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
12-Apr-2021	A+	A1	Stable	Maintain	-
21-Apr-2020	A+	A1	Stable	Maintain	-
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	-

Rating Rationale and Key Rating Drivers

Pakistan’s sugar industry is the 2nd largest agro based industry, comprising 90 mills with annual crushing capacity estimated around 65 – 70mln MT. The industry has overcome the oversupply challenge. However, support price, set by considering the cost incurred by farmers, remains a constraint. During MY20, the overall sugar production fell by 6%, YoY, to 4.9mln MT on the back of lower crop availability. Surge in local sugar prices was witnessed due to low inventory levels. Increased sales tax of 17% (previously 8%) levied on sugar, contributed to higher prices. International sugar prices remain attractive but the Government has prohibited exports. In the current crushing season, the Government increased support price to PKR 200 per maund (crushing season of MY20: PKR 190 per maund) but sugarcane price at mill gate was even higher. Lately, the Government has decided to import 0.3mln MT of sugar to curb the increase in sugar prices. Out of which, around 0.15mln MT of sugar has already been imported till Oct-20. Local sugar production in MY21 is expected to be ~ 12 to 15% higher than MY20. Margins are expected to remain stable and the players will have adequate cash flows, going forward.
The ratings reflect the Company's diversified revenue stream, emanating from sugar, ethanol and storage facilities, supplementing robust margins and sustained profitability. This provides competitive advantage to the Company mitigating volatility and industry specific risks. Relatively lower sugarcane availability in MY20 has resulted in rising sugar prices and in turn better profits from sugar segment. The Company has successfully maintained healthy margins over the years owing to efficient operations and diversification despite volatile market conditions. Investment in storage tank terminals provides an additional cushion to cashflows. Ratings draw strength from the Company’s very strong financial profile represented by a modestly leveraged capital structure, very strong coverages, efficient management of working capital, and strong governance.

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 among 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-20),Methodology | Correlation Between Long-Term And Short-Term Rating Scale(Jun-20),Criteria | Rating Modifier(Jun-20)
Related Research	Sector Study | Sugar(Dec-20)
Rating Analysts	Faiqa Qamar | faiqa.qamar@pacra.com | +92-42-35869504

Profile

Legal Structure Al-Abbas Sugar Mills Limited ('Al-Abbas Sugar' or 'the Company') is a public listed company, incorporated in May 1991.

Background The Company's started with manufacturing and sale of white refined sugar as commercial operations commenced in December 1993. Subsequently, the Company set-up two distillery plants in 2000 (Unit I) and 2004 (Unit II). The Company also built storage terminals later on.

Operations The Company's head office is located in Karachi, with the mill and Unit II located in Mirpurkhas. Unit I is located in Mirwah Gorchani. Mill's rated crushing capacity stands at 8,500 MT per day and the distilleries have a combined capacity to produce 170,000 liters of Ethanol per day (Unit I: 85,000 Liters; Unit II: 85,000 Liters). The Company witnessed a decline in production during MY20 amid low crop availability across Sindh, and produced 42,959 MT (MY19: 50,892 MT) of sugar, down by 16%. A relatively low recovery rate of 10.82% (MY19: 10.88%) was achieved. Ethanol production stood at 32,593 MT. The Company also operates 12 tank terminals, having a combined storage capacity of 22,850 MT per month to store ethanol and petroleum products.

Ownership

Ownership Structure Haji Ghani family and associates own majority shareholding (58%) in the Company, followed by Jahangir Siddiqui (JS) group (29%). Around 10% of the Company's shares float freely in the market.

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. However, the management believes that the case will be decided in the favour of the Company.

Business Acumen The sponsors (Haji Ghani Group and Jahangir Siddique Group) have strong business track record. Mr. Haji Abdul Ghani holds experience of chairing the board of various brokerage firms and has served as the Vice Chairman of Pakistan Stock Exchange. Haji Ghani Group was previously involved in the cement sector. JS Group is a diversified conglomerate with interests in brokerage, asset management, commercial banking and insurance among others.

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 3.7bln as at Dec-20.

Governance

Board Structure The BoD comprises nine members with one executive member and eight non-executive members, including three independent members and two female directors. The BoD is chaired by a non-executive director, and is dominated by Haji Ghani Family with seven nominee members.

