



The Pakistan Credit Rating Agency Limited

## Rating Report

### Zahidjee Textile Mills Limited

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
31-Oct-2023	A	A1	Stable	Maintain	-
02-Nov-2022	A	A1	Stable	Upgrade	-
25-Oct-2021	A	A2	Stable	Upgrade	-
29-Oct-2020	A-	A2	Positive	Maintain	-
30-Oct-2019	A-	A2	Positive	Maintain	-
30-Apr-2019	A-	A2	Stable	Maintain	-
28-Dec-2018	A-	A2	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

The ratings reflect the strong positioning of ("Zahidjee Textile Mills Limited" or "the Company") in its respective market. The Company is engaged in the business of manufacturing and sale of yarn, value-added fabrics, and textile made-ups. Over the years, the establishment of a weaving unit and enhanced production capacity exacerbated the Company's revenue base in terms of volume. During FY23, the company's top line portrayed a sizeable improvement recorded at PKR 32.3bln (FY22: PKR 27.9bln). The local sales constituted 88.2% of the revenue base (FY23: PKR 28.5bln; FY22: PKR 23.7bln) attributable to a change in strategy. The management has planned to penetrate the local market through the same product range. Local sales are dominated by the sale of Yarn followed by Waste and leftover, Cloth, and Conversion receipts. The export sales exhibited largely the same trend (FY23: PKR 4bln; FY22: PKR 4.4bln). In the International market, the Company sells Cloth/Made-ups. The Company's export destinations are Africa, South America, Europe, and North America. The margins remained in a comfortable range. The non-core income from financial assets augmented the overall profitability. On the borrowing side, the Company adopted a conservative approach reflected by a dip in total leveraging recorded at 30.4% (end-Jun22: 36.9%). The Company was able to achieve a net profitability of PKR 1.2bln (FY22: PKR 3.9bln). The free cash flows from operations displayed a decline whilst the coverages remained in a moderate range. The Company's financial risk profile exhibits a good risk absorption capacity. Going forward, the management of the working capital cycle remains essential. On the strategic side, the Company has planned an expansion by implementing 50,400 spindles in two phases. Out of this, 20,160 spindles shall be implemented in the first phase. Despite macroeconomic challenges, the management is expecting good capacity utilization levels in the upcoming quarters. The sponsors enjoy four decades of experience in textile manufacturing and trading. The investment in Zahidjee Towers Pvt. Limited and several real estate projects add to the financial muscle of the Sponsor. During FY23, textile exports were valued at \$16.5 billion compared to \$19.33 billion, reflecting a dip of 15% YoY – the declining trend has been witnessed by the start of FY23. The suppressed demand pattern exhibited by export avenues was also a challenge. During FY23, value-added products such as knitwear, bedwear, towels, and ready-made garments witnessed a decline of 13% YoY. The basic textiles including raw cotton, cotton yarn, and cotton cloth posted a drop of 21% YoY.

Ratings are dependent on the company's ability to maintain a strong business profile under currently stretched industry dynamics. Improving profit margins and healthy coverages remain vital and any deterioration in the financial risk profile will have a negative impact on ratings.

#### Disclosure

<b>Name of Rated Entity</b>	Zahidjee Textile Mills Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Corporate Rating(Jul-23),Methodology   Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology   Rating Modifiers(Apr-23)
<b>Related Research</b>	Sector Study   Composite and Garments(Dec-22)
<b>Rating Analysts</b>	Uswa Sikandar   uswa.sikandar@pacra.com   +92-42-35869504

## Profile

**Legal Structure** Zahidjee Textile Mills Limited ("Zahidjee Textile" or "the Company") is a listed, public limited concern incorporated in 1990.

**Background** The Company was established in 1990 when Mr. Muhammad Sharif, Ex-Chairman of the Company, purchased a spinning concern in Faisalabad and renamed it Zahidjee Textile Mills Limited. Gradually, the Company has been expanded by setting up additional spindles where a weaving unit was also established.

**Operations** The Company is primarily engaged in the production and sale of cotton and blended (Polycotton) yarns, greige fabric, processed fabric, and captive power generation with an installed capacity of ~25MW. Production facilities are situated at three different locations in Faisalabad.

## Ownership

**Ownership Structure** The majority stake (96.28%) in Zahidjee Textile is held by the Zahid family through Mr. Muhammad Zahid (21.28%) and Mr. Ahmad Zahid (75%), while the remaining (3.72%) stake lies with joint-stock companies and the general public.

**Stability** Though there is no formal succession plan, it is decided that Mr. Ahmad Zahid will be the successor. Going forward, this is expected to reflect in the pattern of shareholding with a further increase in Mr. Ahmad Zahid's stake.

**Business Acumen** The Sponsoring family has over four decades of experience in textile manufacturing and trading. In addition, the family has an interest in investment banking.

**Financial Strength** The Sponsors own Zahidjee Towers (Pvt.) Limited and several real estate properties at prime locations in Lahore and Faisalabad. The sponsor has shown a willingness to support the business if needed.

