



The Pakistan Credit Rating Agency Limited

Rating Report

Sadiq Poultry (Pvt.) Limited

Report Contents

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
17-Dec-2020	BBB+	A2	Stable	Maintain	YES
22-Jul-2020	BBB+	A2	Stable	Downgrade	YES
21-Jan-2020	A-	A1	Stable	Maintain	-
22-Jul-2019	A-	A1	Stable	Maintain	-
20-Mar-2019	A-	A1	Stable	Maintain	-
18-Sep-2018	A-	A1	Stable	Maintain	-
22-Mar-2018	A-	A1	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Poultry is one of the largest agro based segment in Pakistan, posting an annual growth of ~ 10% lately. Pakistan is sufficient in poultry meat and egg production. However, per capita protein consumption remains low compared to the world's average. The industry generates an estimated annual revenue of ~ PKR 300bln from local and export sales. Nil or limited sales of marriage halls/restaurants due to Covid-19, along with no exports of poultry products, led to supply glut in local market. Prices of poultry products, especially day old chicks, posted a dip due to lower demand with many poultry farms becoming non-operational. As prices have recovered lately, sales picked up and liquidity issues sorted. SBP measures have provided necessary respite.

The ratings reflect Sadiq Poultry (Pvt.) Ltd.'s ("Sadiq Poultry" or "the Company") association with an established and vertically integrated poultry group, Sadiq Group. The Company has an established profile in poultry industry and is a leader in broiler, chicken, eggs and day old chicks segment. The Company's topline contracted and remains concentrated towards day old chicks and eggs sale. The Covid-19 breakout has impacted the entire industry adversely, especially prices of day old chicks, affecting the Company's business profile. Margins were lower as the prices of day old chicks crashed due to oversupply and lower demand. Although, the Company posted modest profitability in 9MFY20, it is expected to come under pressure. Sadiq Poultry remains exposed to price volatility and contingent health risks associated to its product (live chicken stock and eggs). Financial risk profile of the Company is characterized by moderate leverage and adequate coverage ratios. The loan mix is skewed towards short term borrowings to fulfill the working capital requirements. The Company has availed debt relief measures announced by SBP through deferment and restructuring of loans. This is expected to provide relief in terms of debt servicing and ease pressure on cashflow. Further, lower interest cost due to cumulative policy rate cuts of 626bps will lessen debt servicing burden. The Company is expected to post modest profitability in FY20. However, going forward, uptick in poultry product prices and demand is expected to impact the bottom line positively. The ratings incorporate potential support from sponsors and/or group companies. The Company has been assigned 'Rating Watch' as ownership transition of Sadiq Poultry is in process post Dr. Sadiq's demise. PACRA will monitor the transitioning process and update the ratings accordingly.

The ratings are dependent on the management's ability to prudently manage business risk for perishable consumer products, while sustaining business margins in prevailing challenging economic conditions. Moreover, smooth transfer of shareholding to sponsors is essential. Going forward, generating sustainable operational cashflows is important. Meanwhile, a prudent financial strategy to meet financial obligations remains critical.

Disclosure

Name of Rated Entity	Sadiq Poultry (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Ratings(Jun-20),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-20),Criteria Rating Modifier(Jun-20)
Related Research	Sector Study Poultry(Jan-20)
Rating Analysts	Faiqa Qamar faiqa.qamar@pacra.com +92-42-35869504

Profile

Legal Structure Sadiq Poultry (Pvt.) Ltd. ('Sadiq Poultry' or 'the Company') was incorporated on 17-Sept-04 as a Private Limited Company.

Background Sadiq Group came into existence as a small scale family business and became formally operational in April, 1975. Today, the Group is known as one of the leaders in poultry industry with presence throughout the poultry chain operating under the brand name of Sadiq.

Operations The Company is primarily operating poultry breeding units/farms, broiler production farms, commercial egg production and layer units, poultry hatcheries, livestock pharmaceuticals, grain storage and livestock feeds, paper pulp tray production plant and organic fertilizer plants. During the year, the Company leased its fixed assets to its associated entities, Salman Poultry and Zubair Feeds; along with transfer of inventory as a part of Group level business re-structuring.

