



The Pakistan Credit Rating Agency Limited

## Rating Report

### Sadiq Poultry (Pvt.) Limited

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
10-Mar-2022	BBB+	A2	Stable	Maintain	Yes
14-Sep-2021	BBB+	A2	Stable	Maintain	-
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

The poultry industry is one of the largest agro-based segments in Pakistan, comprising domestic & commercial poultry. The industry has posted annual growth of ~ 10%-12% lately. Pakistan is sufficient in poultry meat and egg production. However, per capita protein consumption remains low (11th) when compared to the world's average. The industry generates an estimated annual revenue of ~ PKR 1,092bln from local and export sales during FY21. The industry has witnessed recovery after the dip in prices and demand amidst the pandemic. Subsequently, prices of poultry products, especially day-old chicks, witnessed a hike and benefited the players involved in the poultry allied chain. Increasing demand, and hence, prices eased down the liquidity problems of the industry. Moreover, SBP measures have provided respite. As business avenues became operational, demand for poultry products is likely to stay favorable for the industry players.

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. Post Dr. Sadiq's demise, the new Sponsors have initiated a transition in shareholding and division of hatcheries and breeder farms of the Company. The division is currently in process, and is between the two families of Dr. Sadiq; Mr. Asif Zubair & Mr. Salman Sadiq and Ms. Saadia Sadiq & sons. Till date, two layer units and three breeder farms have been transferred to Sadiq Feed, a group company. Whereas, it is currently not decided who will own and manage the remaining farms.

The ratings are dependent on the Sponsor's ability to transfer the ownership and assets of the Company while maintaining harmony. This along with the management's ability to prudently manage business risk for perishable consumer products, while sustaining business margins. Going forward, continued harmonization between Sponsors and consistent generation of sustainable operational cashflows is important.

#### Disclosure

<b>Name of Rated Entity</b>	Sadiq Poultry (Pvt.) 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),Criteria   Rating Modifiers(Jun-21)
<b>Related Research</b>	Sector Study   Poultry(Sep-21)
<b>Rating Analysts</b>	Shayan Farooq   shayan.farooq@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 engaged in operating poultry breeding units/farms, broiler production farms, commercial egg production and layer units, poultry hatcheries, livestock pharmaceuticals, grain storage and livestock feeds, and organic fertilizer plants.

## Ownership

**Ownership Structure** The shareholding is divided between Dr. Sadiq's two wives and six children: Salman Sadiq (42%), Asif Zubair (25%), Sanan Sadiq (9%), Saad Sadiq (9%), Saima Elahi (4%), Ayesha Bilal (4%), Rasheeda Begum (3%) and Saadia Sadiq (3%).

**Stability** The Company's succession to new sponsors has been completed.

**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** At the end of FY20, Sadiq Group has consolidated equity of PKR 11bln. Moreover, group is managing an asset base of PKR 40bln. Through its diverse set of businesses, it is generating a turnover of almost PKR 43bln.

## Governance

**Board Structure** The Board consists of four members, including one executive and three non-executive members. The Company's Board lacks independence, indicating room for improvement in the governance framework.

**Members' Profile** Mr. Asif Zubair is the Chairman and CEO of the Board, whereas Mr. Salman Sadiq, Ms. Rasheeda Begum and Ms. Saadia Sadiq are the non-executive members. Mr. Asif Zubair and Mr. Salman Sadiq, are US graduates and have experience of more than 10 years.

**Board Effectiveness** During the year, 3 board meetings were held, with majority attendance. Board meeting minutes are not much detailed and lack depth.

**Financial Transparency** The external auditors of the Company are Muniff Ziauddin and Co Chartered Accountants, have been QCR rated by ICAP. Also have been placed in 'category A by SBP'. They have given an unqualified opinion for the year ended Jun-20.

## Management

**Organizational Structure** The organization structure implies that Head Office oversees all the farms. These include: i) Breeder farms (KPK and Punjab region) ii) Layer farms iii) Broiler farms and iv) Hatcheries. Sales & production are monitored by GM Production. Whereas, support departments work as shared services for the group. All departments eventually report to the Chief Executive Officer.

**Management Team** Post Dr. Sadiq's demise, Mr. Asif Zubair has been appointed as the CEO of the Company. He is assisted by Mr. Naeem Haider, the Group CFO. He possess more than 25 years of overall experience and has been associated with the Group for more than 2 decades.