## Governance

**Board Structure** The Company's board comprises seven members including the Chairman and CEO. The board is chaired by Mr. Ahmad Zahid. The board comprises four members of the Sponsoring family and three independent members. There are two committees in place i) Audit Committee and ii) HR and Remuneration Committee to assist the board on relevant matters.

**Members' Profile** The independent directors possess multiple years of experience in the textile, chemicals, and electronic appliances sectors, bringing diversity to the existing skill set of the Board. Mr. Ahmad Zahid was appointed as the new Chairman effective from July 6, 2021. All other members are also experienced and seasoned professionals.

**Board Effectiveness** The board meetings portray maximum attendance by the board members. Meanwhile, the quality of discussion disclosed in meeting minutes has a room for improvement.

**Financial Transparency** RSM Avais Hyder Liaquat Nauman and Co. Chartered Accountants are the external auditors of the Company, placed in category "A" on the State Bank's panel of auditors. The auditors gave an unqualified opinion on the Company's financial statements for the year ended June 30th, 2023. The board has also set up an Internal audit function with the Head of Internal Audit reporting directly to the Board Audit Committee.

## Management

**Organizational Structure** Zahidjee Textile has a lean organizational structure, divided into various departments reporting to the Chief Operating Officer - Ms. Ayesha Shehryar, and the Chief Financial Officer - Mr. Shahab-ud-Din.

**Management Team** The CEO – Mr. Muhammad Zahid has overall thirty-five years of experience in the textile sector and is actively involved in the day-to-day decision-making of the company. Ms. Ayesha Shehryar has been designated as the Chief Operating Officer. The management team comprises highly qualified and experienced professionals. The management tier ensures effective delegation of functional responsibility across various departments, facilitating a smooth flow of operations.

**Effectiveness** While there are formal management committees, all Unit Heads report to the CEO daily to discuss day-to-day developments and issues. The Company maintains adequate IT infrastructure and related controls.

**MIS** The Company deployed an Oracle-based ERP solution – Oracle EBS in 2012. This allows the Company to streamline the flow of information from dispersed operations, enabling proactive management, avoidance of disruptions, and timely decision-making.

**Control Environment** Daily reports regarding the Company's performance are submitted to higher management. Through MIS, the Company is also able to monitor working capital management and exposure to related parties with automated limits and periodic reviews.

## Business Risk

**Industry Dynamics** During FY23, textile exports were valued at \$16.5 billion compared to \$19.33 billion, reflecting a dip of 15% YoY – the declining trend has been witnessed by the start of FY23. The exports tumbled attributable to high energy costs, shortage of cotton, and uncertainty in the foreign exchange rate. The suppressed demand pattern exhibited by export avenues was also a challenge. During FY23, value-added products such as knitwear, bedwear, towels, and ready-made garments witnessed a decline of 13% YoY. The basic textiles including raw cotton, cotton yarn, and cotton cloth posted a drop of 21% YoY. During the month of June 2023, cotton yarn exports increased by 7% MoM. The value-added exports reported a volumetric increase of 16% on a MoM basis. Knitwear and readymade garments witnessed an incline at 18% and 19% respectively. During the month of July 2023, textile exports were valued at \$2 billion compared to \$2.3 billion, reflecting a slump of 12.6% on a MoM basis.

**Relative Position** Zahidjee Textile is one of the exporters of greige fabric in Pakistan and holds a minimal share in the country's exports. The Company's size of installed capacity has increased manifold over the last few years.

**Revenues** The Company generates a major portion of its revenue through local sales. Locally, the company sells yarn, cloth, waste, and leftover and conversion receipts. The top line witnessed a sizeable increase standing at PKR 32.3bln (FY22: PKR 27.9bln) where the sales mix tilted towards the local market. The Company's local sales displayed an incline (FY23: PKR 28.5bln; FY22: PKR 23.7bln) exhibiting a healthy growth of 20% on a YoY basis. The export sales remained largely unchanged to stand at PKR 4bln (FY22: PKR 4.4bln) attributable to the low demand pattern portrayed by the Export avenues.

**Margins** The Company's gross margin diluted and clocked at 8.1% (FY22: 20.2%) primarily due to a hike witnessed in costs. The Company's operating margin went down to stand at 5.8% (FY22: 18%). The Company's finance cost increased by 28.3% attributable to high interest rates. Despite this increase, the Company was able to achieve a net profitability of PKR 1.2bln (FY22: PKR 3.9bln). Hence, the net profit margin portrayed a slump at 3.8% (FY22: 14.2%).

**Sustainability** During FY22, the Company incurred BMR for the reduction in power cost and upgraded its weaving segment through the replacement of old looms. Currently, the Company has planned to enhance its overall production capacity through the implementation of 50,400 spindles in two phases. Out of this, the implementation of 20,160 spindles is under process.

