



The Pakistan Credit Rating Agency Limited

## Rating Report

### EcoPack Limited

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
10-Aug-2023	BBB	A2	Stable	Maintain	Yes
10-Aug-2022	BBB	A2	Stable	Initial	-
29-Apr-2022	-	-	-	Suspended	-
30-Apr-2021	BBB+	A2	Negative	Maintain	Yes
07-May-2020	BBB+	A2	Negative	Maintain	Yes
06-Nov-2019	BBB+	A2	Stable	Maintain	-
07-May-2019	BBB+	A2	Stable	Maintain	-
05-Nov-2018	BBB+	A2	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

The ratings reflect EcoPack Limited's ("EcoPack" or "the Company") established position in the PET preform and PET bottle segment, sound governance, and experienced management team associated with the EcoPack for a long. The market share in PET preform and PET bottle segments is 10% and 29% respectively and its strategic location is in the Central region. The PET packaging sector mostly derives its demand from water bottles, Carbonated Soft Drink (CSD) industry, pharma, and other consumables. The industry is exposed to seasonality as beverage demand remains higher in the summer months and the M/O Holy Ramazan. As per management representation, in the preform industry, Ecopack holds ~10% and in the bottle industry holds ~29% market share. Considering the high demand, during 9MFY23 the utilization level stood at ~56% for PET Bottling (Blowing) Division and ~63% for PET Preforms (Injection) Division (SPLY Blowing ~56% and Injection ~62%). On the financial profile, Consistent topline growth has been seen during 9MFY23. The Company's topline clocked in at ~PKR 3,889mln during 9MFY23 increased from ~PKR 2,877mln during 9MFY22 (FY22: 5,025mln, FY21: 3,101mln). This increase in topline was a result of an increase in volumetric sales of products and sale prices during the period. The major contribution is made by PET bottles ~60% followed by PET preform ~40%. Due to increase in the cost of sales resulting from high raw material prices and increase in finance cost the Company has reported a Net loss of PKR (23)mln during 9MFY23 as compared with the net profit of PKR 76mln during 9MFY22. However, leverage indicators continue to remain elevated on account of higher utilization of short-term borrowing for funding working capital requirements. The local procurement of the raw material (PET resin) relieved the Company from any supply chain issues and also some savings in cost terms during critical times. Going forward, the impact of higher finance costs & overheads on profitability is expected to be offset by transferring the cost impact to customers which results in an improvement in margins and an increase in the top line. On the ownership side, currently, litigation is going on regarding i) appointment of CEO ii) Acquisition of shares beyond prescribed limits and the matter is still pending in the Sindh High Court.

Considering ongoing litigation, the rating watch is placed on the Company. Ratings would remain dependent upon the management's ability to improve margins while sustaining its market share. Prudent management of the working capital, and maintaining sufficient cash flows and coverages are imperative for the ratings. Any significant decrease in margins and coverages will impact the ratings.

#### Disclosure

<b>Name of Rated Entity</b>	EcoPack Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Corporate Rating(Jun-22),Methodology   Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology   Rating Modifiers(Jun-22)
<b>Related Research</b>	Sector Study   Paper and Packaging(Nov-22)
<b>Rating Analysts</b>	Muhammad Atif Chaudhry   Atif.Chaudhry@pacra.com   +92-42-35869504



## Profile

**Legal Structure** EcoPack Limited (EcoPack or 'the Company') was incorporated as a Public Limited Company in 1992 and is listed on the Pakistan Stock Exchange.

**Background** The Company started commercial production in 1993. Over the years, the Company enhanced its production capacity of both PET Preforms and Bottles. EcoPack was the first company to introduce PET bottle for Carbonated Soft Drink (CSD) industry. The Company also successfully introduced the first 500ml bottle in the Pakistani market. In 2008, the Company consolidated its production units in Hattar.

**Operations** The Company has two product lines, namely i) PET Preforms, and ii) PET Bottles. The production capacities of PET preforms division and bottling division are 797mln and 327mln units per annum, respectively. The production facility of EcoPack is located in Hattar Industrial Area, KPK, while its head office is in Rawalpindi.

