



The Pakistan Credit Rating Agency Limited

## Rating Report

### Secure Logistics Group Limited

#### Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

#### Rating History

| Dissemination Date | Long Term Rating | Short Term Rating | Outlook | Action   | Rating Watch |
|--------------------|------------------|-------------------|---------|----------|--------------|
| 15-Oct-2022        | A                | A2                | Stable  | Maintain | -            |
| 15-Oct-2021        | A                | A2                | Stable  | Upgrade  | -            |
| 03-Apr-2021        | A-               | A2                | Stable  | Maintain | -            |
| 03-Apr-2020        | A-               | A2                | Stable  | Initial  | -            |

#### Rating Rationale and Key Rating Drivers

Secure Logistics Group Limited (“SLG or the Company”) is a growth oriented company engaged in logistics and vehicle fleet management businesses. The logistic business is primarily focused upon transportation of cargos over long and medium distances through its long-haul (bulk and containerized cargos) and the distribution (beverage and non-beverage containerized cargos) segments. The vehicle fleet management business involves the vehicles’ tracking services and other advanced fleet management solutions. The ratings reflect Company’s strong ownership as reflected by equity injection from prominent international investors, robust governance structure, a well-established clientele base and professionally qualified management that has steered the Company’s operation in a difficult macro business environment. As the domestic economy gradually recovers from the combined effects of COVID-19 and lately flood driven massive damage to logistics and supply chain infrastructure, the overall load volumes are expected to grow. In addition, the expected filling of remaining gaps in CPEC related infrastructure projects such as Sukkur-Hyderabad highway will provide further impetus to the logistic industry. Notwithstanding the macro level hurdles, the Company’s top line grew by ~11% with largely sustained margins in a recent period review. The Company’s Board of Directors has decided to transform SLG from a traditional to tech-based logistics operations. Consequently, the Company, through its fully owned subsidiary, LogiServe (Pvt) Ltd (“LogiServe”) has acquired a license from Special Technology Zone Authority (“STZA”). The ensuing amalgamation of LogiServe into SLG and the planned tech pivot from traditional to tech-enabled logistics through a contracted B2B Marketplace and related package of software modules is expected to expedite the scaling up of logistic business and accrue substantial tax savings. As part of its expansion strategy, SLG has solicited all requisite approvals for an IPO in Q1 2022. Due to the extremely adverse market conditions, the initiative was put on hold. SLG is now aiming for another round of capital raising from private equity partners mainly to meet the tech based CAPEX requirement, adding the new warehousing business vertical, procurement of a small number of Distribution vehicles to be able to deliver the 3 PL logistic services across the country and partial deleveraging. The management has a conservative appetite for any incremental borrowings. Financial risk profile of the Company is considered adequate with comfortable coverages, cashflows, and working capital cycle. Capital structure is moderately leveraged and mainly comprise of long-term vehicle fleet lease financings.

The ratings are dependent upon the improvement in business profile and successful implementation of business strategy. A prudent financial performance, an effective liquidity profile, and maintaining financial discipline shall remain imperative.

#### Disclosure

|                              |  |
|------------------------------|--|
| <b>Name of Rated Entity</b>  | Secure Logistics Group 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   Trucks & Buses(Dec-21)  |
| <b>Rating Analysts</b>       | Sohail Ahmed Qureshi   sohail.ahmed@pacra.com   +92-42-35869504  |

## Profile

**Legal Structure** Secure Logistics Group Limited ("SLG or the Company") is a Public Ltd (unlisted) Company, formerly known as Asia Capital (Pvt) Ltd, was established in 2013.

**Background** The Company commenced the logistic operation through its subsidiary, SecurLog (Pvt) Ltd and vehicle tracking business through another subsidiary, SecurTrack (Pvt) Ltd. Following up on a Restructuring in 2017, both subsidiary companies were amalgamated into SLG.

**Operations** SLG provides logistics and vehicle fleet management solutions to leading corporates, financial institutions, insurance and leasing companies.

## Ownership

**Ownership Structure** The Sponsor Shareholder, Mr. Pervaiz Khan, Mr. Gulraiz Khan and Ms. Afshan Nasir cumulatively own ~74% of the shareholding. The remaining shareholding is held by Karandaaz Pakistan and Saudi Bugshan Group in equal proportion.

