with the objective of diversifying and bringing in economies of scale, has entered into formal arrangements with M/s. Chery International Corporation - Wuhu, China for manufacturing and distribution of Chery passenger cars (SUVs/ Crossovers).

## Financial Risk

**Working Capital** Inventory days of the company decreased to ~90 days at the end of FY21 (FY20: ~216 days) on back of decline in inventory (FY21: PKR 688m, FY20: PKR 902m) and higher sales volumes. Receivable days also decreased to 38 days as compared to ~63 days in FY20 on account of revival in demand. Gross working capital of the company stands at ~128 days (FY20: ~279 days). Subsequently, net working capital days of the company decreased to ~107 days in FY21 as compared to ~252 days in FY20. Average days of trade payables stand at ~21 days (FY20: ~27 days).

**Coverages** Free cash flow from operations (FCFO) turned into positive figure, and clocked in at PKR 208m in FY21 as compared to PKR -232m in FY20. Increased cash flows led to improved interest coverage and core coverage ratio of the company. Going forward, strengthened cashflow streams are essential to keep the coverages intact.

**Capitalization** The company has a low leveraged capital structure. Total debt of the company in FY21 clocked in at PKR ~350m as compared to PKR ~222m in FY20. Out of the total debt, PKR ~100m was short term. Strong equity base kept the debt to equity ratio intact: FY21: ~5.5% (FY20: ~3.6%), still stand to be low.



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Ghandhara Nissan Limited Trucks & Buses	Jun-21 12M	Mar-21 9M	Jun-20 12M	Jun-19 12M
<b>A BALANCE SHEET</b>				
1 Non-Current Assets	4,101	4,121	4,139	3,938
2 Investments	-	444	-	389
3 Related Party Exposure	773	626	786	875
4 Current Assets	2,426	1,939	1,977	1,895
<i>a Inventories</i>	688	788	902	1,070
<i>b Trade Receivables</i>	356	466	322	252
<b>5 Total Assets</b>	<b>7,300</b>	<b>7,131</b>	<b>6,902</b>	<b>7,098</b>
6 Current Liabilities	618	562	456	404
<i>a Trade Payables</i>	238	170	136	111
7 Borrowings	350	303	222	237
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	325	342	345	373
<b>10 Net Assets</b>	<b>6,008</b>	<b>5,924</b>	<b>5,879</b>	<b>6,084</b>
<b>11 Shareholders' Equity</b>	<b>6,008</b>	<b>5,924</b>	<b>5,879</b>	<b>6,084</b>
<b>B INCOME STATEMENT</b>				
1 Sales	3,226	2,272	1,663	2,374
<i>a Cost of Good Sold</i>	(2,880)	(2,047)	(1,658)	(2,054)
<b>2 Gross Profit</b>	<b>346</b>	<b>225</b>	<b>5</b>	<b>320</b>
<i>a Operating Expenses</i>	(312)	(224)	(306)	(298)
<b>3 Operating Profit</b>	<b>34</b>	<b>0</b>	<b>(301)</b>	<b>22</b>
<i>a Non Operating Income or (Expense)</i>	105	85	149	55
<b>4 Profit or (Loss) before Interest and Tax</b>	<b>139</b>	<b>85</b>	<b>(152)</b>	<b>77</b>
<i>a Total Finance Cost</i>	(23)	(14)	(64)	(71)
<i>b Taxation</i>	15	(26)	9	(34)
<b>6 Net Income Or (Loss)</b>	<b>131</b>	<b>46</b>	<b>(207)</b>	<b>(29)</b>
<b>C CASH FLOW STATEMENT</b>				
<i>a Free Cash Flows from Operations (FCFO)</i>	208	171	(232)	(55)
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	182	148	(175)	(114)
<i>c Changes in Working Capital</i>	415	142	204	(749)
<b>1 Net Cash provided by Operating Activities</b>	<b>598</b>	<b>291</b>	<b>29</b>	<b>(863)</b>
<b>2 Net Cash (Used in) or Available From Investing Activities</b>	<b>13</b>	<b>(296)</b>	<b>212</b>	<b>(582)</b>
<b>3 Net Cash (Used in) or Available From Financing Activities</b>	<b>107</b>	<b>69</b>	<b>(80)</b>	<b>281</b>
<b>4 Net Cash generated or (Used) during the period</b>	<b>718</b>	<b>63</b>	<b>161</b>	<b>(1,165)</b>
<b>D RATIO ANALYSIS</b>				
<b>1 Performance</b>				
<i>a Sales Growth (for the period)</i>	94.0%	82.1%	-29.9%	7.0%
<i>b Gross Profit Margin</i>	10.7%	9.9%	0.3%	13.5%
<i>c Net Profit Margin</i>	4.1%	2.0%	-12.4%	-1.2%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	19.3%	13.8%	-1.7%	-33.9%
<i>e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/Sh</i>	2.2%	1.0%	-3.5%	-0.5%
<b>2 Working Capital Management</b>				
<i>a Gross Working Capital (Average Days)</i>	128	149	279	178
<i>b Net Working Capital (Average Days)</i>	107	131	252	149
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	3.9	3.5	4.3	4.7
<b>3 Coverages</b>				
<i>a EBITDA / Finance Cost</i>	10.4	10.1	-2.0	2.7
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	1.3	1.5	-2.1	-0.6
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	1.3	1.4	-0.6	-0.5
<b>4 Capital Structure</b>				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	5.5%	4.9%	3.6%	3.7%
<i>b Interest or Markup Payable (Days)</i>	105.0	59.5	71.8	121.5
<i>c Entity Average Borrowing Rate</i>	6.4%	7.2%	31.8%	27.1%

**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
<b>AAA</b>	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
<b>AA+</b>	
<b>AA</b>	<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.
<b>AA-</b>	
<b>A+</b>	
<b>A</b>	<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.
<b>A-</b>	
<b>BBB+</b>	
<b>BBB</b>	<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.
<b>BBB-</b>	
<b>BB+</b>	<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>BB</b>	
<b>BB-</b>	
<b>B+</b>	
<b>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>B-</b>	
<b>CCC</b>	<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.
<b>CC</b>	
<b>C</b>	
<b>D</b>	Obligations are currently in default.

Scale	Short-term Rating Definition
<b>A1+</b>	The highest capacity for timely repayment.
<b>A1</b>	A strong capacity for timely repayment.
<b>A2</b>	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
<b>A3</b>	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
<b>A4</b>	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):

<p><b>Entities</b></p> <ul style="list-style-type: none"> <li>a) Broker Entity Rating</li> <li>b) Corporate Rating</li> <li>c) Financial Institution Rating</li> <li>d) Holding Company Rating</li> <li>e) Independent Power Producer Rating</li> <li>f) Microfinance Institution Rating</li> <li>g) Non-Banking Finance Companies (NBFCs) Rating</li> </ul>	<p><b>Instruments</b></p> <ul style="list-style-type: none"> <li>a) Basel III Compliant Debt Instrument Rating</li> <li>b) Debt Instrument Rating</li> <li>c) Sukuk Rating</li> </ul>
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(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

### **2) Conflict of Interest**

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

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- (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)

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