## Ownership

**Ownership Structure** Majority of EcoPack's ownership resides with the sponsors through Jamil family (17%). Mr. Hussain Jamil holding 17.2% stake in the Company is the single largest stakeholder. Mr. Hussain Jamil has been leading the Company for several years. At the end Jun23 the free float of the Company is 32.53% and ~29.12% of shares are held by three entities i) Sumaya Builders & Developers ii) Crosby Pakistan (Pvt) Ltd. and iii) The Eastern Express Company (Pvt) Ltd. and the remaining ~20.99% of shares are held by individuals.

**Stability** Ownership of the business is seen as stable as the major ownership vests with Jamil family.

**Business Acumen** Jamil family has been associated with the plastic packaging business since 1969 and is well versed with dynamics of the industry. Their acumen of the industry is reflected in EcoPack's growth over the decades as it became one of the leading players in the industry.

**Financial Strength** EcoPack is a stable business entity. The Sponsors have adequate financial strength to support the Company in case need arises.

## Governance

**Board Structure** EcoPack's BoD comprises seven members board, with two independent Directors, one Executive Director & four Non-Executive Directors. Apt size of the Board, presence of independent oversight and a female director indicates well framed governance structure in compliance with Code of Corporate Governance.

**Members' Profile** The BoD members have a diversified skill mix both in terms of qualification and expertise. The board's Chairman, Mr. Muhammad Kamran Nasir, is a Chartered Accountant having over 30 years of multi-functional experience at international financial institutions. The executive directors have strong knowledge of the plastic industry, which bodes well for the governance.

**Board Effectiveness** The Board met six times during FY23 to discharge its duties, with majority members attending all meetings. The Board ensures effective governance through two committees, namely i) Audit Committee, and ii) Human Resource and Remuneration Committee. Both committees are chaired by Independent Directors.

**Financial Transparency** To ensure operational efficiency, the Company has set up an internal audit function. The Audit Committee reviews the financial statements and ensures that the accounts fairly represent the financial position of the Company. It also ensures the effectiveness of internal controls. EcoPack's external auditors, M/s A.F. Ferguson & Co, have expressed an unqualified opinion on the financial reports for FY22.

## Management

**Organizational Structure** EcoPack's production function is divided into two divisions, namely i) PET Preforms, and ii) PET Bottles. Each division is headed by its respective Divisional Head, who reports to Director Technical and Commercial. All functional Heads report to the Company's COO. However, finance and accounts function reports to the Company's CFO. The CFO and COO report to the CEO.

**Management Team** The Company's CEO, Mr. Hussain Jamil, has been associated with the Company since its inception. He is a seasoned businessman and carries over 40 years of experience. All senior management has long association with the Company. Mr Raza Chinoy is the COO of the Company. He is associated with company since 2006. Mr Ali Adil is CFO of the Company and associated with the Company since 2003.

**Effectiveness** Cross-functional management committees increase efficiency as they assist in inter-departmental coordination. EcoPack has two functional committees, which increases management effectiveness. The committees are (a) Waste Sale Committee: To look after the waste sales related matters headed by Director C&T (b) SAP Steering Committee: To look after the ERP related matters headed by CFO.

**MIS** The Company uses SAP ERP to manage flow of information. EcoPack's Plant, Head Office, and Regional Offices are all connected through this ERP system. The SAP is capable of generating various reports, which are submitted to the management for monitoring purposes.

**Control Environment** To ensure operational efficiency, the Company has outsourced the internal audit function to M/S BDO Ebrahim & Co. who are considered suitably qualified for it. The internal audit function reports to the audit committee. EcoPack has setup a Quality Control and Assurance department that conducts regular inspections to ensure product quality.

