



The Pakistan Credit Rating Agency Limited

## Rating Report

### Warble (Pvt.) Limited

#### Report Contents

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
26-Aug-2021	BBB-	A3	Stable	Maintain	-
26-Aug-2020	BBB-	A3	Stable	Upgrade	-
27-Aug-2019	BB+	A3	Stable	Maintain	-
25-Feb-2019	BB+	A3	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

Warble (Pvt.) Limited (herein referred to as 'Warble' or 'the Company') operates in three segments, namely: i) Pesticides ii) Seeds and iii) Fertilizer. The Company over time expanded its operations by entering into different businesses in the agriculture industry while achieving operational efficiency. The Company is part of one of the pioneer groups of the industry. After incorporation in 1995, the Company has been able to cement its position as a major market player in the sector. Warble has reported adequate turnover, with good contribution of each segment, while pesticide remains the predominant segment in terms of revenue. Profitability of the Company, though, has room for improvement. The Company's plant is located at Khanewal; near home market (Multan), which benefits its cost structure. Warble has secured its sales by the franchise network named 'AGROMART', complimented by frequent interaction with the end consumers. It meets its working capital requirements through a mix of internal cashflows and short-term borrowings. However, the financial risk remains under control, on account of low long-term borrowings and adequate coverages. Supply mechanism of raw material, predominantly from China, was under pressure, in the wake of the global COVID-19 pandemic. Subsequent to the ease in lockdown restrictions, such constraints have subsided. The ratings take comfort from the sponsor strength, with AllahDin Group having interests in various segments of the agriculture industry, for more than two decades. Having a diversified product mix bodes well for the Company and the group, in the wake of an ever-changing industry. The ratings also take into account the superior quality of the production process and notable production capacity of the Company. Going forward, the improvement in bottom-line and cash flows, standardization in governance structure and financial transparency is vital.

The ratings are dependent on the improvement in business and financial profile of the Company. Any deterioration to topline, margins or cash flows remain critical to the ratings. The Company's sustained business performance in the currently stretched economic scenario, amid COVID-19 remains vital to the ratings.

#### Disclosure

<b>Name of Rated Entity</b>	Warble (Pvt.) Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Corporate Rating(Jun-21),Criteria   Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria   Rating Modifiers(Jun-21)
<b>Related Research</b>	Sector Study   Pesticides(Feb-21)
<b>Rating Analysts</b>	Muhammad Noor Ul Haq   noorulhaq@pacra.com   +92-42-35869504

## Profile

**Legal Structure** Warble (Pvt.) Limited (herein referred to as 'Warble' or 'the Company'), one of the pioneer companies of the AllahDin Group, is a private limited Company. Warble is engaged in pesticide formulation, seed and fertilizer sales in the country. It primarily deals through the franchise network, called 'AgroMart'.

**Background** Warble is one of the main pesticide companies in Pakistan which came into existence in 1995, established as the second Company by the AllahDin Group. In the 1980's, the sponsoring family was mainly engaged in the construction business, whereas one sibling was associated with the agriculture industry, having the required knowledge of the sector. Before Warble's incorporation, the sponsoring family established the first Company by the name of Welcon Chemicals (Pvt.) Limited, in order to break the monopoly of multinational companies, along with other companies like Ali Akber Group and 4 Brothers (4B) group.

**Operations** Warble's head office is located in Lahore. The formulation facility is at Jhanian Multan (referred to as the Heart of Cotton Belt) equipped with Chinese machinery and technology. It is spread over 4 acres of land. Currently, the Company is operating with over 500 employees, mainly consisting of Sales & Marketing teams, given its importance in the pesticide business.

## Ownership

**Ownership Structure** There has been a recent shift in the ownership structure of the Company. Shareholding of the founding generation comprising Ch. Ifitikhar Nazir, the Group Chairman, and his brother Mr. Atta Ur Rehman, the CEO of Warble, has been transferred to their respective sons. The Company is now majority owned by the two cousins, Mr. Masood Ur Rehman (51.0%) and Mr. Zain Ifitikhar (47.5%), while the rest of the ownership is held by Ch. Ifitikhar's wife, Mrs. Ghazala Asmat Ghazali.

**Stability** As evident from the above, clear succession lines have been drawn and implemented, throughout the Allahdin Group.

**Business Acumen** The Allahdin Group family has been associated with the agriculture sector for a considerable amount of time. The Group encompasses a number of companies in its ambit.

**Financial Strength** The history of the Allahdin Group dates back to the 1990's. The Group reported a turnover of PKR ~4bln in FY20. It has vested business interests in Agriculture, Bottling, and the Pharmaceutical industry.

## Governance

**Board Structure** The overall control vests with a three-member Board of Directors. Mr. Masood Ur Rehman and Mr. Zain Ifitikhar hold executive positions on the Board while Mrs. Ghazala Asmat Ghazali, the wife of Ch. Ifitikhar Nazir, is a non-executive member.

**Members' Profile** The Board members carry adequate skills, competence and knowledge.

**Board Effectiveness** There are no formal board committees in place. The meetings of the Board with senior management are conducted on a frequent basis. Proper record is kept, in hard files and the ERP system of the Company.