Ownership

Ownership Structure Previously, Sadiq Poultry's major shareholding vested with Dr. M. Sadiq (51%); followed by his two sons, Mr. Salman Sadiq (33%) and Mr. Asif Zubair (16%). Going forward, ownership stake of Dr. M. Sadiq (51%) is expected to be divided among eight successors, i.e. Dr. Sadiq's six children and two wives.

Stability The Company's succession is in transition.

Business Acumen Sadiq Group has experienced multiple business cycles, showing strong business acumen of sponsors. The Group's broiler farms are among the highest chick producers in Pakistan. Currently, there are seven companies, one AoP and one trust working under Sadiq Group. All are operating in various segments of poultry and oil industries.

Financial Strength Sadiq Group has consolidated asset base of ~ PKR 43bln supported by an equity of ~ PKR 12bln as at end Jun'19. Through its diverse set of businesses, it has generating a turnover of ~PKR 50bln in FY19.

Governance

Board Structure Sadiq Poultry's Board is dominated by the sponsoring family. The Company's Board lacks independence, indicating room for improvement in the governance framework.

Members' Profile Previously, the Board consisted of Dr. Muhammad Sadiq, Board's Chairman, holding a DVM degree and four decades of experience in poultry and integrated businesses. Mr. Asif Zubair and Mr. Salman Sadiq, Directors of the Company, are US graduates and have experience of more than 10 years.

Board Effectiveness Keeping in view the size of the Board, absence of sub-committees may not impact Board's effectiveness. During FY20, 3 Board meetings, with full/majority attendance, were held to discuss pertinent matters and make strategic decisions.

Financial Transparency Sadiq Poultry's external auditors, Muniff Ziauddin and Co. Chartered Accountants, have expressed an unqualified opinion on the financial reports for FY19. The firm has been QCR rated by ICAP and is in Category 'A' of SBP panel.

Management

Organizational Structure The Company's sales and production are monitored by GM Production. Whereas, support departments work as shared services for the Group. All departments eventually report to the CEO.

Management Team For the time being, the Company is headed by Dr. M. Sadiq's brother, Mr. Mian Muhammad Aslam. He is also the CEO of Arslan Poultry. Previously, Dr. Muhammad Sadiq, Group's CEO, has headed several national and international forums and was also recognized as a leading authority on poultry sciences and avian welfare. Dr. Sadiq was the decision maker and looked after the Company and group affairs.

Effectiveness Management ensure effectiveness through Technical, Interview and Operational committees, established at the Group level. Each comprises 4 members.

MIS Two financial software, set by Sidat Hyder, are used at the Group level. However, for internal dissemination, information is documented as and when required.

Control Environment The internal audit department has been established at the Group level to ensure internal controls. The Company's breeder farms, broiler farms and hatcheries are fully equipped with environmentally controlled systems.

Business Risk

Industry Dynamics Poultry is one of the largest agro based segment in Pakistan comprising domestic & commercial poultry. The industry has posted an annual growth of ~ 10% lately. Pakistan is sufficient in poultry meat and egg production. However, per capita protein consumption remains low when compared to the world's average. The industry generates an estimated annual revenue of ~ PKR 300bln from local and export sales. Lately, due to Covid-19 outbreak, marriage halls/restaurants have been closed. This, along with no exports of poultry products, have led to supply glut in local market. Prices of poultry products, especially day old chicks, posted a dip despite being an essential food item due to lower demand with many poultry farms becoming non-operational. Although prices have recovered lately, low sales and liquidity problems may persist as smart lock down continues. Recent SBP measures will provide some respite in the short-time. However, prolonged lock down will affect sales in the entire poultry chain.

Relative Position Sadiq Poultry's has 25% share in the market. Despite being the market leader, the Company's control over pricing is negligible.

Revenues Sadiq Poultry's sales mix comprises table eggs (43%), day old chicks (35%) and layer birds - (8%). During 3QFY20, the Company's revenue posted a dip of ~15% and clocked in at PKR 6.7bln (3QFY19: PKR 7.9bln). The decline was mainly attributable to low prices of day old chicks. Furthermore, prices of day old chicks are expected to remain under pressure due to outbreak of COVID-19, hampering sales of the Company in ongoing period as poultry demand has been low. However, some recovery in prices has been observed lately.