Members' Profile The BoD members have strong profiles and specialize in financial services, in addition to sugar and ethanol. Mr. Zakaria Usman is the current chairman of BoD.

Board Effectiveness The Company has in place three committees, namely, Audit Committee, HR & Remuneration Committee and Risk Management Committee. Mr. Haroon Askari (Independent Director) chairs the Audit and Risk Management Committees, whereas, Mr. Salman Hussain Chawala (Non-executive Director) chairs theHR & Remuneration 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 since 2014. They have expressed an unqualified opinion on the financial statements for the year ending in Sep-20.

Management

Organizational Structure Al-Abbas Sugar has a well defined organizational structure, whereby department heads have direct reporting lines to the CEO. The five departments comprise: Finance, Administration / Human resource, Procurement / Purchase, Audit, and Plant Operations.

Management Team Mr. Asim Ghani is the CEO since Dec-17. Mr. Ghani previously overlooked the operational aspects of Al-Abbas as an Executive Director and has been associated with Company for 22 years. Mr. Samir Hajani, the Chief Financial Officer, has been associated with the Company for the past 10 years.

Effectiveness The long association of the Company's senior management ensures consistency in overall policies and strengthens the management structure. However, the Company lacks presence of management committees.

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

Control Environment The 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 – 70mln MT. The industry has overcome the oversupply challenge. However, support price, set by considering the cost incurred by farmers, remains a constraint. During MY20, the overall sugar production fell by 6%, YoY, to 4.9mln MT on the back of lower crop availability. Surge in local sugar prices was witnessed due to low inventory levels. Moreover, increased sales tax of 17% (previously 8%) levied on sugar, charged on the price of PKR 60/KG, contributed to higher prices. International sugar prices remain attractive, however, exports were prohibited by the Government (previously, allowed sugar export quota was upto 1.1mln MT). In the current crushing season, the Government increased the support price to PKR 200 per maund (crushing season of MY20: PKR 190 per maund). However, actual realized sugarcane price at mill gate was even higher. Lately, the Government has decided to import 0.3mln MT of sugar to curb the increase in sugar prices. Out of which, around 0.15mln MT of sugar has already been imported till Oct-20. However, from the current crushing, overall local sugar production is expected to be ~ 12 to 15% higher than MY20. Margins are expected to remain stable, going forward. The industry players may remain afloat with adequate cash flows in the near-term.

Relative Position Owing to numerous industry players, companies relatively have low market share. Al-Abbas Sugar contributes ~ 0.8% to the total sugar production and~ 6% to the total ethanol production of Pakistan.

Revenues The Company generates revenue by manufacturing and selling sugar (49%) and ethanol (51%). Sugar is sold in the local market, while ethanol is mainly (~ 95%) exported. During MY20, the Company's overall revenue posted a surge of ~14% (MY20: PKR 8.15bln, MY19: PKR 7.17bln), attributable to increase in sugar and ethanol prices. Revenue from both, sugar and ethanol segments witnessed an increase of 14% and 9.5%, respectively. Sales volume, however, remain low. During 1QMY21, overall revenue posted a dip by 17%, standing at PKR 1.5bln mainly due to lower offtake.

Margins The Company's sugar division performance was impacted, mainly due to inflated raw material costs. However, solid performance by the distillery division on the back of high prices led to a nominal increase in margins. During MY20, overall margins posted a sight increase (Gross: MY20: 26%, MY19: 26% and Operating: MY20: 21% MY19: 18%). Net profit was supplemented by storage tank terminal income (MY20: PKR 12mln, MY19: PKR 79mln). The Company posted a net profit of PKR 1.24bln in MY20 (MY19: PKR 1.11bln), translating into a net margin of 15% in MY20 (MY19: 16%). During 1QMY21, gross margin improved to 26%, (1QMY20: 24%), whereas, net profit stood at PKR 314mln (1QMY20: PKR 300mln).

Sustainability Going forward, the Company performance will largely depend on the sugar division, and its industry dynamics. Meanwhile, the Company is expected to continue it's stable performance in ethanol and storage terminal operations to maintain profitability.

