



The Pakistan Credit Rating Agency Limited

## Rating Report

### Roomi Fabrics Limited

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#### Rating History

| Dissemination Date | Long Term Rating | Short Term Rating | Outlook | Action   | Rating Watch |
|--------------------|------------------|-------------------|---------|----------|--------------|
| 26-Jun-2020        | A-               | A2                | Stable  | Maintain | YES          |
| 27-Dec-2019        | A-               | A2                | Stable  | Maintain | -            |
| 28-Jun-2019        | A-               | A2                | Stable  | Maintain | -            |
| 28-Dec-2018        | A-               | A2                | Stable  | Maintain | -            |
| 30-Jun-2018        | A-               | A2                | Stable  | Initial  | -            |

#### Rating Rationale and Key Rating Drivers

The ratings reflect adequate business profile of Roomi Fabrics Limited (Roomi Fabrics' or 'The Company') and its association with Mahmood Group. The Company is principally engaged in the manufacturing of yarn and greige fabric, primarily catering to the fashion market. The Company has built a significant investment portfolio that is managed at the group level. The Company witnessed a limited growth in its topline, which did not translate into improved margins and profitability from core operations due to an increase in cost of production. Moreover, the Company had to face a brief shutdown of its operations in line with the provincial Government's directive of lockdown. Impact of shutdown and general contraction in demand amid tough economic climate will become clearer in months to come. Overall profitability of the Company remains a function of income from its sizable investment portfolio in shape of dividends and capital gains/losses. Although the Company is invested in blue-chip scrips, high market risk exposes the Company to volatile returns. This concern is magnified as the investments are partially financed through short-term borrowings. The recent volatility in equity market enhances the element of risk in the Company's investment portfolio as valuations may decrease. Cashflows have recently shown improvement, however, coverages dropped due to high finance cost, though deferral of principal repayments as per SBP initiative amidst Covid-19 will provide a breather. Overall, the financial profile of the Company remains stretched given highly leveraged capital structure and limited borrowing capacity. Board's vast experience and association with Mahmood Group provides comfort to the ratings of the Company.

The Rating Watch signifies the prevailing uncertainty due to the outbreak of COVID-19 pandemic. This has impacted the entire textile chain due to the lockdown in Pakistan and major export destinations of the sector. Although lockdowns are being gradually lifted worldwide, the recovery in demand remains to be seen. The Company's operations and orders have suffered consequently as the Company has high reliance on exports in its sales mix. The Government and SBP have announced several initiatives to provide support. PACRA is closely monitoring the situation and will take rating action accordingly.

The ratings are dependent on the Company's ability to sustain its operations in prevailing conditions. The management is cognizant of these challenges and is working on this front. Meanwhile prudent working capital management and generating sustainable cashflows from core operations are important. Significant deterioration in business profile due to prolonged downturn leading to deterioration in coverages and/or margins will impact the ratings.

#### Disclosure

|                              |                                                                                                                                                            |
|------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Name of Rated Entity</b>  | Roomi Fabrics Limited                                                                                                                                      |
| <b>Type of Relationship</b>  | Solicited                                                                                                                                                  |
| <b>Purpose of the Rating</b> | Entity Rating                                                                                                                                              |
| <b>Applicable Criteria</b>   | Methodology   Corporate Ratings(Jun-19),Methodology   Correlation Between Long-Term And Short-Term Rating Scale(Jun-19),Criteria   Rating Modifier(Jun-19) |
| <b>Related Research</b>      | Sector Study   Composite(Nov-19)                                                                                                                           |
| <b>Rating Analysts</b>       | Muhammad Hassan   muhammad.hassan@pacra.com   +92-42-35869504                                                                                              |

## Profile

**Legal Structure** Roomi Fabrics Limited was incorporated in Pakistan in 2002, as a Public Limited Company.

**Background** Roomi Fabrics Limited is a venture of Mahmood Group, which was originally established in 1935, initially entering the tannery business. Now the group has presence in complete textile chain (growing to finished products), tanneries, real estate and food.

