The Pakistan Credit Rating Agency Limited

# Rating Report

# Al-Abbas Sugar Mills Limited

**Report Contents**



**Rating History**

| Dissemination Date | Long Term Rating | Short Term Rating | Outlook | Action | Rating Watch |
|---|---|---|---|---|---|
| 28-Oct-2019 | A+ | A1 | Stable | Maintain | - |
| 08-May-2019 | A+ | A1 | Stable | Upgrade | - |
| 06-Nov-2018 | A | A1 | Positive | Maintain | - |
| 09-May-2018 | A | A1 | Stable | Maintain | - |
| 30-Sep-2017 | A | A1 | Stable | Maintain | - |
| 30-Mar-2017 | A | A1 | Stable | Maintain | - |
| 31-Mar-2016 | A | A1 | Stable | Maintain | - |
| 10-Jun-2015 | A | A1 | Stable | Maintain | - |
| 26-Jun-2014 | A | A1 | Stable | Maintain | - |

## Rating Rationale and Key Rating Drivers

The sugar industry of Pakistan has remained under pressure in recent times. A persistent supply glut negatively impacted players across the industry. Additionally, slowdown in international sugar prices rendered domestically manufactured sugar uncompetitive, making exports viable only through subsidy support. However, prices during the current season (MY19) have improved owing to lower sugar production and depletion of carryover stock. This has impacted profitability for industry players positively. Moreover, retirement of subsidy amount due by the government has eased the liquidity pressure to an extent.

The ratings reflect the Company's diversified revenue stream, emanating from sugar, ethanol and storage facilities strong margins and sustained profitability mitigating volatility and industry specific risks. Margins in the sugar industry were depressed due to persistent supply glut and substantial carry over stock. However, a shorter crop during MY19 has inflated sugar prices, providing relief to mills across the country. The Company has successfully maintained healthy margins over the years owing to efficient operations and diversification despite volatile market conditions. Well thought investment in storage tank terminals provides an additional cushion to cashflows throughout the year. Ratings draw strength from the Company’s robust governance framework and strong financial profile represented by a modestly leveraged capital structure, strong coverages and efficient management of working capital.

The ratings are dependent on the Company's ability to sustain its margins and healthy coverages while maintaining necessary cushion and discipline in working capital management. Significant deterioration of relationship between shareholders leading to adverse impact on the Company's profile and/or excessive borrowings resulting in declining coverages will have a negative impact on ratings.

| Disclosure | |
|---|---|
| **Name of Rated Entity** | Al-Abbas Sugar Mills Limited |
| **Type of Relationship** | Solicited |
| **Purpose of the Rating** | Entity Rating |
| **Applicable Criteria** | Methodology \| Corporate Ratings(Jun-19),PACRA_Crtieria_LT ST Relationship_FY19(Jun-19),PACRA_Criteria_Rating Modifiers_FY19(Jun-19) |
| **Related Research** | Sector Study \| Sugar(Oct-19) |
| **Rating Analysts** | Ayesha Malik \| ayesha.malik@pacra.com \| +92-42-35869504 |

## Profile

**Legal Structure** Al-Abbas Sugar Mills Limited (the Company) is a public listed company.

**Background** The Company was incorporated in May, 1991 with its principle activity as the sale and manufacturing of white refined sugar. Commercial operations commenced in December, 1993. Subsequently, the company set-up two distillery plants. Unit I was set-up in 2000 and Unit II in 2004.

**Operations** The Company has its head office located in Karachi, with the mill and Unit II located in Mirpurkhas. Unit I is located in Mirwah Gorchani. Rated crushing capacity for the mill stands at 7,500 TCD and the distilleries have a combined capacity to produce 172,500 liters of Ethanol per day (Unit I: 85,000 Liters; Unit II: 87,500 Liters). The Company witnessed a decline in production during MY19 amid lower crop availability across the country. During the season, the Company produced 50,892 MT (MY18: 74,387 MT) of sugar, reduced by ~32%. Moreover, a relatively low recovery rate of 10.88% (MY18: 11.17%) was achieved. Ethanol production during 9MMY19 grew by ~7% and stood at 33,096 MT (9MMY18: 30,991 MT). The Company also operates 12 tank terminals which have a combined storage capacity of 22,850 MT per month for the storage of ethanol and petroleum products.

## Ownership

**Ownership Structure** Major shareholding of the Company lies with Haji Ghani Group (58%) followed by JS Group (27%). Remaining shareholding is split between the general public and financial institutions.

**Stability** The two major shareholders of the Company are involved in a long standing dispute since 2013. Legal proceedings in this regard are being carried out in Sindh High Court and outcome is pending.