**Effectiveness** Management ensures 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.

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**Control Environment** The internal audit department has been established at group level. Financial information is timely disclosed.

## Business Risk

**Industry Dynamics** Poultry industry is one of the largest agro based segment in Pakistan, comprising domestic & commercial poultry. The industry has posted an annual growth of ~ 10%-12% 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 1,082bln from local and export sales. Due to Covid-19 outbreak, marriage halls/restaurants were closed. This, 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 despite being an essential food item due to lower demand with many poultry farms becoming non-operational. Demand, and hence, prices have recovered lately, easing down the liquidity problems of the industry. Moreover, SBP measures have provided respite. As business avenues became operational, demand for poultry products has improved.

**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 (42%), day old chicks (39%) and breeder eggs - (8%). Sadiq Poultry reaped a revenue of PKR 10.7bln in 3QFY21 (3QFY20: PKR 6.7bln). This was mainly attributable to better volume and stable prices of Eggs and day old chicks, as the countrywide reopening of restaurants and marriage halls improved the demand.

**Margins** Though revenue has remained stable, gross margin has decreased minutely from 14% in 3QFY20 to 13% in 3QFY21. Ease in lock down and revival of demand in the economy has pushed up the prices of meat products again. Stable borrowings to meet the working capital needs and lower interest rate kept the finance cost relatively low at PKR 211mln in 3QFY21 (3QFY20: PKR 283mln). Resultantly, the Company achieved an increased bottom-line of PKR 783mln in 3QFY21 (3QFY20: PKR 203mln). This translated into a significantly improved net margin of 7% (3QFY20: 3%).

**Sustainability** Post Dr. Sadiq demise and transfer of shareholding, the Company's ownership and management have been stabilized. On the industry's front, the uncertainty due to the COVID-19 outbreak created challenges in the previous period. Sustaining operations and generating adequate revenues will be tough if the lockdown is enforced again for longer periods.

## Financial Risk

**Working Capital** Inventory held days have improved to 91 days during 3QFY21 (3QFY20: 131 days). As the restaurants and marriage halls were opened, the Company's stock offtake improved. Average debtor days remained stable at 40 days in 3QFY21 from 39 days in 3QFY20 suggests that the Company is relying on credit sales. There is a special management group that works only on recovery. The receivables stand at PKR 1,723mln in 3QFY21 (3QFY20: PKR 830mln) and has inflated over time. Creditors' days of 17 (3QFY20: 21 days) suggests that most of the raw material purchased is on cash. Procurement of parent flock is the most expensive item. Net working capital days stood at 115, from 149 days in 3QFY20.

**Coverages** The Company's interest coverage increased to 12.6x during 3QFY21 (3QFY20: 4x) on the back of better free cashflows (3QFY21: PKR 1.9bln, 3QFY20: 902mln) and decreased finance costs (3QFY21: PKR 211mln, 3QFY20: PKR 203mln). Similarly, core and total coverages posted a surge (3QFY21: 5.5x, 3QFY20: 2.2x).

**Capitalization** Keeping the nature of business in view, working capital requirement is moderate. Short term borrowings stood at PKR 2,115mln (3QFY20: PKR 2,062mln). Long term debt stood at PKR 607mln as at 3QFY21 (3QFY20: PKR 389mln). As at 3QFY21, Sadiq Poultry's capital structure suggests that the Company has a modest debt to debt plus equity ratio of 32% (3QFY20: 34%).