**Operations** The Company is principally engaged in the manufacturing and sale of yarn and greige fabric, primarily catering to the home textile segment. Roomi Fabrics Limited operates 32,640 spindles and 228 looms. The Company has a total of 7 generators installed, which produce 12.8MW of electricity.

## Ownership

**Ownership Structure** The Khawaja family comprises of chairman for all group companies Mr. Khawaja Muhammad Iqbal – the eldest son of late Mr. Khawaja Muhammad Masood, his three brothers and three sisters. Khawaja family directly owns 97% of the Company and the remaining 3% is indirectly owned through group companies.

**Stability** Defined and streamlined shareholding pattern among family members along with clear succession adds strength to the structure. However, documentation of succession plan would bring clarity for stability of ownership.

**Business Acumen** The Chairman and his three brothers form the core cabinet, which is the main decision making body for finalizing the future strategy of the group. The group's core functions are divided between each of the four brothers.

**Financial Strength** Mahmood Group maintains strong financial profile with a considerable equity base and substantial investments in equities and property. This indicates sponsors' ability to provide support if need arises.

## Governance

**Board Structure** The Company's board comprises eight members, including the Chairman - Mr. Khawaja Muhammad Iqbal and Chief Executive Officer (CEO) – Khawaja Jalaluddin Roomi. All board members are from the sponsor-family.

**Members' Profile** The board has vast knowledge and experience in textile industry. The directors' expertise of various stages of textile value-chain leads to a good skill mix. Mr. Iqbal - Chairman - of Mahmood group, has more than four decades of relevant experience.

**Board Effectiveness** Total number of meetings held during the year was four, which were attended by all the members. High attendance bodes well for board effectiveness. However, there is room for improvement in recording minutes and establishing best governance practices.

**Financial Transparency** M/s ShineWing Hameed Chaudry & Co. Chartered Accountants, classified in category B by the SBP's panel of auditors are the external auditors of the Company. The auditors issued an unqualified opinion on the Company's financial statements for year ended on 30th June, 2019.

## Management

**Organizational Structure** Top tier management functions are held at group level by the sponsors, where middle tier is taken care by a team of experienced professionals. The organizational structure of the Company is divided into various departments with reporting to both, CEO and BOD.

**Management Team** The top management is supported by a team of professionals working under various sub-divisions to ensure smooth reporting. . Mr. Roomi – CEO - has more than three decades of textile experience and has been at his current position for over 20 years. Mr. Javed Anjum - CFO of the Company - is a qualified Chartered Accountant with an overall experience of more than 15 years. He also serves as the Company Secretary. Most of the senior management has been associated with the group for a considerable amount of time.

**Effectiveness** Board meetings are held formally and separately for all group companies and are chaired by Mr. Khawaja Muhammad Iqbal, the Chairman. Meeting minutes are captured formally; however there is room for improvement.

**MIS** The company's MIS is generated on a monthly and daily basis, for both the spinning and the weaving units separately. Various reports are collected and submitted to higher management regarding monthly operations, finished goods, cotton reconciliation report, yield report and raw material report.

**Control Environment** To effectively manage online reporting, the group has in place two teams, one for ERP and the other for IT support. In addition to this, the group has in place two committees, one for order management and the other for human resources.

## Business Risk

**Industry Dynamics** Textile exports of the country dropped by ~8% for 11MFY20 to stand at ~USD 11.6bln as compared to ~USD 12.6bln in 11MFY19 due to slowdown in demand for textile products internationally, instigated by Covid-19 led lockdowns in major export destinations. Going forward, prevailing uncertainty in the dynamics of textile sector due to Covid-19 outbreak globally, lifting of lockdowns in most countries, contraction in local and international demand is expected to affect the entire textile value chain. Locally, textile sector will find comfort in relief measures introduced by State Bank of Pakistan such as deferment of loan payments for one year, low interest rates and salary refinance scheme.

