



The Pakistan Credit Rating Agency Limited

## Rating Report

### Punjab Oil Mills Limited

#### Report Contents

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
10-Feb-2023	BBB+	A2	Stable	Maintain	-
11-Feb-2022	BBB+	A2	Stable	Maintain	-
11-Feb-2021	BBB+	A2	Stable	Maintain	-
29-Feb-2020	BBB+	A2	Stable	Maintain	-
30-Aug-2019	BBB+	A2	Stable	Maintain	-
01-Mar-2019	BBB+	A2	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

Pakistan's edible oil industry is heavily reliant on imports since oilseeds and edible oil account for ~80% of the cost of production. Edible oil is the country's 2nd largest import after petroleum. Total oilseed imports for FY23 are forecast to be 3.4 million metric tons (MMT), un-changed from the estimated imports for FY22. Similarly, no growth is expected in edible oil imports in FY23, which are forecast at 3.7 MMT. The price of Palm Oil stood at 998 USD/MT in Jan-23 followed by a decrease of ~33% as compared to same period last year. Similarly, the price of Soybean oilseed stood at 547 USD/MT in Jan-23 followed by an increase of ~8% as compared to Jun-22. The industry however is facing issues with imports being halted by port authorities over GMO concerns. This impacted the operations of many Solvent Extraction Units from Oct-22 till mid Jan-23. Moreover, reduce imports due to LC restrictions has caused surge in costs of essential raw materials for the sector. However, higher selling prices have in-creased revenues substantially for the refineries; despite the rise in input costs could not be fully covered and gross profit margins have also reduced. Future outlook look of the industry is developing due to price volatility, PKR depreciation and latest hike in the policy rate.

The ratings reflect Punjab Oil Mills Limited's ('Punjab Oil' or 'the Company') established presence in the cooking oil industry through its flagship brands Canolive and Zaiqa. The Company's revenue witnessed growth supported by increasing prices, however, volumes were submerged. The Company being an importer of edible oilseed remains exposed to inherent industry risks, like currency fluctuations and raw material costs. Lately, a considerable increase in the raw material costs. However, operating in the branded segment, margins and profitability remain intact as it passed on the higher costs to the end consumers. Moreover, stable demand for meal remains beneficial. Punjab Oil follows a cautious approach for its procurement and avoids inventory pile up. However, lately, the Company had inventory constraints due to shipment issues. The situations is expected to ease in near term. The Company has a leveraged capital structure. Coverages are stretched in to high interest rate scenario, whereas, the overall quantum of borrowings has risen. The Company's working capital cycle is supported by considerable borrowing cushion at the trade level.

The ratings are dependent on the management's ability to improve profitability and gain market share, while maintaining prudent working capital management. Substantial increase in leveraging may impact ratings

#### Disclosure

<b>Name of Rated Entity</b>	Punjab Oil Mills 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   Edible Oil(Feb-22)
<b>Rating Analysts</b>	Faiqa Qamar   faiqa.qamar@pacra.com   +92-42-35869504

## Profile

**Legal Structure** Punjab Oil Mills Limited ('Punjab Oil' or 'the Company') is a public listed company, listed on the Pakistan Stock Exchange.

**Background** The Company was incorporated in 1983, and commenced operations in 1984. The Company's product portfolio, which initially comprised only banaspati ghee and cooking oil, has diversified with the addition of several new products.

**Operations** The Company is primarily engaged in the manufacturing and sale of banaspati ghee, cooking oil, specialty fats, laundry soaps, mushrooms and coffee. The Company's facility is located in the Industrial Triangle, Islamabad, with a combined refining capacity of 33,000 MT per annum. The capacity for refining cooking oil is 19,000 MT and for ghee/specialty fats is 14,000 MT per annum.

## Ownership

**Ownership Structure** Three families, namely, Jahangir Family, Malik Family and Batla Family combined (71%) have majority shareholding in the Company through individuals and associated Companies. Other shareholders include NIT and ICP (10%), Modarabas and Mutual Funds (8%), and the general public (11%).

**Stability** Ownership structure of the business is seen as stable, although no formal shareholding agreement exists among sponsoring families.

**Business Acumen** Sponsors of the Company have strong profiles relating to textile, finance and economics, and edible oil industries.

