The Pakistan Credit Rating Agency Limited

# Rating Report

## Mehran Sugar Mills Limited

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1. Rating Analysis
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**Rating History**

| Dissemination Date | Long Term Rating | Short Term Rating | Outlook | Action | Rating Watch |
|---|---|---|---|---|---|
| 06-Apr-2022 | A- | A2 | Stable | Maintain | - |
| 30-Sep-2021 | A- | A2 | Stable | Maintain | - |
| 30-Sep-2020 | A- | A2 | Stable | Maintain | - |
| 22-Oct-2019 | A- | A2 | Stable | Maintain | - |
| 03-May-2019 | A- | A2 | Stable | Maintain | - |
| 03-Dec-2018 | A- | A2 | Stable | Initial | - |

### Rating Rationale and Key Rating Drivers

Pakistan's sugar industry is the country's 2nd largest agro-based industry, comprising 90 mills with an annual crushing capacity estimated ~ 65–70mln MT. The industry has overcome the raw material supply challenges. However, support price of sugarcane, set by considering the cost incurred by farmers, remains a constraint. The Government increased the support price of sugarcane to PKR 250 per maund for mills operating in Sindh (previously, it was increased to PKR 202). Actual realized sugarcane prices at the mill gate were even higher. During MY21, the overall sugar production increased by 15%, YoY, to 5.7mln MT (MY20: 4.9mln MT) due to better crop availability and an increase in area under cultivation. Sugar prices remained inflated in the local market. To curb this, the Government planned to import 0.8mln MT of sugar. Out of this, 0.3mln MT was imported till Jun-21, whereas, 0.3mln MT was imported till Nov-21. During the current crushing season (MY22), a surge of 10-15% is expected in sugarcane production resulting in an increased total sugar production of ~7mln MT. This along with high sugar prices are expected to remain favorable for the millers.
The ratings reflect Mehran Sugar Mills Limited's ('Mehran Sugar' or 'the Company') strong business profile emanating from a diversified revenue stream, robust governance, and ability to post high recovery rates consistently, averaging in excess of 11% over the past five years. The Company was able to increase its sugar production during MY21 despite the low availability of cane. However, the cane was procured at a higher rate resulting in stressed business margins. To mitigate risks associated with seasonality and volatility in the sugar industry, the Company's profitability is supported through a strategic joint venture investment in 'Unicol Limited', an ethanol production company. The Company has made strategic investments in the FMCG sector through a joint-venture 'UniFoods Industries Limited' and in the energy sector through its wholly-owned subsidiary, 'Mehran Energy Limited'. However, due to stressed performance lately, the Company has booked impairment for both the investments. This further stretched the Company's profit margin during MY21. The management is optimistic that, going forward, the Company's profitability is expected to improve aided by consistent share of profit from Unicol Limited and capital gains/dividend income from short-term trading portfolio. Moreover, the Company was able to procure cane at lower average rates so as to improve the margins in the current crushing season of MY22. The ratings draw comfort from Mehran Sugar's ability to maintain healthy topline and sizable short-term investment portfolio. The Company's financial risk profile is characterized by a moderately leveraged capital structure, adequate coverage ratios and adequate working capital management.

The ratings are dependent on the Company's ability to improve business margins, sustain adequate cashflows and coverages by adhering strict financial discipline, with an increased emphasis on working capital management. Any significant deterioration in margins and/or coverages will adversely impact the ratings.

**Disclosure**

| | |
|---|---|
| **Name of Rated Entity** | Mehran Sugar Mills Limited |
| **Type of Relationship** | Solicited |
| **Purpose of the Rating** | Entity Rating |
| **Applicable Criteria** | Methodology \| Corporate Rating(Jun-21),Criteria \| Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria \| Rating Modifiers(Jun-21) |
| **Related Research** | Sector Study \| Sugar(Dec-21) |
| **Rating Analysts** | Ahmad Faraz Arif \| ahmad.faraz@pacra.com \| +92-42-35869504 |

## Profile

**Legal Structure** Mehran Sugar Mills Limited ('Mehran Sugar' or 'the Company') is a public limited company incorporated in December, 1965. The Company is listed on Pakistan Stock Exchange.

**Background** The Company commenced operations three years after incorporation in 1968 with a production capacity of 1,500 TCD (tons of cane crushed per day). Over the years, the Company managed to increase its crushing capacity to 12,500 TCD through capacity enhancement initiatives. Mehran Sugar entered in strategic partnership with other sugar companies in 2004 to establish a jointly operated distillery under the banner 'Unicol Limited' which has ethanol production capacity of 200,000 liters/day.