**Financial Transparency** M/s. Tabussum Saleem and Co., Chartered Accountants, a QCR rated firm, is the external auditor of the company. It has given an unqualified opinion on the Company's financial statements for the year ended June'20. Overall, the financial transparency of the Company, has room for improvement.

## Management

**Organizational Structure** Warble has a lean organizational structure, divided into four key functions, namely (i) Sales & Marketing, (ii) Finance, (iii) HR & IT and (iv) Taxation & Accounts. Each function reports to the COO and the CEO, who ultimately report to the Chairman.

**Management Team** The Group Chairman, Ch. Ifitikhar Nazir is the pioneer of AllahDin Group of companies. Mr. Masood Ur Rehman is CEO of the Company. Mr. Zain Ifitikhar Chaudhry, son of Ch. Ifitikhar Nazir is COO of Warble. He is a graduate in Financial Management Services, from York University, Toronto. He has been following the footsteps of his father and has started looking after the family businesses.

**Effectiveness** Meetings of management are conducted on a frequent basis, depending upon the requirement. Senior management gives input in the decision making while Ch. Ifitikhar Nazir is the final authority for all decision-making processes.

**MIS** The Company deploys an ERP system and generates reports on daily, weekly and monthly basis.

**Control Environment** Warble's plant is located in the hub of Agriculture, Jhanian Multan while its head office is based in Lahore. In order to avoid freight charges the Company followed a strategy to locate the plant in the center of Punjab. There is room for improvement in internal controls and systems, particularly in terms of adopting good governance practices and management of timely financial reporting.

## Business Risk

**Industry Dynamics** Pakistan's agricultural sector holds a ~19% contribution to its GDP, showcasing its importance to the economy. The pesticide industry is an important segment of agriculture, since it is one of the major crop inputs. The size of the pesticide market is estimated to be in the range of PKR~60bln to PKR~75bln. The local pesticide market is import dependent, with ~20% to ~30% of the pesticide cost component being imported to the country, majorly from China. The absolute dependence on imports, presents the risk of supply constraints amid a lag in international trade, as was the case briefly, in the initial months of the worldwide lockdown, in the wake of the pandemic Covid-19. On the other hand, the demand for necessities is in-elastic, which bodes well for the sustenance of the industry, even in times of economic contraction. The issue of locust swarms, if aggravated, may add some uncertainty to the future demand side mechanics. The pesticide market is fragmented, comprising MNCs and local Companies. Major players (11) make up ~81% of the total pesticide market.

**Relative Position** The AllahDin Group holds a strong position and brand name in the industry. The Group, overall, holds ~10% market share in the industry and is the 4th largest group in pesticides after Syngenta, Ali Akber and Sun Crop.

**Revenues** In 9MFY21, the Company reported a topline of PKR~1,495m (9MFY20: PKR~1,780m), depicting YoY decline of 15.9%. FY20, the Company reported a topline of PKR~2,249m (FY19: PKR~2,171m), depicting a YoY growth of 3.6%. The largest contributor to the topline, is the Pesticides segment (75%), followed by Fertilizer (15%) and Seed (10%). Turnover of Pesticides was dominated by the hugely popular Insecticides (60%), followed by Herbicides (30%) and Fungicides (10%). Majority of the offtake takes place in Punjab (70%), followed by Sindh (20%) and KPK (10%). The Company operates under the franchise network called 'AgroMart', in which sales are mostly undertaken on credit.

**Margins** The prices are decided by the supply demand gap in the industry. The company has been able to secure its margins by controlling its costs. Gross profit margins at 9MFY21 stood at 21.2% (9MFY20: 17.9%) while Net margin for the same periods stood at 3.0% (9MFY20: 3.3%).

**Sustainability** Going forward, the management will keep its focus on sustaining its cost leadership and performance uptrend. The Company is securing its business by registering its farmers and providing them pesticides and in return purchasing their crops. The idea was implemented in the segments of cotton and wheat.

## Financial Risk

**Working Capital** The Company's networking capital requirements is a function of inventory, receivables and payables. Albeit still high, during 9MFY21, the net cash cycle increased to 158 days (FY20: 133 days). The net cash cycle increased due to a rise in the trade receivables. The Company meets working capital requirements through a mix of internal cashflows and Short-Term Borrowings (STBs). The quantum of STBs stood at PKR~291m as at 9MFY21 (FY20: PKR~540m). The current ratio for 9MFY21 remained stable at 2.3x (FY20: 2.3x).

**Coverages** During 9MFY21, the Company's EBITDA amounted to PKR~155m (FY20: PKR~196m). FCFO of the Company for the same period also reached healthier levels by clocking in at PKR~136m (FY20: PKR~165m). Even though there has been a growth in this regard, such figures are still deemed low, when compared with peers. FCFO to Interest coverage in 9MFY21 remained stable at 2.2x (FY20: 2.4x).