**Business Acumen** The Company has strong acumen through Jahangir Siddique (JS Group) and Haji Ghani Group. Among the main sponsors, Mr Haji Abdul Ghani holds experience of chairing the board of various brokerage firms. He has also served as the Vice Chairman of Pakistan Stock Exchange, twice. Haji Ghani Group was previously involved in the cement sector. While, JS Group is a diversified and well-known conglomerate with interests in brokerage, asset management, commercial banking, and insurance.

**Financial Strength** The Company is the flagship entity of Haji Ghani Group and has maintained stable profits over the years supported by a sufficient equity base of ~PKR 3bln at end June, 2019.

## Governance

**Board Structure** Board of Directors comprises nine members with one executive member and eight non-executive members, including two independent member. The Board is Chaired by an Independent Director and is dominated by Haji Ghani Family with seven nominee members.

**Members' Profile** Board members have strong profiles and specialize in financial services, in addition to sugar and ethanol. During the year Mr. Zakria Usman was appointed as Chairman of the Board. Mr. Muhmmad Iqbal Usman, Mr. Duraid Qureshi and Mr. Irfan Nasir Cheema resigned from the directorship of the Company. They were subsequently replaced by Mr. Shahid Hussain Jatoi, Mr. Muhammad Siddiq Khokar, Mr. Salman Hussain Chawla and Mr. Haroon Askari.

**Board Effectiveness** The Company has in place three committees, namely, Audit Committee, HR and Remuneration Committee and Risk Management Committee. Mr. Haroon Askari (Independent Director) chairs the Audit and Risk Management Committees, whereas, Mr. Hussain Chawala (Non-executive Director) chairs the HR Committee.

**Financial Transparency** M/s Reanda Haroon Zakria & Co., Chartered Accountants, classified in category 'B' by SBP and having a satisfactory QCR rating, are the external auditors of the Company. They have expressed an un-qualified opinion on the financial statements for the year ending in Sept'18.

## Management

**Organizational Structure** The Company has a well-defined organizational structure, whereby department heads have direct reporting lines to the CEO. The five departments comprise: a) Finance, b) Administration / Human resource, c) Procurement / Purchase, d) Audit, and e) Plant Operations.

**Management Team** Mr Asim Ghani, Chief Executive Officer, was appointed in Dec'17, in place of Mr Shunaid Qurieshi. Mr Ghani has been associated with the Company for a considerable amount of time and previously overlooked the operational aspects as an Executive Director. He is aided by Mr Samir Hajani, who has recently been appointed as Chief Financial Officer, while, Mr. Zuhair Abbas continues his role as Company Secretary.

**Effectiveness** The Company lacks presence of management committees. However, financial accounts are discussed frequently among management to review activity.

**MIS** The Company has deployed Oracle R-12 as its Enterprise Resource and Planning (ERP) system, enabling it to generate various reports for effective management and decision making.

**Control Environment** The Company's internal audit department ensures compliance and efficiency by conducting quarterly evaluations with reporting to the Audit Committee.

## Business Risk

**Industry Dynamics** Pakistan's sugar industry is the 2nd largest agro based industry, comprising ~90 mills with annual crushing capacity estimated around 65 – 70 mln MT. The industry was under pressure lately owing to a supply glut over the previous seasons, combined with distortion in the support price mechanism. Additionally, a slowdown in international sugar prices have made exports viable only through subsidy support. During MY19, overall sugar production fell by ~20%, YoY, to 5.3 mln MT on the back of lower crop availability. The government approved an export quota of 1.1mln tons. However, no subsidy was announced at federal level, leading to low quantities availed. Local prices have increased owing to lower carry over stock and supply side constraints. During the FY20 Budget, sales tax levied on sugar was increased to 17%, charged on the price of PKR 60/KG, effective from July 1, 2019.

**Relative Position** Owing to high number of players in the industry, companies relatively have low market share. The Company had a market share of ~ 1% during MY19.

**Revenues** The Company's revenue stream comprises of two segments, sugar and ethanol, with ethanol contributing the major share of 60% during 9MMY19. During the period, the Company witnessed a 16%, YoY, decline in net revenue standing at ~PKR 4,963mln (9MMY18: PKR 5,903mln). Decline is solely a factor of low sugar sales, reduced by ~40% to ~PKR 1,990mln in 9MMY19. The Company held the inventory to realize high prices. However, impact of lower units sold was partly offset by improved domestic prices. Meanwhile, revenue from the distillery segment increased by 16% to ~PKR 2,973mln on the back of improved international prices.

**Margins** The Company was adversely impacted by poor performance by the sugar division due to inflated raw material costs leading to squeezed segmental margins. However, solid performance by the distillery division on the back of favorable prices led to a nominal increase in margins. During 9MMY19, gross margin improved to ~25% (9MMY18: ~24%), whereas, operating margin was maintained at ~18%. The Company's overall profitability is supported through supplementary income from its bulk storage terminal, interest income on term deposits and dividend income on investments. During 9MMY19, the Company received relatively lower income from these avenues. However, due to only a marginal increase in finance costs, net margin improved to 15% (9MMY18: 14%).