**Operations** The Company primarily manufactures sugar and its allied products. The mill is located in District Tando Allahyar, having an installed capacity of 12,500 TCD. During MY21, the Company crushed 682,253MT of sugarcane to produce 73,092MT of sugar while yielding a sucrose recovery rate of 10.72% (MY20: 11.13%).

## Ownership

**Ownership Structure** Majority shareholding rests with individuals of Hasham Family (75%) ('Hasham Group'). Shareholding is divided among families of three brothers, Mr. M. Kasim Hasham (16%) and Mr. Khurram Kasim (11%), Mr. M. Ebrahim Hasham (14%) and Mr. Ahmed Ebrahim Hasham (11%), and Mr. M. Hussain Hasham (15%). The remaining shareholding belongs to general public and other corporations.

**Stability** The Company's controlling interests vests with one group and each family within the group holds a defined share. The ownership of the Company is seen as stable.

**Business Acumen** Hasham Group started its first business enterprise in 1930s with Mr. Haji Hasham trading in commodities. Mehran Sugar was incorporated in 1965 that continued as a single business enterprise. Hasham Group ('the Group') has undergone forward integration and entered the Ethanol segment through Unicol Limited. The Group has lately ventured into FMCG sector through a joint venture 'UniFoods Limited'. The group has also vested in energy sector (Mehran Energy Limited and UniEnergy Limited). However, lately the Company has impaired its investments in UniFoods Limited and Mehran Energy Limited.

**Financial Strength** Majority of the Groups' stakes are consolidated through its Flagship Company Mehran Sugar. As at MY21, the Company had a consolidated asset base of PKR 5.2bln which is financed through PKR 2.6bln in Equity and PKR 1.5bln in total debt.

## Governance

**Board Structure** The Board of Directors comprises of ten individuals, which include two executive directors, five non-executive directors, and three independent Directors.

**Members' Profile** Sponsoring family has a strong presence on the Board. However, members have significant experience in the sugar industry which is balanced by an adequate mix of business, finance, and legal experts. Mr. Kasim Hasham, Chairman of the BoD, has significant experience in sugar and packaging industry.

**Board Effectiveness** In order to maintain effective oversight, the Board of Directors have formed two committees, namely, the Audit Committee and the Human Resource and Remuneration Committee. During MY21, four meetings of the Audit Committee and two meetings of the Human Resources and Remuneration Committee were conducted.

**Financial Transparency** M/s EY Ford Rodhes, classified in category 'A' by SBP, with a satisfactory QCR ratings. They have issued an unqualified opinion on Sep-21 financial statements.

## Management

**Organizational Structure** The Company is headed by the Chief Executive Officer. The Company's Chief Financial Officer, Resident Director, and Director Cane report directly to the CEO. Internal Audit, HR & IT are headed by separate managers and they report functionally to CEO and CFO. However, the head of Internal Audit and HR functionally reports to the Board Audit Committee and Board HR & Remuneration Committee and the Company Secretary functionally reports to the Board's Chairman.

**Management Team** Management has long association with Mehran Sugar adding the required experience in sugar industry and their respective fields. Mr. Ahmed Ebrahim Hasham acts as the CEO of the Company and has 21 years of practical experience in various sectors.

**Effectiveness** The Company has instituted an Executive Committee comprising all heads of departments. The Committee is headed by the CEO and meets on a monthly basis to review performance and enable short-term decision making.

**MIS** Mehran Sugar has deployed an in-house system which has a sugar cane management module, store management module and human resources module. These are all integrated with the accounting system which is also developed in-house.

**Control Environment** The Company has outsourced the internal audit function to Grant Thornton Anjum Rahman.

## Business Risk

**Industry Dynamics** Pakistan's sugar industry is the country's 2nd largest agro-based industry, comprising 90 mills with an annual crushing capacity estimated ~ 65–70mln MT. The support price of sugarcane, set by the Government considering the cost incurred by farmers, remains a constraint. The Government increased the support price of sugarcane to PKR 250 per maund for mills operating in Sindh (previously, it was increased to PKR 202). Actual realized sugarcane prices at the mill gate were even higher. During MY21, the overall sugar production increased by 15%, YoY, to 5.7mln MT (MY20: 4.9mln MT) due to better crop availability and an increase in area under cultivation. Sugar prices remained inflated in the local market. To curb this, the Government planned to import 0.8mln MT of sugar. Out of this, 0.3mln MT was imported till Jun-21, whereas, 0.3mln MT was imported till Nov-21. During the current crushing season (MY22), a surge of 10-15% is expected in sugarcane production resulting in an increased total sugar production of ~7mln MT. This along with high sugar prices are expected to remain favorable for the millers.