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Financial Summary  
PKR mln

Sadiq Poultry Private Limited Poultry	Mar-21 9M	Dec-20 6M	Sep-20 3M	Jun-20 12M	Jun-19 12M	Jun-18 12M
<b>A BALANCE SHEET</b>						
1 Non-Current Assets	3,517	3,610	3,704	3,760	4,426	4,416
2 Investments	-	-	-	-	-	-
3 Related Party Exposure	280	280	280	280	280	-
4 Current Assets	8,828	8,245	6,872	6,732	5,337	5,407
<i>a Inventories</i>	3,499	3,953	3,921	3,672	3,048	2,358
<i>b Trade Receivables</i>	1,723	1,856	1,439	1,438	1,094	1,405
5 Total Assets	12,624	12,135	10,856	10,772	10,043	9,823
6 Current Liabilities	3,854	3,402	2,673	1,778	1,551	1,546
<i>a Trade Payables</i>	817	752	768	524	506	471
7 Borrowings	2,722	2,756	2,745	2,731	2,673	3,281
8 Related Party Exposure	-	189	-	999	573	-
9 Non-Current Liabilities	328	328	328	328	407	440
10 Net Assets	5,720	5,460	5,111	4,937	4,839	4,556
11 Shareholders' Equity	5,720	5,460	5,111	4,937	4,839	4,556
<b>B INCOME STATEMENT</b>						
1 Sales	10,729	6,677	2,985	8,138	8,124	9,451
<i>a Cost of Good Sold</i>	(9,333)	(5,747)	(2,600)	(7,158)	(6,929)	(8,202)
2 Gross Profit	1,396	930	386	980	1,195	1,249
<i>a Operating Expenses</i>	(499)	(346)	(179)	(709)	(652)	(687)
3 Operating Profit	897	584	207	271	543	562
<i>a Non Operating Income or (Expense)</i>	97	76	35	198	81	74
4 Profit or (Loss) before Interest and Tax	993	661	242	469	624	636
<i>a Total Finance Cost</i>	(211)	(138)	(68)	(369)	(310)	(293)
<i>b Taxation</i>	-	-	-	27	(30)	(68)
6 Net Income Or (Loss)	783	523	173	127	284	275
<b>C CASH FLOW STATEMENT</b>						
<i>a Free Cash Flows from Operations (FCFO)</i>	1,968	523	173	664	849	1,374
<i>b Net Cash from Operating Activities before Working Capital</i>	1,737	523	173	296	571	1,087
<i>c Changes in Working Capital</i>	(1,091)	-	-	173	964	(601)
1 Net Cash provided by Operating Activities	646	523	173	469	1,535	486
2 Net Cash (Used in) or Available From Investing Activities	(500)	-	-	(38)	(1,193)	(554)
3 Net Cash (Used in) or Available From Financing Activities	(145)	-	-	(158)	(442)	121
4 Net Cash generated or (Used) during the period	1	523	173	273	(100)	53
<b>D RATIO ANALYSIS</b>						
1 Performance						
<i>a Sales Growth (for the period)</i>	75.8%	64.1%	46.7%	0.2%	-14.0%	-11.5%
<i>b Gross Profit Margin</i>	13.0%	13.9%	12.9%	12.0%	14.7%	13.2%
<i>c Net Profit Margin</i>	7.3%	7.8%	5.8%	1.6%	3.5%	2.9%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital) / Net Profit Margin</i>	8.2%	7.8%	5.8%	10.3%	22.3%	8.2%
<i>e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets / Equity)]</i>	19.7%	20.3%	13.6%	2.7%	5.9%	6.6%
2 Working Capital Management						
<i>a Gross Working Capital (Average Days)</i>	132	149	160	207	178	132
<i>b Net Working Capital (Average Days)</i>	115	132	140	184	156	118
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	2.3	2.4	2.6	3.8	3.4	3.5
3 Coverages						
<i>a EBITDA / Finance Cost</i>	12.7	4.9	3.2	2.1	3.6	7.5
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	5.5	2.2	1.6	1.3	1.5	1.7
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Fin)</i>	0.3	1.0	1.4	2.4	1.2	1.0
4 Capital Structure						
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	32.2%	35.0%	34.9%	36.7%	37.2%	41.9%
<i>b Interest or Markup Payable (Days)</i>	97.5	86.2	114.6	82.6	109.3	0.0
<i>c Entity Average Borrowing Rate</i>	7.5%	7.7%	8.1%	12.3%	8.3%	5.9%

**Credit Rating**

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

Scale	Long-term Rating Definition
AAA	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	<b>Very high credit quality.</b> Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
AA-	
A+	
A	<b>High credit quality.</b> Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
A-	
BBB+	
BBB	<b>Good credit quality.</b> Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BBB-	
BB+	<b>Moderate risk.</b> Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
BB	
BB-	
B+	
B	<b>High credit risk.</b> A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
B-	
CCC	
CC	<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.
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><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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- (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)
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- (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)
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- (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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