Financial Risk

Working Capital The Company's net working cycle improved (MY20: 17 days, MY19: 44 days) due to a decline in inventory held days (MY20: 54 days, MY19: 83 days), while, receivable days remain stable (MY20: 8 days, MY19: 8 days). Similarly in 1QMY21, the net working cycle days increased to 61 days (1QMY20: 16 days) on the back of higher inventories' days (1QMY21: 108 days 1QMY20: 83 days).

Coverages The Company maintains strong coverage ratios. During MY20, interest coverage improved to 35x (MY19: 21x) due to improved FCFO (MY20: 1.6bln, MY19: PKR 1.2bln) and low interest rates availed through export refinance. Core and total coverage remained stable (MY20: Core and Total - 21x, MY19: Core and Total - 21x). In 1QMY20, the Company further managed to improve it's FCFO resulting in improved interest cover (1QMY21: 31x, 1QMY20: 26x).

Capitalization The Company has low leveraging ratio at 28% in MY20 (MY19: 34%). Total debt posted a decrease and stands at PKR 1.3bln in MY20 (MY19: PKR 1.6bln). Total debt constitutes of short-term borrowings mainly, used to finance working capital requirements. Leveraging stood at 32% in 1QMY21 (1QMY20: 32%).

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

Al Abbas Sugar Mills Limited	Dec-20	Sep-20	Jun-20	Mar-20	Dec-19	Sep-19	Jun-19	Mar-19	Sep-18
Sugar	3M	12M	9M	6M	3M	12M	9M	6M	12M
A BALANCE SHEET									
1 Non-Current Assets	1,585	1,614	1,643	1,665	1,665	1,646	1,664	1,517	1,525
2 Investments	1,794	2,035	2,189	493	1,713	1,201	634	230	655
3 Related Party Exposure	4	1	-	0	-	1	-	-	0
4 Current Assets	3,717	2,840	4,053	5,179	3,562	3,565	4,228	5,693	3,426
a Inventories	*2,624*	*1,071*	*2,709*	*4,513*	*1,289*	*1,347*	*2,776*	*4,289*	*1,905*
b Trade Receivables	*21*	*287*	*353*	*99*	*75*	*81*	*14*	*140*	*244*
5 Total Assets	7,101	6,489	7,884	7,338	6,940	6,413	6,526	7,439	5,607
6 Current Liabilities	1,542	1,678	1,890	1,707	1,601	1,470	1,552	1,629	1,201
a Trade Payables	*913*	*1,002*	*1,331*	*1,203*	*1,129*	*1,035*	*940*	*1,569*	*800*
7 Borrowings	1,767	1,320	2,239	2,431	1,655	1,623	1,761	2,715	702
8 Related Party Exposure	-	-	-	-	-	-	-	-	-
9 Non-Current Liabilities	98	96	112	96	93	92	114	114	110
10 Net Assets	3,695	3,395	3,643	3,103	3,591	3,227	3,098	2,981	3,594
11 Shareholders' Equity	3,695	3,395	3,643	3,103	3,591	3,227	3,098	2,981	3,594
B INCOME STATEMENT									
1 Sales	1,568	8,154	5,996	2,957	1,818	7,165	4,963	2,817	7,494
a Cost of Good Sold	*(1,154)*	*(6,048)*	*(4,219)*	*(2,264)*	*(1,387)*	*(5,400)*	*(3,709)*	*(2,058)*	*(5,429)*
2 Gross Profit	414	2,105	1,777	693	431	1,765	1,254	760	2,065
a Operating Expenses	(64)	(429)	(361)	(261)	(142)	(497)	(372)	(262)	(601)
3 Operating Profit	350	1,676	1,416	433	289	1,268	883	498	1,464
a Non Operating Income or (Expense)	*2*	*(253)*	*(256)*	*41*	*50*	*(3)*	*(19)*	*13*	*(29)*
4 Profit or (Loss) before Interest and Tax	352	1,423	1,161	473	340	1,265	864	511	1,435
a Total Finance Cost	*(13)*	*(53)*	*(40)*	*(22)*	*(14)*	*(64)*	*(51)*	*(21)*	*(64)*
b Taxation	*(25)*	*(126)*	*(111)*	*(55)*	*(26)*	*(89)*	*(62)*	*(32)*	*(77)*