**Relative Position** The Company contributed approximately ~2% to the total sugar production in the country.

**Revenues** The Company generates most of its revenue from the sale of refined sugar (~90%). However, sale of molasses (7%) and bagasse (2%) also contribute to the Company's turnover. During MY21, the Company's topline dipped slightly and stood at PKR 6.0bln (MY20: PKR 6.4bln) mainly due to lower volumetric sales. The management expects the revenue to post growth, going forward, owing to less sugar cane procurement challenges.

**Margins** During MY21, the Company posted an increased gross margin of ~10.5%, as compared to ~7.2% in the corresponding period due to higher selling price of sugar compared to the costs incurred by the Company. Similarly, operating margin stood at 5.4% (MY20: 3.1%). At net level, the Company's bottom-line suffered due to impairment losses and loss on equity instruments resulting in net loss of PKR 24mln for the year. Net profit margin dipped to -0.4% (MY20: 0.7%). Going forward, the margins are expected to remain high owing to the favorable industry dynamics.

**Sustainability** Strong demand coupled with high prices in the local market is expected to bode well for the company in future.

## Financial Risk

**Working Capital** In MY21, the Company was able to improve net working capital days on the back of lower inventory days due to offload of carry over stock during the period. Inventory days in MY21 dropped to 19 days as compared to 32 days in MY20. As a result of this, net working capital days stood at 12 days in MY21 (MY20: 21 days). Short-term trade leverage improved significantly but still remains stretched.

**Coverages** Free cash flows stood at ~PKR 463mln in MY21 (MY20: ~PKR 436mln). The Company finance cost stood at PKR 265mln in MY21 (MY20: PKR 342mln). Interest cover improved to 1.8x during MY21 (MY20: 1.0x) and debt coverage ratio remained stable at 0.7x. Debt Payback period increased to 6.7x. The coverages are expected to remain adequate, going forward.

**Capitalization** The Company has a moderately leveraged capital structure, represented by a debt-to-equity ratio of ~49% as at MY21. Total debt is inclined towards short-term borrowings which represented ~44% of total borrowings as at MY21. Short-term lines are utilized to support operations during the crushing cycle. As at MY21, total borrowings stood at ~PKR 2,406mln (MY20: PKR 1,579mln).