**Relative Position** With 32,640 spindles and 228 looms, Roomi Fabrics is able to land in the middle tier of textile industry. Overall, as a group. Cumulatively the group owns ~300,000 spindles and 850 looms and can qualify as one of the biggest textile manufacturing groups in Pakistan.

**Revenues** During 9MFY20, the Company's revenues increased by ~23% period-on-period to PKR 11,389mln (9MFY19: PKR 9,258mln) due to currency devaluation and better yarn and fabric prices. During this period, exports constituted ~82 of total sales at PKR 9,427mln (9MFY19: PKR 7,761mln). It is expected that the Company's top line will experience a decline at the end of FY20 due to outbreak of Covid-19 pandemic.

**Margins** Margins decreased in 9MFY20. Gross profit margin decreased to 12.3% (9MFY19: 16.3%) and operating profit margin to 7.8% (9MFY19: 11.5%) due to increase in raw material costs by ~43% period on period. Roomi Fabrics recorded a net profit of PKR 85mln during 9MFY20 (9MFY19: PKR 145mln), showing a significant drop and despite higher topline period-on-period because of higher finance cost (9MFY20: PKR 806mln, 9MFY19: PKR 612mln) due to increase in interest rates. This resulted in net profit margin dropping to 0.8% (9MFY19: 1.5%).

**Sustainability** The Company plans to enhance towel production by installing new terry looms. However due to uncertainty caused by the outbreak of Covid-19, the Company does not have any immediate plans for a BMR. Trend of increase in revenues is expected to be halted by the outbreak of Covid-19 pandemic, as Europe and US, the Company's two out three main export markets recently emerged from prolonged lockdowns and demand for textile products in those markets have not shown any clear signs of recovery to pre-pandemic levels. However, State Bank of Pakistan's scheme of deferral of principal repayment for one year will ease pressure on cashflows.

## Financial Risk

**Working Capital** Net working cycle increased to 158days in 9MFY20 (9MFY19: 167days) due to increase in average receivable and average inventory days. Short term borrowings increased to PKR 8,056mln (9MFY19: PKR 7,361mln). During 9MFY20, the Company's short-term trade leverage improved significantly to -4% (9MFY19: -8%), on the back of higher net trade assets and lower short-term borrowings but still remained on the negative side.

**Coverages** FCFO in 9MFY20 increased to PKR 1.132mln (9MFY19: PKR 1,049mln) on the back of higher revenues but interest coverage ratio dropped to 1.6x (9MFY19: 1.9x) as increase in finance cost overshadowed the impact of increase in FCFO. Debt coverage ratio improved to 1.6x (9MFY19: 1.5x) due to the elimination of CMLTD, as the Company repaid all its interest payments due by the end of March 2020 and no further CMLTD exists due to SBP's debt relief directive.

**Capitalization** Leveraging ratio increased to ~74% in 9MFY20 (9MFY19: 72%), as the total borrowings increased to PKR 11,279mln (9MFY19: PKR 10,275mln) to meet the Company's increased financing needs. The Company has availed loan for salaries from SBP at a concessionary rate under SBP initiative for Covid-19.