**Sustainability** The Company has no upcoming plans relating to expansion and is expected not to engage in long-term borrowings. .

## Financial Risk

**Working Capital** The Company has been consistent in maintaining a strong working capital position over the years despite seasonality in the industry. Net working capital days during 9MMY19 increased only marginally to 88 days (9MMY18: 86 days) reflecting effective management and policies. Additionally the Company maintained a healthy short-term cushion owing to conservative borrowings and internal cash generation, supporting its overall position.

**Coverages** The Company registered a significant improvement in coverage ratios during 9MMY19 owing to higher FCFO and lower interest costs, due to cheap rates availed through export refinance. During 9MMY19, the Company posted an interest coverage of 20.5x (9MMY18: 6.9x). Solid business performance and a conservative debt mix led the Company in maintaining healthy coverages.

**Capitalization** The Company's capital structure is comprised solely of short-term borrowings, utilized for working capital requirements. During 9MMY19, total debt increased to PKR 1,761mln, as compared to PKR 1,669mln in 9MMY18. Increased borrowings were expected and coincide with the Company's crushing cycle, lasting for 84 days and concluded on 6th Mar'19. Debt levels are expected to decline and normalize in the subsequent two quarters as sales are made.

The Pakistan Credit Rating Agency Limited

*Financial Summary*
*PKR mln*

| Al-Abbas Sugar Mills Limited<br>Sugar | Jun-19<br>9M | Sep-18<br>12M | Jun-18<br>9M | Sep-17<br>12M | Jun-17<br>9M | Sep-16<br>12M |
|---|---|---|---|---|---|---|
| **A BALANCE SHEET** | | | | | | |
| 1 Non-Current Assets | 1,664 | 1,525 | 1,526 | 1,599 | 1,628 | 1,695 |
| 2 Investments | 634 | 655 | 681 | 710 | 1 | 436 |
| 3 Related Party Exposure | - | 0 | - | 0 | 843 | 0 |
| 4 Current Assets | 4,228 | 3,426 | 4,211 | 2,863 | 3,699 | 1,181 |
| *a Inventories* | *2,776* | *1,905* | *2,635* | *1,963* | *2,962* | *707* |
| *b Trade Receivables* | *14* | *244* | *441* | *28* | *274* | *41* |
| **5 Total Assets** | 6,526 | 5,607 | 6,418 | 5,171 | 6,171 | 3,312 |
| 6 Current Liabilities | 1,552 | 1,201 | 1,458 | 771 | 739 | 887 |
| *a Trade Payables* | *940* | *800* | *982* | *376* | *313* | *396* |
| 7 Borrowings | 1,761 | 702 | 1,669 | 1,789 | 2,623 | 16 |
| 8 Related Party Exposure | - | - | - | - | - | - |
| 9 Non-Current Liabilities | 114 | 110 | 118 | 103 | 81 | 74 |
| **10 Net Assets** | 3,098 | 3,594 | 3,173 | 2,508 | 2,728 | 2,335 |
| **11 Shareholders' Equity** | 3,098 | 3,594 | 3,173 | 2,508 | 2,729 | 2,335 |
| **B INCOME STATEMENT** | | | | | | |
| **1 Sales** | 4,963 | 7,494 | 5,903 | 5,327 | 4,027 | 5,794 |
| *a Cost of Good Sold* | *(3,709)* | *(5,421)* | *(4,477)* | *(4,816)* | *(3,533)* | *(5,030)* |
| **2 Gross Profit** | 1,254 | 2,073 | 1,426 | 511 | 494 | 764 |
| *a Operating Expenses* | (372) | (610) | (348) | (247) | (182) | (230) |
| **3 Operating Profit** | 883 | 1,464 | 1,078 | 264 | 312 | 533 |
| *a Non Operating Income or (Expense)* | *(19)* | *(29)* | *(52)* | *56* | *34* | *77* |
| **4 Profit or (Loss) before Interest and Tax** | 864 | 1,435 | 1,027 | 319 | 346 | 610 |
| *a Total Finance Cost* | *(51)* | *(64)* | *(51)* | *(112)* | *(82)* | *(85)* |
| *b Taxation* | *(62)* | *(77)* | *(143)* | *(64)* | *(48)* | *(67)* |
| **6 Net Income Or (Loss)** | 751 | 1,294 | 833 | 143 | 216 | 458 |
| **C CASH FLOW STATEMENT** | | | | | | |
| *a Free Cash Flows from Operations (FCFO)* | *927* | *701* | *348* | *342* | *355* | *693* |
| *b Net Cash from Operating Activities before Working Capital Changes* | *911* | *630* | *306* | *254* | *308* | *616* |
| *c Changes in Working Capital* | *(515)* | *710* | *132* | *(1,817)* | *(2,690)* | *293* |
| **1 Net Cash provided by Operating Activities** | 396 | 1,339 | 438 | (1,563) | (2,383) | 909 |
| **2 Net Cash (Used in) or Available From Investing Activities** | (442) | (28) | (7) | (90) | (88) | (9) |
| **3 Net Cash (Used in) or Available From Financing Activities** | 73 | (1,223) | (257) | 1,618 | 2,453 | (883) |
| **4 Net Cash generated or (Used) during the period** | 26 | 88 | 174 | (35) | (17) | 17 |
| **D RATIO ANALYSIS** | | | | | | |
| **1 Performance** | | | | | | |
| *a Sales Growth (for the period)* | -11.7% | 40.7% | 47.7% | -8.1% | -7.3% | -- |
| *b Gross Profit Margin* | 25.3% | 27.7% | 24.2% | 9.6% | 12.3% | 13.2% |
| *c Net Profit Margin* | 15.1% | 17.3% | 14.1% | 2.7% | 5.4% | 7.9% |
| *d Cash Conversion Efficiency (EBITDA/Sales)* | 20.2% | 10.4% | 6.9% | 8.6% | 11.1% | 13.2% |
| *e Return on Equity (ROE)* | 29.9% | 42.4% | 39.1% | 5.9% | 11.4% | 20.1% |
| **2 Working Capital Management** | | | | | | |
| *a Gross Working Capital (Average Days)* | 136 | 101 | 117 | 94 | 135 | 94 |
| *b Net Working Capital (Average Days)* | 88 | 72 | 86 | 67 | 111 | 69 |
| *c Current Ratio (Total Current Assets/Total Current Liabilities)* | 2.7 | 2.9 | 2.9 | 3.7 | 5.0 | 1.3 |
| **3 Coverages** | | | | | | |
| *a EBITDA / Finance Cost* | 22.2 | 12.2 | 8.1 | 4.1 | 5.5 | 9.0 |
| *b FCFO / Finance Cost+CMLTB+Excess STB* | 20.5 | 10.9 | 6.9 | 3.0 | 4.3 | 8.1 |
| *c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)* | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **4 Capital Structure (Total Debt/Total Debt+Equity)** | | | | | | |
| *a Total Borrowings / Total Borrowings+Equity* | 36.2% | 16.3% | 34.5% | 41.6% | 49.0% | 0.7% |
| *b Interest or Markup Payable (Days)* | 82.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| *c Average Borrowing Rate* | 4.9% | 5.1% | 3.9% | 12.5% | 8.3% | 36.2% |