**Financial Strength** The Company's financial strength is represented through the support of its group. The Company is seen as the flagship entity for the Malik Family, whereas, Jahangir Family and Batla Family also have other business interests.

## Governance

**Board Structure** The Company's Board of Directors consists of seven members including the Chairman, four non-Executive Directors and two Executive Directors. One non-Executive Director is a nominee of NIT.

**Members' Profile** Board members possess strong profiles and specialize in textiles, finance and economics, in addition to edible oils. Additionally, Board Chairman, Mr. Tahir Jahangir, previously presided over Towel Manufacturers Association of Pakistan. Mr. Usman Illahi Malik serves as the CEO on the Board of Punjab Oil Mills Ltd. He has more than two decades of experience and has been associated with the company for 22 years. He is also a member of Human Resource and Remuneration Committee.

**Board Effectiveness** Board of Directors maintain effective oversight through Audit Committee and Human Resources & Remuneration Committee. Adequate frequency and high participation of meetings among board members bodes well for the Company.

**Financial Transparency** The Company has appointed M/s Malik Haroon Shahid Safdar & Co., Chartered Accountants, as external auditors. The firm, QCR rated not on SBP Panel of auditors, expressed an unqualified opinion on the financial statements of the Company ending in Jun-21.

## Management

**Organizational Structure** The Company's organizational structure is based on five main departments, namely, operations & technical, planning & development, internal audit, sales and marketing, and finance. Functions relating to production and maintenance come under the purview of Director Technical. Similarly, functions of sales and marketing, are looked after by Director Sales. Both directors are supported by relevant department heads along with teams of individuals. Ultimate reporting lies with the CEO, with the exception of the internal audit department which functionally reports to the Audit Committee and administratively reports to the CEO.

**Management Team** Management comprises of experienced individuals. Mr. Usman Illahi Malik, the CEO, has recently taken over amid the untimely demise of his father, Mr. Izzat Illahi Malik. He has previously served as the Company's Director Planning and Development, and holds a degree in Finance and Marketing from the Wharton School of Business and is a qualified Chartered Financial Analyst.

**Effectiveness** Management lacks presence of formal committees. However, meetings among senior management are conducted daily to ensure operational efficiency.

**MIS** The Company deploys Microsoft Dynamics as its Enterprise Resource and Planning system with eleven, fully integrated, modules.

**Control Environment** In order to ensure operational efficiency, the Company has setup an Internal Audit function. Regular reviews are undertaken by the department to monitor operational control.

## Business Risk

**Industry Dynamics** Pakistan's edible oil industry is heavily reliant on imports since oilseeds and edible oil account for ~80% of the cost of production. Edible oil is the country's 2nd largest import after petroleum. Total oilseed imports for FY23 are forecast to be 3.4 million metric tons (MMT), unchanged from the estimated imports for FY22. Similarly, no growth is expected in edible oil imports in FY23, which are forecast at 3.7 MMT. The price of Palm Oil stood at 998 USD/MT in Jan-23 followed by a decrease of ~33% as compared to same period last year. Similarly, the price of Soybean oilseed stood at 547 USD/MT in Jan-23 followed by an increase of ~8% as compared to Jun-22. The industry however is facing issues with imports being halted by port authorities over GMO concerns. This impacted the operations of many Solvent Extraction Units from Oct-22 till mid Jan-23. Moreover, reduce imports due to LC restrictions has caused surge in costs of essential raw materials for the sector. However, higher selling prices have increased revenues substantially for the refineries; despite the rise in input costs could not be fully covered and gross profit margins have also reduced. Future outlook look of the industry is developing due to price volatility, PKR depreciation and latest hike in the policy rate.

**Relative Position** Punjab Oil Mills Limited has a market share of ~0.8% in terms of revenue and ~0.8% in terms of refining in edible oil segment

**Revenues** The Company generates revenue from seven different products, namely, cooking oil, specialty fats, banaspati ghee, soap, coffee and mushrooms. The Company's top three products, Canolive, Zaiqa Ghee and Zaiqa Oil, represent 94% of total revenue. The Company mainly sells its products in the domestic market with exports (mainly comprising of cooking oil) having an insignificant share. The Company posted a topline of ~PKR 9.0 bln in FY22, witnessing an increase of 49% from FY21 (~PKR 6bln). The increase was mainly attributed to higher selling prices of cooking oil and vegetable ghee. During 3MFY23, the Company generated revenue of ~PKR 2.2 bln, witnessing an increase of ~22% (3MFY22: PKR 1.8 bln).