Margins Gross margins remain stable due to efficiency in the production process achieved from strict management control (3QFY20: 14%, 3QFY19: 14%). On the other hand, price hike in other input costs (poultry feed) was catered to by passing on the increase to customers. Operating margins remained subdued on the back of high marketing costs, leading to a dip in operating margin (3QFY20: 6%, 3QFY19: 8%). The net income declined by 59% due to lower revenues and as the Company paid higher finance cost. The Company posted net profit of PKR 203mln in 3QFY20 (3QFY19: PKR 493mln). Margins are expected to dip in 4QFY20 substantially due to lower day old chick and other product prices.

Sustainability Post Dr. Sadiq demise, the Company's succession is in transition. On the performance end, the prevailing uncertainty amidst COVID-19 outbreak has created challenges for the industry and the Company. Sustaining operations and generating cash flows is expected to improve as prices of say old chicks, broiler chicken and eggs have picked up.

Financial Risk

Working Capital Sadiq Poultry's net working capital days emanate predominantly from high finished goods inventory of day old chicks and eggs (3QFY20: 131days, 3QFY19: 86days). Average debtor days posted a dip (3QFY20: 39days, 3QFY19: 45days) on the back of decreased receivables from associated companies. Average creditor days remained stable (3QFY20: 21days, 3QFY19: 22days). Despite the increase in working capital days (3QFY20: 149days, 3QFY19: 110days), the Company maintains adequate cushion against net trade assets.

Coverages The Company's interest coverage deteriorated to 4x during 3QFY20 (3QFY19: 6.6x) on the back of lower free cashflows (3QFY20: PKR 902mln, 3QFY19: 1,145mln) and increased finance costs (3QFY20: PKR 283mln, 3QFY19: PKR 215mln). Similarly, core and total coverages posted a dip (3QFY20: 2.2x, 3QFY19: 3x). The Company has deferred/restructured its debt to create room in cashflows and coverages, which were otherwise getting strained.

Capitalization The Company has a moderately leveraged capital structure with short term borrowings comprising 81% of the total debt in 3QFY20 (3QFY19: 75%). As the Company settles its long term debt, the leveraging is reduced to 34% at end 3QFY20, from 36% at end 3QFY19. The Company has availed SBP provided measures to defer and restructure its debt obligations but overall leveraging remains the same.