## Financial Risk

**Working Capital** The Company's working capital needs emanate from financing inventories and trade receivables for which the company relies on both internal cash flows as well as short-term borrowings (STBs). As of end-Jun23, the Company's net working capital days increased to 86 days (end-Jun22: 80 days). The short-term trade leverage displayed a sizeable increase to stand at 57% (end-Jun22: PKR 49%).

**Coverages** As of end-Jun23, the Company's free cash flows from operations witnessed a dip standing at PKR 2.8bln (end-Jun22: PKR 5.3bln). The interest coverage portrayed a decline recorded at 3.8x (end-Jun22: 8.7x). The Company's debt payback increased to 1.9 years (end-Jun22: 1 year).

**Capitalization** The Company has a low-leveraged capital structure as reflected through its leveraging. As of end-Jun23, the total leveraging declined to 30.4% (end-Jun22: PKR 37%) owing to a sizeable decrease in borrowing book standing at PKR 6.8bln (end-Jun22: PKR 8.5bln). Out of which, the short-term borrowings constitute 41% to stand at PKR 2.8bln (end-Jun22: PKR 3.7bln). The Company's equity base enhanced to PKR 15.7bln (end-Jun22: PKR 14.6bln).



The Pakistan Credit Rating Agency Limited

Financial Summary  
PKR mln

Zahidjee Textile Mills Limited Textile	Jun-23 12M	Jun-22 12M	Jun-21 12M	Jun-20 12M
<b>A BALANCE SHEET</b>				
1 Non-Current Assets	13,629	14,390	8,152	6,618
2 Investments	101	125	123	57
3 Related Party Exposure	6	6	384	360
4 Current Assets	13,088	12,250	5,946	5,386
<i>a Inventories</i>	4,388	4,094	2,936	2,927
<i>b Trade Receivables</i>	3,765	4,313	2,001	1,729
5 Total Assets	26,823	26,772	14,604	12,421
6 Current Liabilities	2,852	2,109	1,490	1,143
<i>a Trade Payables</i>	776	595	537	466
7 Borrowings	6,885	8,580	4,964	4,156
8 Related Party Exposure	-	6	6	173
9 Non-Current Liabilities	1,324	1,386	421	481
10 Net Assets	15,762	14,691	7,723	6,467
11 Shareholders' Equity	15,762	14,691	7,845	6,467
<b>B INCOME STATEMENT</b>				
1 Sales	32,317	27,936	16,615	13,902
<i>a Cost of Good Sold</i>	(29,706)	(22,304)	(14,233)	(12,226)
2 Gross Profit	2,611	5,632	2,381	1,677
<i>a Operating Expenses</i>	(749)	(601)	(280)	(277)
3 Operating Profit	1,862	5,031	2,101	1,399
<i>a Non Operating Income or (Expense)</i>	551	(123)	(98)	(76)
4 Profit or (Loss) before Interest and Tax	2,413	4,908	2,003	1,323
<i>a Total Finance Cost</i>	(816)	(636)	(283)	(329)
<i>b Taxation</i>	(384)	(295)	(162)	(296)
6 Net Income Or (Loss)	1,213	3,978	1,559	697
<b>C CASH FLOW STATEMENT</b>				
<i>a Free Cash Flows from Operations (FCFO)</i>	2,853	5,342	2,073	1,655
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	2,012	4,751	1,625	1,303
<i>c Changes in Working Capital</i>	639	(3,111)	(355)	(261)
1 Net Cash provided by Operating Activities	2,652	1,640	1,270	1,042
2 Net Cash (Used in) or Available From Investing Activities	102	(2,718)	(1,942)	(1,034)
3 Net Cash (Used in) or Available From Financing Activities	(1,844)	3,466	533	(27)
4 Net Cash generated or (Used) during the period	909	2,388	(139)	(20)
<b>D RATIO ANALYSIS</b>				
1 Performance				
<i>a Sales Growth (for the period)</i>	15.7%	68.1%	19.5%	0.0%
<i>b Gross Profit Margin</i>	8.1%	20.2%	14.3%	12.1%
<i>c Net Profit Margin</i>	3.8%	14.2%	9.4%	5.0%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	10.8%	8.0%	10.3%	10.0%
<i>e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/Sh</i>	8.0%	35.3%	21.8%	10.8%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	94	87	118	N/A
<i>b Net Working Capital (Average Days)</i>	86	80	107	33
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	4.6	5.8	4.0	4.7
3 Coverages				
<i>a EBITDA / Finance Cost</i>	4.2	9.2	8.3	5.8
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	2.0	5.3	4.4	3.1
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	1.9	1.0	1.5	1.1
4 Capital Structure				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	30.4%	36.9%	38.8%	40.1%
<i>b Interest or Markup Payable (Days)</i>	45.1	69.9	99.0	68.3
<i>c Entity Average Borrowing Rate</i>	9.1%	--	6.1%	7.2%

### 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+	<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	
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.
CC	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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(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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(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)

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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 | 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)

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(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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