## Business Risk

**Industry Dynamics** The industry is seasonal in nature with summer season having the greatest demand. Strong consumer demand for beverages remains pivotal to the overall packaging industry's growth. The industry is indirectly exposed to PKR/USD depreciation as the raw material manufacturing is directly linked with the crude oil prices. Going Forward, increasing interest rate coupled with volatility in the exchange rate may further impact the profitability of the industry.

**Relative Position** EcoPack holds a moderate market share of ~10% in the Preform segment, whereas in the Bottle segment, the Company has a market share of ~29%. Gatron/Novatex is the major supplier of PET resin.

**Revenues** EcoPack generates revenue from two divisions, namely i) PET Preforms (Injection) Division and ii) PET Bottling (Blowing) Division. During 9MFY23, PET preforms division constituted 40% and PET Bottling Division constituted 60% of the overall sales mix. EcoPack generates 87% of its revenue from northern region of the country during 9MFY23, where majority of the beverage plants and companies are located. The Company has shifted its sales mix from the North region towards the Central region which constitutes 12% of sales revenue. The Company's top ten customers comprise ~87% of the total revenue, showing high concentration.

**Margins** During 9MFY23, the gross margin and operating profit margin both decreased as compared to 9MFY22. The GP margin decreased from ~9.5% in 9MFY22 to ~6.8% in 9MFY23 (FY22: ~8.2%) due to the increase in the cost of sales. An increase in the cost of sales results from high raw material prices and fluctuation in the exchange rate. Similarly, the OP margin decreased from ~5.9% in 9MFY22 to ~3.7% in 9MFY23 (FY22: ~5.4%) due to the increase in the operating expenses during the period. Consequently, the net profit margin decreased from ~2.6% in 9MFY22 to ~-0.6% in 9MFY23 (FY22: ~2.0%) because the Company has reported the Net loss of PKR (23)mln during 9MFY23 due to increase in the finance cost as compared with net profit of PKR 76mln during 9MFY22.

**Sustainability** The Company has incurred capital expenditure of PKR 48mln in FY20 for manufacturing light weight preforms which will be helpful for maintaining competitive advantage in high cost environment and improving margins.

## Financial Risk

**Working Capital** EcoPack's working capital management is supported through short-term running finance facility. During 9MFY23, the Company's gross working capital days stood same at 71days as compared with 9MFY22 (FY22: 52days). This was due to increase in receivable days but decrease in inventory days. But, net working capital days decreased to 54 days from 57 days during the corresponding period due to increase in payable days.

**Coverages** The Company's interest coverage ratio decreased from ~2.9x in 9MFY22 to ~1.6x in 9MFY23 (FY22: ~3.1x) because the finance cost increased from ~PKR 80mln during 9MFY22 to ~PKR 155mln during 9MFY23 (FY22: ~PKR 122mln). However, this is considered a weak coverage level for the Company. Consequently, the Company's core and total debt service coverage stood at ~0.7x during 9MFY23 (9MFY22: ~0.8x, FY22: ~1.0x).

**Capitalization** EcoPack Limited's gearing ratio has increased from ~56.7% during 9MFY22 to ~57.3% during 9MFY23 due to a huge increase in short-term borrowing (FY22: ~47.2%). The STB have increased from ~PKR 889mln at the end of 9MFY22 to ~PKR 1,130mln at the end of 9MFY23 (FY22: ~PKR 597mln). The company obtained STB for working capital management. The STB comprises 83% of total borrowings during the period. Long term debt showed a decrease of PKR ~138mln from PKR ~199mln during same period. The equity stood at PKR 1,011mln at the end 9MFY23 (9MFY23: PKR 974mln, FY22: PKR 1,031mln)



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

Ecopack Ltd Paper&Packaging	Mar-23 9M	Jun-22 12M	Mar-22 9M	Jun-21 12M	Jun-20 12M
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#### A BALANCE SHEET