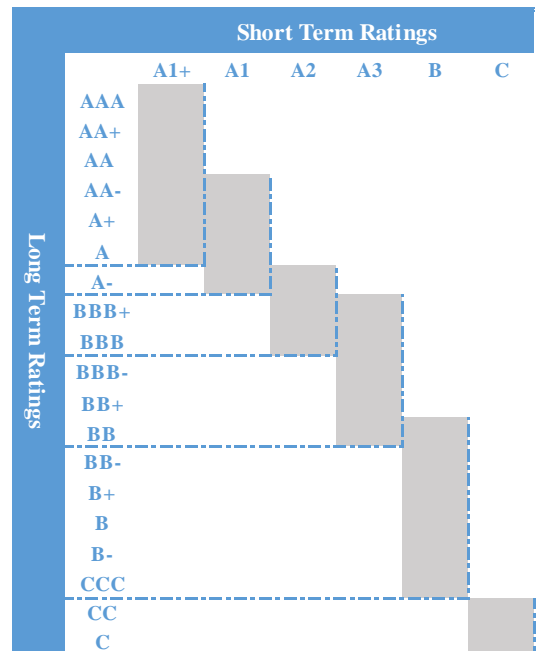


| Roomi Fabrics Limited<br>Textile                                           | Mar-20<br>9M | Jun-19<br>12M | Jun-18<br>12M | Jun-17<br>12M |
|----------------------------------------------------------------------------|--------------|---------------|---------------|---------------|
| <b>A BALANCE SHEET</b>                                                     |              |               |               |               |
| 1 Non-Current Assets                                                       | 4,426        | 4,697         | 3,659         | 3,373         |
| 2 Investments                                                              | 2,592        | 3,665         | 4,354         | 4,378         |
| 3 Related Party Exposure                                                   | 192          | 173           | 62            | -             |
| 4 Current Assets                                                           | 9,824        | 6,680         | 6,249         | 3,013         |
| <i>a Inventories</i>                                                       | 4,563        | 4,472         | 3,291         | 1,878         |
| <i>b Trade Receivables</i>                                                 | 3,513        | 1,412         | 2,204         | 776           |
| 5 Total Assets                                                             | 17,034       | 15,215        | 14,323        | 10,763        |
| 6 Current Liabilities                                                      | 1,607        | 1,303         | 1,022         | 963           |
| <i>a Trade Payables</i>                                                    | 498          | 321           | 491           | 206           |
| 7 Borrowings                                                               | 11,279       | 9,849         | 9,466         | 6,180         |
| 8 Related Party Exposure                                                   | -            | -             | -             | -             |
| 9 Non-Current Liabilities                                                  | -            | -             | -             | -             |
| 10 Net Assets                                                              | 4,148        | 4,063         | 3,836         | 3,620         |
| 11 Shareholders' Equity                                                    | 4,148        | 4,063         | 3,836         | 3,620         |
| <b>B INCOME STATEMENT</b>                                                  |              |               |               |               |
| 1 Sales                                                                    | 11,389       | 13,248        | 9,377         | 7,198         |
| <i>a Cost of Good Sold</i>                                                 | (9,990)      | (11,231)      | (8,346)       | (6,751)       |
| 2 Gross Profit                                                             | 1,399        | 2,017         | 1,030         | 447           |
| <i>a Operating Expenses</i>                                                | (516)        | (530)         | (400)         | (418)         |
| 3 Operating Profit                                                         | 883          | 1,488         | 630           | 29            |
| <i>a Non Operating Income</i>                                              | 122          | (346)         | 112           | 1,165         |
| 4 Profit or (Loss) before Interest and Tax                                 | 1,005        | 1,142         | 742           | 1,194         |
| <i>a Total Finance Cost</i>                                                | (806)        | (1,006)       | (547)         | (362)         |
| <i>b Taxation</i>                                                          | (114)        | 69            | 20            | (189)         |
| 6 Net Income Or (Loss)                                                     | 85           | 204           | 215           | 644           |
| <b>C CASH FLOW STATEMENT</b>                                               |              |               |               |               |
| <i>a Free Cash Flows from Operations (FCFO)</i>                            | 1,132        | 1,700         | 1,176         | 215           |
| <i>b Net Cash from Operating Activities before Working Capital Changes</i> | 326          | 1,700         | 792           | (35)          |
| <i>c Changes in Working Capital</i>                                        | (2,785)      | (115)         | (2,566)       | (230)         |
| 1 Net Cash provided by Operating Activities                                | (2,459)      | 1,584         | (1,774)       | (266)         |
| 2 Net Cash (Used in) or Available From Investing Activities                | 606          | (953)         | (1,502)       | (533)         |
| 3 Net Cash (Used in) or Available From Financing Activities                | 1,798        | (535)         | 3,283         | 569           |
| 4 Net Cash generated or (Used) during the period                           | (54)         | 97            | 7             | (230)         |
| <b>D RATIO ANALYSIS</b>                                                    |              |               |               |               |
| 1 Performance                                                              |              |               |               |               |
| <i>a Sales Growth (for the period)</i>                                     | 14.6%        | 41.3%         | 30.3%         | 4.1%          |
| <i>b Gross Profit Margin</i>                                               | 12.3%        | 15.2%         | 11.0%         | 6.2%          |
| <i>c Net Profit Margin</i>                                                 | 0.8%         | 1.5%          | 2.3%          | 8.9%          |
| <i>d Cash Conversion Efficiency (EBITDA/Sales)</i>                         | 10.9%        | 13.9%         | 13.7%         | 4.2%          |
| <i>e Return on Equity (ROE)</i>                                            | 2.8%         | 5.2%          | 5.8%          | 17.8%         |
| 2 Working Capital Management                                               |              |               |               |               |
| <i>a Gross Working Capital (Average Days)</i>                              | 168          | 157           | 159           | 119           |
| <i>b Net Working Capital (Average Days)</i>                                | 158          | 146           | 145           | 108           |
| <i>c Current Ratio (Total Current Assets/Total Current Liabilities)</i>    | 6.1          | 5.1           | 6.1           | 3.1           |
| 3 Coverages                                                                |              |               |               |               |
| <i>a EBITDA / Finance Cost</i>                                             | 1.7          | 2.1           | 2.6           | 0.9           |
| <i>b FCFO / Finance Cost+CMLTB+Excess STB</i>                              | 1.6          | 1.3           | 1.7           | 0.4           |
| <i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>  | 5.9          | 3.7           | 2.5           | -12.3         |
| 4 Capital Structure (Total Debt/Total Debt+Equity)                         |              |               |               |               |
| <i>a Total Borrowings / Total Borrowings+Equity</i>                        | 73.1%        | 70.8%         | 71.2%         | 63.1%         |
| <i>b Short-Term Borrowings / Total Borrowings</i>                          | 0.7          | 0.7           | 0.8           | 0.8           |
| <i>c Average Borrowing Rate</i>                                            | 9.1%         | 9.3%          | 6.4%          | 5.3%          |