**Stability** Mr. Gulraiz Khan, Chief Executive Officer, has been associated with the company since inception and was joined by Mr. Pervaiz Khan during 2013. The shareholding structure has remained stable.

**Business Acumen** The Company has established itself as a growth-oriented logistic player with focus on Long-haul and Distribution segments. It has a country-wide footprint and serves a wide variety of clients under the long-term contracted B2B model. SLG's BoD has decided to transform SLG from a traditional to a tech-based logistics operation. Consequently, the Company, through its fully owned subsidiary, LogiServe (Pvt) Ltd ("LogiServe") has acquired a license from Special Technology Zone Authority ("STZA"). The ensuing amalgamation of LogiServe into SLG and the planned tech pivot from traditional to tech-enabled logistics through a contracted B2B Marketplace.

**Financial Strength** The Sponsor Shareholders are not involved in any other business except for the ones owned by SLG. Equity investment by foreign-owned entities has bolstered SLG's standing.

## Governance

**Board Structure** Inclusive of the representation by new shareholders (Saudi Bugshan Group and Karandaaz Pakistan) and two independent Directors, the size of Company's BoD increased to eight Members.

**Members' Profile** The Members of the BoD have a good mix of skills and extensive experiences across diverse industries. Mr. Pervaiz Khan, Executive Director has more than three decades of experience in public and private sectors with a focus upon Investment Banking and Energy industries. He has served as CEO, Uch Power I and II (Pvt.) Ltd. which operates as part of a USD 2.5 Bn Uch energy complex. In addition, he was the Country Delegate Pakistan for GDF Suez (the Group Holding Company) and a member of International Power's Asia Excom, responsible for supervising an aggregate portfolio of 5,000 M/Ws. He has been a member of several Board of Directors/Supervisory Bodies: Privatization Commission, PSO, Government Power Holdings (Pvt.) Ltd, Lahore University of Management Sciences and the Ambassador Program (for Pakistan) of Columbia Business School. Mr Gulraiz Khan has been managing SLG's businesses since inception. He holds Master in Defense Management Studies, NDU, Pakistan; Masters in Strategy from Command & General Staff College, Fort Leavenworth, USA; & MBA from London Business School.

**Board Effectiveness** The Board comprises of professionals from varying backgrounds with each Member contributing as per his/her area of expertise.

**Financial Transparency** M/S Crowe Hussain Chaudhury & Co. Chartered Accountants is the incumbent external auditor of the Company. The firm is QCR rated and categorized as "A" in the SBP list of auditors. For the year ending December 31st, 2021, the external auditor's report carries an unqualified opinion with regard to the deferred taxes.

## Management

**Organizational Structure** The Company is organized around the Business Lines and Support Functions. All operational activities are managed by Mr. Gulraiz Khan, whereas Pervaiz Khan is responsible for the Support Functions of Accounts & Finance, HR, Administration & Procurement, Legal & Contracts and IT.

**Management Team** Gulraiz Khan is employed as the Chief Executive Officer and Mr Pervaiz Khan is the Executive Director, Support Functions. They are supported by a tiered management structure comprising of three levels - senior, middle and junior. The overall management team is suitably qualified and well experienced. It has demonstrated commitment, dedication and endeavored hard for Company's growth.

**Effectiveness** SLG has a robust control environment organized around operational SOPs; financial approvals matrix; MIS reporting packages; policies covering all functions such as HR, Administration & Procurement and IT; and insurance coverage of all assets. The Company is in the process to further strengthen the control environment through an implementation of ERP (SAP B1), appointment of internal auditors and updating of all Manuals.

**MIS** The Company follows a substantial reporting package with weekly, bi-monthly, monthly and quarterly MIS reports generated and presented by all Businesses and Support Functions. The key milestone is the quarterly presentations of consolidated MISs by senior management (Head of Businesses and Functions). The implementation of ERP (SAP B1) by end year 2022 will help improve the MIS substantially.

**Control Environment** SLG maintains a robust control environment documented through various manuals and stand-alone SOPs.

## Business Risk

**Industry Dynamics** The domestic logistic industry generally and the transportation sector specifically, are highly fragmented with domination of small players. The process of corporatization with entry of larger players is evolving slowly. The factors that augur well for the industry are demand and supply gap, lack of alternative means of transportation such as railway and the spread of population centers across the vast territory of Pakistan. However, the entry barriers in form of CAPEX requirement and operational hurdles are also substantial. The CPEC related benefits are yet to accrue fully. It is expected that with the completion of gaps in CPEC related infrastructure such as Sukkur-Hyderabad motorway and Industrial Parks/Special Economic Zones ("SEZs") and implementation of China's vision to move 300-400 Mn tons of cargo per year through CPEC route(s) by year 2030, the Logistics Industry of Pakistan will witness exponential growth.