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PKR mln

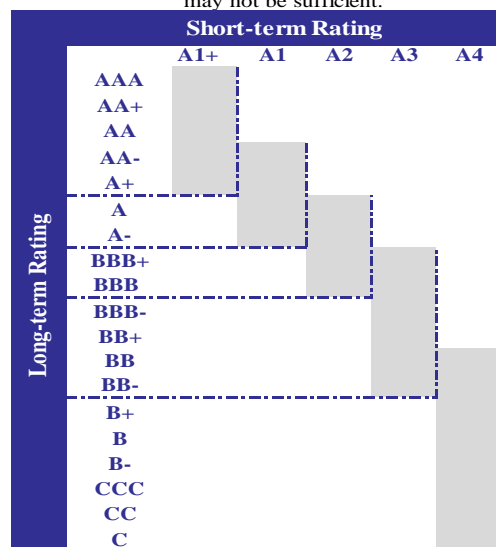
Sadiq Poultry Private Limited Food and Allied	Mar-20 9M	Dec-19 6M	Sep-19 3M	Jun-19 12M	Mar-19 9M	Dec-18 6M	Sep-18 3M
A BALANCE SHEET							
1 Non-Current Assets	4,102	4,232	4,320	4,426	4,514	4,423	4,522
2 Investments	-	-	-	-	-	-	-
3 Related Party Exposure	280	280	280	280	-	-	-
4 Current Assets	4,789	4,604	5,650	5,337	5,773	5,949	5,338
a Inventories	3,351	3,266	3,646	3,048	2,622	2,677	2,778
b Trade Receivables	830	547	936	1,094	1,210	1,527	1,053
5 Total Assets	9,170	9,116	10,250	10,043	10,287	10,372	9,860
6 Current Liabilities	1,167	1,147	2,229	1,932	1,971	2,151	1,549
a Trade Payables	519	492	493	506	780	687	494
7 Borrowings	2,451	2,480	2,494	2,673	2,827	2,933	3,150
8 Related Party Exposure	103	103	191	191	-	-	-
9 Non-Current Liabilities	407	407	407	407	440	440	468
10 Net Assets	5,042	4,979	4,929	4,839	5,049	4,847	4,693
11 Shareholders' Equity	5,042	4,979	4,929	4,839	5,049	4,847	4,693
B INCOME STATEMENT							
1 Sales	6,699	4,222	2,285	8,124	7,888	5,220	2,456
a Cost of Good Sold	(5,757)	(3,575)	(1,945)	(6,929)	(6,773)	(4,471)	(2,092)
2 Gross Profit	943	647	340	1,195	1,114	749	363
a Operating Expenses	(553)	(363)	(177)	(652)	(504)	(346)	(171)
3 Operating Profit	389	283	163	543	611	403	192
a Non Operating Income or (Expense)	97	52	25	81	103	69	38
4 Profit or (Loss) before Interest and Tax	486	335	188	624	714	472	230
a Total Finance Cost	(283)	(195)	(98)	(310)	(215)	(144)	(66)
b Taxation	-	-	-	(30)	(6)	(36)	(27)
6 Net Income Or (Loss)	203	140	89	284	493	291	137
C CASH FLOW STATEMENT							
a Free Cash Flows from Operations (FCFO)	902	577	308	849	1,145	674	(57)
b Net Cash from Operating Activities before Working Capital Changes	648	401	215	571	955	525	(122)
c Changes in Working Capital	(1)	229	520	964	437	342	755
1 Net Cash provided by Operating Activities	647	630	735	1,535	1,392	867	633
2 Net Cash (Used in) or Available From Investing Activities	(295)	(157)	(558)	(1,193)	(893)	(466)	(366)
3 Net Cash (Used in) or Available From Financing Activities	(311)	(282)	(180)	(442)	(454)	(348)	(132)
4 Net Cash generated or (Used) during the period	41	191	(3)	(100)	45	52	135
D RATIO ANALYSIS							
1 Performance							
a Sales Growth (for the period)	9.9%	3.9%	12.5%	-14.0%	11.3%	10.5%	3.9%
b Gross Profit Margin	14.1%	15.3%	14.9%	14.7%	14.1%	14.3%	14.8%
c Net Profit Margin	3.0%	3.3%	3.9%	3.5%	6.3%	5.6%	5.6%
d Cash Conversion Efficiency (EBITDA/Sales)	13.9%	14.1%	13.9%	11.1%	16.3%	14.1%	3.4%
e Return on Equity (ROE)	5.5%	5.7%	7.3%	6.0%	13.7%	12.4%	11.9%
2 Working Capital Management							
a Gross Working Capital (Average Days)	170	172	174	178	132	139	141
b Net Working Capital (Average Days)	149	150	154	156	110	119	123
c Current Ratio (Total Current Assets/Total Current Liabilities)	4.1	4.0	2.5	2.8	2.9	2.8	3.4
3 Coverages							
a EBITDA / Finance Cost	4.1	3.6	3.6	3.6	7.4	6.4	1.5
b FCFO / Finance Cost+ CMLTB+ Excess STB	2.2	2.0	1.8	1.5	3.0	2.2	-0.3
c Debt Payback (Total Borrowings+ Excess STB)/(FCFO-Finance Cost)	0.5	0.6	0.8	1.2	0.6	0.8	-2.6
4 Capital Structure (Total Debt/Total Debt+Equity)							
a Total Borrowings / Total Borrowings+Equity	33.6%	34.2%	35.3%	37.2%	35.9%	37.7%	40.2%
b Interest or Markup Payable (Days)	126.0	103.3	84.1	109.3	104.2	0.0	0.0
c Average Borrowing Rate	11.1%	12.2%	12.6%	8.1%	7.6%	7.4%	6.7%

Credit Rating

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

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
AA-	
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.
A-	
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.
BBB-	
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.
BB	
BB-	
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.
B-	
CCC	
CC	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.
C	
D	Obligations are currently in default.

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



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

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

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

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

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

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

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

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

<p>Entities</p> <ul style="list-style-type: none"> 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 	<p>Instruments</p> <ul style="list-style-type: none"> a) Basel III Compliant Debt Instrument Rating b) Debt Instrument Rating c) Sukuk Rating
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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.

(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)

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