# Rating Scale | Corporate

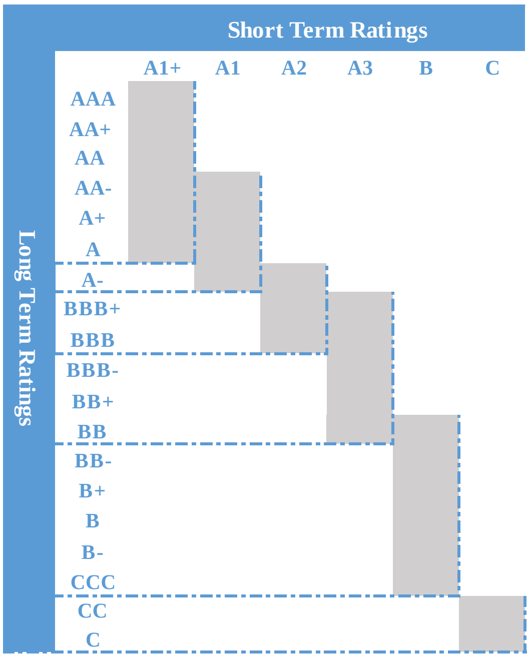
2019

## Credit Rating Scale & Definitions

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

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

| Short Term Ratings | |
|---|---|
| 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. |
| B | The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. |
| C | An inadequate capacity to ensure timely repayment. |




**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, a) some material identifiable event and/or b) deviation from expected trend. 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 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) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults., or/and f) PACRA finds it impractical to surveill the opinion due to lack of requisite information.

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

## Regulatory and Supplementary Disclosure

(Credit Rating Companies Regulations,2016)

**Rating Team Statements**

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

2) **Conflict of Interest**

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

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

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

**Restrictions**

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

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

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

**Conduct of Business**

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

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

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

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

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

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

**Independence & Conflict of interest**

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

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

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

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

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

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

**Monitoring and review**

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

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

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

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

**Probability of Default**

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

**Proprietary Information**