## 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                        |                                                                                                                                                                                                                                                                                                                             | Short Term Ratings |                                                                                                                                            |
|------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|--------------------------------------------------------------------------------------------------------------------------------------------|
| <b>AAA</b>                               | <b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments                                                                                                                                                                        | <b>A1+</b>         | The highest capacity for timely repayment.                                                                                                 |
| <b>AA+</b><br><b>AA</b><br><b>AA-</b>    | <b>Very high credit quality.</b> Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.                                                                                                       | <b>A1</b>          | A strong capacity for timely repayment.                                                                                                    |
| <b>A+</b><br><b>A</b><br><b>A-</b>       | <b>High credit quality.</b> Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.                                                                            | <b>A2</b>          | A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.   |
| <b>BBB+</b><br><b>BBB</b><br><b>BBB-</b> | <b>Good credit quality.</b> Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.                                                           | <b>A3</b>          | An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions. |
| <b>BB+</b><br><b>BB</b><br><b>BB-</b>    | <b>Moderate risk.</b> Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.                           | <b>B</b>           | The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.                   |
| <b>B+</b><br><b>B</b><br><b>B-</b>       | <b>High credit risk.</b> A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.                                                                        | <b>C</b>           | An inadequate capacity to ensure timely repayment.                                                                                         |
| <b>CCC</b><br><b>CC</b><br><b>C</b>      | <b>Very high credit risk.</b> Substantial credit risk “CCC” Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. “CC” Rating indicates that default of some kind appears probable. “C” Ratings signal imminent default. |                    |                                                                                                                                            |
| <b>D</b>                                 | Obligations are currently in default.                                                                                                                                                                                                                                                                                       |                    |                                                                                                                                            |



**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 surveil the opinion due to lack of requisite information.

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

**Disclaimer:** PACRA's ratings are an assessment of the credit standing of entities/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

### **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**

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