The Pakistan Credit Rating Agency Limited

*Financial Summary*
*PKR mln*

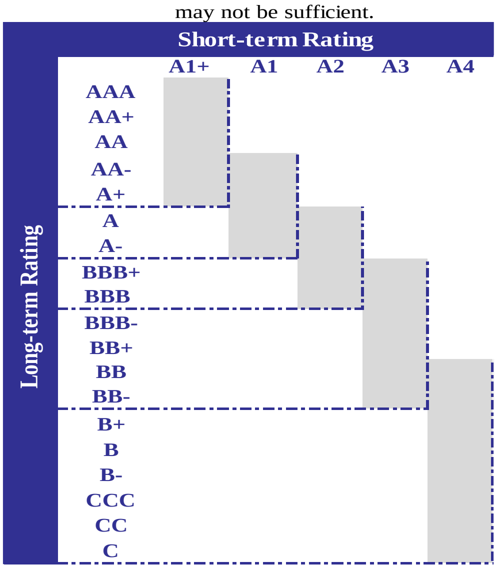
| Mehran Sugar Mills | Sep-21 | Mar-21 | Sep-20 | Mar-20 | Sep-19 |
|---|---|---|---|---|---|
| Sugar | 12M | 6M | 12M | 6M | 12M |
| **A BALANCE SHEET** | | | | | |
| 1 Non-Current Assets | 2,630 | 2,207 | 2,273 | 2,333 | 2,192 |
| 2 Investments | 1,317 | 1,324 | 1,108 | 808 | 995 |
| 3 Related Party Exposure | 1,053 | 1,176 | 1,236 | 1,293 | 1,363 |
| 4 Current Assets | 893 | 4,899 | 584 | 4,273 | 2,413 |
| *a Inventories* | *562* | *3,817* | *61* | *3,313* | *1,061* |
| *b Trade Receivables* | *70* | *294* | *18* | *365* | *79* |
| **5 Total Assets** | 5,893 | 9,606 | 5,201 | 8,707 | 6,963 |
| 6 Current Liabilities | 666 | 1,855 | 687 | 2,001 | 1,334 |
| *a Trade Payables* | *155* | *182* | *157* | *305* | *311* |
| 7 Borrowings | 2,406 | 4,499 | 1,579 | 3,816 | 2,833 |
| 8 Related Party Exposure | - | - | - | - | - |
| 9 Non-Current Liabilities | 325 | 355 | 327 | 423 | 382 |
| **10 Net Assets** | 2,496 | 2,897 | 2,608 | 2,467 | 2,415 |
| **11 Shareholders' Equity** | 2,496 | 2,897 | 2,608 | 2,467 | 2,415 |
| **B INCOME STATEMENT** | | | | | |
| **1 Sales** | 6,064 | 2,483 | 6,425 | 3,112 | 5,312 |
| *a Cost of Good Sold* | *(5,427)* | *(1,915)* | *(5,960)* | *(2,512)* | *(4,491)* |
| **2 Gross Profit** | 637 | 567 | 465 | 600 | 820 |
| *a Operating Expenses* | (307) | (138) | (266) | (138) | (315) |
| **3 Operating Profit** | 330 | 430 | 199 | 463 | 506 |
| *a Non Operating Income or (Expense)* | *(47)* | *104* | *306* | *6* | *391* |
| **4 Profit or (Loss) before Interest and Tax** | 282 | 534 | 505 | 468 | 897 |
| *a Total Finance Cost* | *(265)* | *(127)* | *(342)* | *(207)* | *(385)* |
| *b Taxation* | *(42)* | *(108)* | *(116)* | *(151)* | *(108)* |
| **6 Net Income Or (Loss)** | (24) | 299 | 47 | 110 | 404 |
| **C CASH FLOW STATEMENT** | | | | | |
| *a Free Cash Flows from Operations (FCFO)* | *463* | *694* | *324* | *522* | *647* |
| *b Net Cash from Operating Activities before Working Capital Changes* | *458* | *743* | *156* | *300* | *338* |
| *c Changes in Working Capital* | *(587)* | *(3,224)* | *560* | *(1,823)* | *811* |
| **1 Net Cash provided by Operating Activities** | (129) | (2,480) | 716 | (1,523) | 1,149 |
| **2 Net Cash (Used in) or Available From Investing Activities** | (660) | (209) | 1 | 13 | (168) |
| **3 Net Cash (Used in) or Available From Financing Activities** | 790 | 2,912 | (1,380) | 888 | (324) |
| **4 Net Cash generated or (Used) during the period** | 1 | 223 | (663) | (622) | 657 |
| **D RATIO ANALYSIS** | | | | | |
| **1 Performance** | | | | | |
| *a Sales Growth (for the period)* | -5.6% | -22.7% | 21.0% | 17.2% | -- |
| *b Gross Profit Margin* | 10.5% | 22.9% | 7.2% | 19.3% | 15.4% |
| *c Net Profit Margin* | -0.4% | 12.0% | 0.7% | 3.6% | 7.6% |
| *d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)* | -2.0% | -101.9% | 13.8% | -41.8% | 27.4% |
| *e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/Sh* | -0.9% | 21.7% | 1.9% | 9.1% | 16.7% |
| **2 Working Capital Management** | | | | | |
| *a Gross Working Capital (Average Days)* | 21 | 154 | 35 | 141 | 78 |
| *b Net Working Capital (Average Days)* | 12 | 142 | 21 | 123 | 57 |
| *c Current Ratio (Current Assets / Current Liabilities)* | 1.3 | 2.6 | 0.8 | 2.1 | 1.8 |
| **3 Coverages** | | | | | |
| *a EBITDA / Finance Cost* | 2.4 | 5.9 | 1.4 | 2.8 | 1.9 |
| *b FCFO / Finance Cost+CMLTB+Excess STB* | 0.7 | 2.4 | 0.7 | 1.4 | 0.9 |
| *c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)* | 6.7 | 1.1 | -87.4 | 1.7 | 4.1 |
| **4 Capital Structure** | | | | | |
| *a Total Borrowings / (Total Borrowings+Shareholders' Equity)* | 49.1% | 60.8% | 37.7% | 60.7% | 54.0% |
| *b Interest or Markup Payable (Days)* | 70.6 | 111.7 | 21.9 | 98.8 | 120.6 |
| *c Entity Average Borrowing Rate* | 8.9% | 8.1% | 12.5% | 12.3% | 13.4% |

## 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+<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 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**