1 Non-Current Assets	1,416	1,442	1,465	1,354	1,426
2 Investments	-	7	-	7	-
3 Related Party Exposure	-	-	-	-	-
4 Current Assets	1,414	1,054	1,124	780	729
a Inventories	597	385	437	375	236
b Trade Receivables	585	441	461	228	215
5 Total Assets	2,830	2,503	2,590	2,142	2,155
6 Current Liabilities	460	531	301	263	247
a Trade Payables	204	280	172	130	161
7 Borrowings	1,357	923	1,273	1,005	866
8 Related Party Exposure	-	-	-	-	-
9 Non-Current Liabilities	1	18	43	24	238
10 Net Assets	1,011	1,031	974	850	805
11 Shareholders' Equity	1,011	1,031	974	850	805

#### B INCOME STATEMENT

1 Sales	3,889	5,025	2,877	3,101	3,054
a Cost of Good Sold	(3,624)	(4,616)	(2,605)	(2,799)	(2,906)
2 Gross Profit	266	410	272	302	148
a Operating Expenses	(120)	(140)	(101)	(127)	(124)
3 Operating Profit	145	270	171	175	24
a Non Operating Income or (Expense)	2	(1)	(5)	(16)	(12)
4 Profit or (Loss) before Interest and Tax	147	268	166	159	12
a Total Finance Cost	(155)	(122)	(80)	(93)	(157)
b Taxation	(15)	(46)	(10)	(20)	41
6 Net Income Or (Loss)	(23)	100	76	46	(104)

#### C CASH FLOW STATEMENT

a Free Cash Flows from Operations (FCFO)	228	351	225	240	128
b Net Cash from Operating Activities before Working Capital Changes	131	261	172	169	19
c Changes in Working Capital	(460)	(11)	(261)	(204)	420
1 Net Cash provided by Operating Activities	(329)	249	(89)	(35)	439
2 Net Cash (Used in) or Available From Investing Activities	(26)	(65)	(75)	(78)	(98)
3 Net Cash (Used in) or Available From Financing Activities	337	(188)	143	162	(383)
4 Net Cash generated or (Used) during the period	(18)	(3)	(22)	49	(42)

#### D RATIO ANALYSIS

1 Performance					
a Sales Growth (for the period)	3.2%	62.1%	23.7%	1.5%	-25.1%
b Gross Profit Margin	6.8%	8.2%	9.5%	9.7%	4.8%
c Net Profit Margin	-0.6%	2.0%	2.6%	1.5%	-3.4%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	-5.9%	6.8%	-1.3%	1.1%	17.9%
e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/Sh	-3.0%	10.7%	11.1%	5.6%	-12.1%
2 Working Capital Management					
a Gross Working Capital (Average Days)	71	52	71	62	70
b Net Working Capital (Average Days)	54	37	57	45	53
c Current Ratio (Current Assets / Current Liabilities)	3.1	2.0	3.7	3.0	3.0
3 Coverages					
a EBITDA / Finance Cost	1.8	3.7	3.6	4.0	1.3
b FCFO / Finance Cost+CMLTB+Excess STB	0.7	1.0	0.8	0.8	0.5
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	3.5	1.6	2.3	3.1	-18.5
4 Capital Structure					
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	57.3%	47.2%	56.7%	54.2%	51.8%
b Interest or Markup Payable (Days)	42.2	49.0	62.0	58.5	11.6
c Entity Average Borrowing Rate	15.7%	10.4%	9.2%	8.5%	14.0%

### 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+	
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-	
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):  
 a) Broker Entity Rating  
 b) Corporate Rating  
 c) Debt Instrument Rating  
 d) Financial Institution Rating  
 e) Holding Company Rating  
 f) Independent Power Producer Rating  
 g) Microfinance Institution Rating  
 h) Non-Banking Finance Companies Rating

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### **Rating Team Statements**

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

### **2) Conflict of Interest**

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

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

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

### **Restrictions**

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

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

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

### **Conduct of Business**

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

(7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report | Clause 11-(A)(p).

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

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

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

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

### **Independence & Conflict of interest**

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

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

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

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

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

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

### **Monitoring and review**

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

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

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

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

### **Probability of Default**

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

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