**Relative Position** Overall this industry is fragmented and divided into an unorganized sector of 80% and organized 20%. The 20% of the organized sector is further divided between major players such as National Logistics Cell ("NLC"), SLG, Bashir Siddiq Logistics ("BSL"), Engro Logistics, etc. Based on its clients' portfolio, the Company has established itself well in dry containerized and bulk cargo segments.

**Revenues** During CY21, the Company recorded a revenue of PKR 1,350mln as compared to PKR 1,017mln in CY20. The Company has long-term contracts with large-scale manufacturing corporate clients in the food, cement, steel and packaging sectors. During the six months period ending at June 30th, 2022, the Company's revenue stood at PKR 747mln.

**Margins** Gross margins reached ~34% in CY21 (CY20: ~33%). The operating margin was recorded at ~27% while the net profit margin was recorded at ~21%. The net profit showed continuous growth and was reported at PKR ~284mln (CY20: PKR ~229mln, CY19: PKR ~133mln). In 6M CY22, the net profit margin stood at 20% with the bottom line of PKR 150mln.

**Sustainability** SLG is aiming to conclude its tech pivot by Q1 2023 and addition of reasonable Distribution vehicles along with the initiation of warehousing vertical by mid 2023. For this purpose, the Company is preparing to execute its next round of equity capital in the range of Rs1.25bln.

## Financial Risk

**Working Capital** Net working capital days of the Company were recorded at ~8 days as of CY21 (CY20: negative18) while maintaining a current ratio of 4.3x. The Company has running finance facilities from major banks in the country. However, in 6MCY22 the net working capital days further improved to 19 days.

**Coverages** Free Cash Flow from operations of the Company stood at PKR ~520mln in CY21 (CY20: 362mln). The Company's interest coverage ratio has reached to 7.8x times in CY21 (CY20: ~7.6x). The FCFO in 6M CY22 stood at PKR ~233mln.

**Capitalization** During CY21, the Company's leverage stood at ~31% in CY21 (CY20: ~28%). The total long-term borrowing of the Company was PKR 981mln as of CY21 (CY20: PKR832mln). Short-term borrowings constitute PKR 211mln which is ~22% of the total borrowings in CY21 (CY20: PKR 141mln). In 6M CY22, the total borrowings stood at PKR 931mln which consists of short-term borrowings of PKR 352mln.



| Secure Logistics Group Limited | Jun-22 | Dec-21 | Dec-20 | Dec-19 |
|--------------------------------|--------|--------|--------|--------|
| Logistics                      | 6M     | 12M    | 12M    | 12M    |

**A BALANCE SHEET**

|                                |              |              |              |              |
|--------------------------------|--------------|--------------|--------------|--------------|
| 1 Non-Current Assets           | 3,065        | 2,931        | 2,710        | 1,795        |
| 2 Investments                  | -            | -            | -            | -            |
| 3 Related Party Exposure       | 265          | 233          | 188          | 277          |
| 4 Current Assets               | 704          | 755          | 527          | 480          |
| <i>a Inventories</i>           | -            | -            | -            | -            |
| <i>b Trade Receivables</i>     | 152          | 145          | 70           | 152          |
| <b>5 Total Assets</b>          | <b>4,034</b> | <b>3,919</b> | <b>3,425</b> | <b>2,552</b> |
| 6 Current Liabilities          | 136          | 174          | 210          | 384          |
| <i>a Trade Payables</i>        | 81           | 63           | 92           | 229          |
| 7 Borrowings                   | 931          | 981          | 832          | 1,151        |
| 8 Related Party Exposure       | 270          | 267          | 178          | 123          |
| 9 Non-Current Liabilities      | 11           | 16           | 9            | 6            |
| <b>10 Net Assets</b>           | <b>2,686</b> | <b>2,481</b> | <b>2,197</b> | <b>888</b>   |
| <b>11 Shareholders' Equity</b> | <b>2,631</b> | <b>2,481</b> | <b>2,197</b> | <b>888</b>   |