**Capitalization** As at 9MFY21, the Company's total leveraging stood at PKR~362m (FY20: PKR~580m), including the leased financing. The Company's exposure is mainly in short term borrowing. Warble's equity stands at PKR~880m (FY20: PKR~835m) which has increased due to a rise in the unappropriated profits. Gearing ratio decreased to 29% (FY20: 41%) primarily due to lower borrowing amount.



Warble (Pvt.) Limited Pesticides	Mar-21 9M	Jun-20 12M	Jun-19 12M	Jun-18 12M
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**A BALANCE SHEET**

1 Non-Current Assets	343	300	330	294
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	1,663	2,033	1,970	1,551
<i>a Inventories</i>	1,162	1,585	1,658	985
<i>b Trade Receivables</i>	195	104	73	312
<b>5 Total Assets</b>	<b>2,006</b>	<b>2,333</b>	<b>2,299</b>	<b>1,845</b>
6 Current Liabilities	732	884	1,250	870
<i>a Trade Payables</i>	572	745	1,036	803
7 Borrowings	362	580	247	227
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	33	33	19	18
<b>10 Net Assets</b>	<b>878</b>	<b>835</b>	<b>783</b>	<b>730</b>
<b>11 Shareholders' Equity</b>	<b>880</b>	<b>835</b>	<b>783</b>	<b>730</b>

**B INCOME STATEMENT**

1 Sales	1,494	2,249	2,171	1,982
<i>a Cost of Good Sold</i>	(1,177)	(1,832)	(1,795)	(1,668)
<b>2 Gross Profit</b>	<b>317</b>	<b>418</b>	<b>376</b>	<b>314</b>
<i>a Operating Expenses</i>	(183)	(245)	(231)	(208)
<b>3 Operating Profit</b>	<b>134</b>	<b>173</b>	<b>145</b>	<b>105</b>
<i>a Non Operating Income or (Expense)</i>	(5)	(6)	(4)	(4)
<b>4 Profit or (Loss) before Interest and Tax</b>	<b>129</b>	<b>167</b>	<b>141</b>	<b>102</b>
<i>a Total Finance Cost</i>	(62)	(67)	(61)	(50)
<i>b Taxation</i>	(22)	(47)	(27)	(18)
<b>6 Net Income Or (Loss)</b>	<b>45</b>	<b>52</b>	<b>53</b>	<b>34</b>

**C CASH FLOW STATEMENT**

<i>a Free Cash Flows from Operations (FCFO)</i>	136	165	139	115
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	75	98	78	65
<i>c Changes in Working Capital</i>	209	(433)	(43)	(110)
<b>1 Net Cash provided by Operating Activities</b>	<b>284</b>	<b>(335)</b>	<b>35</b>	<b>(45)</b>
<b>2 Net Cash (Used in) or Available From Investing Activities</b>	<b>-</b>	<b>(0)</b>	<b>10</b>	<b>6</b>
<b>3 Net Cash (Used in) or Available From Financing Activities</b>	<b>(287)</b>	<b>336</b>	<b>(49)</b>	<b>43</b>
<b>4 Net Cash generated or (Used) during the period</b>	<b>(3)</b>	<b>1</b>	<b>(4)</b>	<b>4</b>

**D RATIO ANALYSIS**

<b>1 Performance</b>				
<i>a Sales Growth (for the period)</i>	-11.4%	3.6%	9.5%	-6.8%
<i>b Gross Profit Margin</i>	21.2%	18.6%	17.3%	15.8%
<i>c Net Profit Margin</i>	3.0%	2.3%	2.4%	1.7%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	23.1%	-11.9%	4.4%	0.2%
<i>e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]</i>	7.0%	6.5%	7.0%	4.8%
<b>2 Working Capital Management</b>				
<i>a Gross Working Capital (Average Days)</i>	279	277	319	231
<i>b Net Working Capital (Average Days)</i>	158	133	164	82
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	2.3	2.3	1.6	1.8
<b>3 Coverages</b>				
<i>a EBITDA / Finance Cost</i>	2.5	2.9	2.8	2.5
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	1.5	1.8	1.4	1.5
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	0.7	0.4	1.0	0.8
<b>4 Capital Structure</b>				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	29.1%	41.0%	24.0%	23.7%
<i>b Interest or Markup Payable (Days)</i>	0.0	0.0	10.3	17.2
<i>c Entity Average Borrowing Rate</i>	17.8%	19.7%	25.6%	26.4%

**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.

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+	<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	
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	<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.
CC	
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):

<p><b>Entities</b></p> <ul style="list-style-type: none"> <li>a) Broker Entity Rating</li> <li>b) Corporate Rating</li> <li>c) Financial Institution Rating</li> <li>d) Holding Company Rating</li> <li>e) Independent Power Producer Rating</li> <li>f) Microfinance Institution Rating</li> <li>g) Non-Banking Finance Companies (NBFCs) Rating</li> </ul>	<p><b>Instruments</b></p> <ul style="list-style-type: none"> <li>a) Basel III Compliant Debt Instrument Rating</li> <li>b) Debt Instrument Rating</li> <li>c) Sukuk Rating</li> </ul>
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(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

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- (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)

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- (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)

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- (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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