6 Net Income Or (Loss)	314	1,244	1,010	396	300	1,112	751	458	1,294
C CASH FLOW STATEMENT									
a Free Cash Flows from Operations (FCFO)	*343*	*1,633*	*1,433*	*722*	*316*	*1,228*	*927*	*542*	*701*
b Net Cash from Operating Activities before Working Capital Changes	*382*	*1,710*	*1,514*	*779*	*308*	*1,174*	*911*	*556*	*630*
c Changes in Working Capital	*(1,507)*	*1,034*	*(318)*	*(1,671)*	*164*	*116*	*(515)*	*(1,743)*	*710*
1 Net Cash provided by Operating Activities	(1,126)	2,743	1,196	(892)	472	1,290	396	(1,187)	1,339
2 Net Cash (Used in) or Available From Investing Activities	232	(823)	(1,026)	638	(454)	(998)	(442)	182	(28)
3 Net Cash (Used in) or Available From Financing Activities	446	(1,509)	(14)	290	32	(280)	73	1,156	(1,223)
4 Net Cash generated or (Used) during the period	(448)	412	157	37	50	12	26	151	88
D RATIO ANALYSIS									
1 Performance									
a Sales Growth (for the period)	-23.1%	13.8%	11.6%	-17.5%	1.5%	-4.4%	-11.7%	-24.8%	40.7%
b Gross Profit Margin	26.4%	25.8%	29.6%	23.5%	23.7%	24.6%	25.3%	27.0%	27.6%
c Net Profit Margin	20.1%	15.3%	16.8%	13.4%	16.5%	15.5%	15.1%	16.3%	17.3%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	-74.2%	32.7%	18.6%	-32.1%	26.4%	18.8%	8.3%	-42.6%	18.8%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	35.6%	36.9%	40.8%	27.3%	34.8%	36.8%	34.8%	35.0%	37.5%
2 Working Capital Management									
a Gross Working Capital (Average Days)	117	62	103	186	70	91	136	213	101
b Net Working Capital (Average Days)	61	17	48	117	16	44	88	136	72
c Current Ratio (Current Assets / Current Liabilities)	2.4	1.7	2.1	3.0	2.2	2.4	2.7	3.5	2.9
3 Coverages									
a EBITDA / Finance Cost	32.9	37.9	41.3	38.6	27.7	24.8	22.2	31.1	12.2
b FCFO / Finance Cost+CMLTB+Excess STB	14.1	19.2	32.8	36.2	25.6	21.0	20.5	28.9	10.9
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4 Capital Structure									
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	32.3%	28.0%	38.1%	43.9%	31.5%	33.5%	36.2%	47.7%	16.3%
b Interest or Markup Payable (Days)	88.3	28.3	115.5	87.8	52.2	41.5	82.8	208.1	0.0
c Entity Average Borrowing Rate	2.4%	2.5%	2.5%	2.0%	2.9%	3.9%	4.0%	2.6%	4.8%

Credit Rating

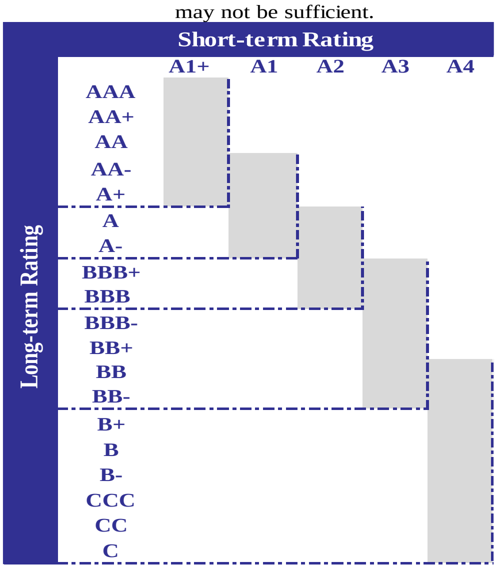
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+ 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.
A+ 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.
BBB+ 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.
BB+ BB 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+ 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.
CCC CC 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 Rating

Scale	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
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 surveill 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):

Entities
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

Instruments
a) Basel III Compliant Debt Instrument Rating
b) Debt Instrument Rating
c) Sukuk Rating

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