**B INCOME STATEMENT**

|   |            |            |            |            |
|---|------------|------------|------------|------------|
| 1 Sales   | 747        | 1,350      | 1,017      | 940        |
| <i>a Cost of Good Sold</i>                        | (445)      | (890)      | (684)      | (559)      |
| <b>2 Gross Profit</b>                             | <b>302</b> | <b>460</b> | <b>333</b> | <b>380</b> |
| <i>a Operating Expenses</i>                       | (128)      | (95)       | (93)       | (140)      |
| <b>3 Operating Profit</b>                         | <b>175</b> | <b>365</b> | <b>239</b> | <b>240</b> |
| <i>a Non Operating Income or (Expense)</i>        | 33         | 55         | 106        | 59         |
| <b>4 Profit or (Loss) before Interest and Tax</b> | <b>208</b> | <b>420</b> | <b>345</b> | <b>299</b> |
| <i>a Total Finance Cost</i>                       | (41)       | (79)       | (89)       | (128)      |
| <i>b Taxation</i>                                 | (16)       | (58)       | (27)       | (37)       |
| <b>6 Net Income Or (Loss)</b>                     | <b>150</b> | <b>284</b> | <b>229</b> | <b>133</b> |

**C CASH FLOW STATEMENT**

|  |              |              |                |              |
|--|--------------|--------------|----------------|--------------|
| <i>a Free Cash Flows from Operations (FCFO)</i>                            | 233          | 520          | 362            | 422          |
| <i>b Net Cash from Operating Activities before Working Capital Changes</i> | 191          | 424          | 282            | 317          |
| <i>c Changes in Working Capital</i>  | (23)         | (259)        | (14)           | (77)         |
| <b>1 Net Cash provided by Operating Activities</b>                         | <b>168</b>   | <b>165</b>   | <b>268</b>     | <b>240</b>   |
| <b>2 Net Cash (Used in) or Available From Investing Activities</b>         | <b>(206)</b> | <b>(386)</b> | <b>(1,031)</b> | <b>(854)</b> |
| <b>3 Net Cash (Used in) or Available From Financing Activities</b>         | <b>6</b>     | <b>203</b>   | <b>737</b>     | <b>585</b>   |
| <b>4 Net Cash generated or (Used) during the period</b>                    | <b>(32)</b>  | <b>(19)</b>  | <b>(26)</b>    | <b>(30)</b>  |

**D RATIO ANALYSIS**

|  |       |       |       |        |
|--|-------|-------|-------|--------|
| <b>1 Performance</b>   |       |       |       |        |
| <i>a Sales Growth (for the period)</i>   | 10.7% | 32.8% | 8.2%  | 129.3% |
| <i>b Gross Profit Margin</i>   | 40.4% | 34.1% | 32.7% | 40.5%  |
| <i>c Net Profit Margin</i>   | 20.1% | 21.0% | 22.5% | 14.2%  |
| <i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>                          | 28.0% | 19.3% | 34.2% | 36.7%  |
| <i>e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity) ]</i> | 11.6% | 12.2% | 11.9% | 19.1%  |
| <b>2 Working Capital Management</b>  |       |       |       |        |
| <i>a Gross Working Capital (Average Days)</i>  | 36    | 29    | 40    | 44     |
| <i>b Net Working Capital (Average Days)</i>  | 19    | 8     | -18   | -10    |
| <i>c Current Ratio (Current Assets / Current Liabilities)</i>  | 5.2   | 4.3   | 2.5   | 1.2    |
| <b>3 Coverages</b>   |       |       |       |        |
| <i>a EBITDA / Finance Cost</i>   | 6.1   | 7.8   | 7.6   | N/A    |
| <i>b FCFO / Finance Cost+CMLTB+Excess STB</i>  | 2.4   | 2.2   | 2.2   | 4.2    |
| <i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>                              | 1.8   | 2.0   | 2.3   | 2.5    |
| <b>4 Capital Structure</b>   |       |       |       |        |
| <i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>                                    | 28.6% | 30.8% | 27.5% | 56.4%  |
| <i>b Interest or Markup Payable (Days)</i>   | 18.9  | 79.2  | 205.9 | N/A    |
| <i>c Entity Average Borrowing Rate</i>   | 7.6%  | 7.1%  | 5.7%  | 0.0%   |

**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+   | <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   |   |
| 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):

|  |   |
|--|---|
| <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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### **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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