**Margins** In FY22, the Company's gross margin decreased YoY and stood at 9.2% (FY21: 11.7%) owing to the jump in import costs. Operating profit margin increased and stood at 2.4% in FY22 (FY21: 1.1%) due to lower marketing expenses PKR 362mln during FY22 (FY21: PKR395mln). At net level, the Company's net income stood at PKR 67mln in FY22 (FY21: PKR -17mln) witnessing ~494% increase due to increase in the sales volume. In 3MFY23, the Company's gross margin decreased YoY and stood at 9.6% (3MFY22: 11.1%) owing to the jump in import costs. Operating profit margin increased and stood at 2.6% in 3MFY23 (3MFY22: 3.1%) due to higher administrative expenses PKR 67mln during 3MFY23 (3MFY22: PKR51mln).

**Sustainability** The industry at large is facing challenges relating to import restrictions, port clearances and limited LC clearances which has constrained the input supply side. Looking forward the Company is waiting for matters to settle down before they look towards any expansion.

## Financial Risk

**Working Capital** In FY22, the average debtor days decreased to 38 days from 49 days in FY21. Prudent management of debtors is reflected in stable average debtor days which have ranged between 38-58 days over the past three years (FY22 – FY20). Further, high reliance on imported raw materials forces the Company to maintain sufficient stock levels which have kept average raw material days slightly elevated. However, effective control on stock of finished goods have helped average inventory levels float around 28 days in FY22. Overall, net cash cycle stood at 43 days in FY22 (FY21: 59 days). Average debtor days (3MY23:43 days, 3MFY22: 47 days), Net cash cycle (3MY23:50 days, 3MFY22: 49 days), Inventory days (3MY23:35 days, 3MFY22: 22 days)

**Coverages** Interest cover is a function of free cash flows and finance cost. Free cash flows stood at PKR 176mln in FY22 (FY21: PKR 44mln). The Company finance cost stood at PKR 43mln in FY22 (FY21: PKR 18mln). Interest cover deteriorated to 3.9x in FY22 (FY21: 2.9x). Debt coverage ratio stood at 3.2x in FY22 (FY21: 1.2x). Debt coverage ratio (3MY23:1.1x, 3MFY22: 4.6x )

**Capitalization** The Company has a low leveraged capital structure, represented by a debt-to-equity ratio of 13% as of FY22. Debt taken up by the Company comprises short-term borrowings (96%) and long-term borrowings (14%). Short-term borrowings are utilized for working capital requirements and retirement of letters of credit. Debt-to-equity ratio (3MY23:20%, 3MFY22: 20% )



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Punjab Oil Mills Limited Edible Oil	Sep-22 3M	Jun-22 12M	Dec-21 6M	Sep-21 3M	Jun-21 12M	Sep-20 3M	Jun-20 12M
<b>A BALANCE SHEET</b>							
1 Non-Current Assets	2,204	2,199	724	724	725	697	702
2 Investments	-	-	-	-	-	-	-
3 Related Party Exposure	3	4	2	3	3	2	2
4 Current Assets	2,667	2,456	2,096	2,024	1,762	1,725	1,713
<i>a Inventories</i>	900	832	455	376	505	429	404
<i>b Trade Receivables</i>	1,084	1,058	1,190	1,078	787	731	816
5 Total Assets	4,874	4,659	2,822	2,751	2,490	2,423	2,417
6 Current Liabilities	1,199	1,280	949	987	842	805	804
<i>a Trade Payables</i>	651	732	441	431	361	221	229
7 Borrowings	697	429	460	333	249	167	201
8 Related Party Exposure	-	-	-	-	-	-	-
9 Non-Current Liabilities	196	193	139	135	131	127	122
10 Net Assets	2,782	2,756	1,274	1,295	1,268	1,325	1,289
11 Shareholders' Equity	2,780	2,769	1,274	1,295	1,268	1,325	1,289
<b>B INCOME STATEMENT</b>							
1 Sales	2,280	8,838	4,208	1,829	5,982	1,237	5,268
<i>a Cost of Good Sold</i>	(2,061)	(8,021)	(3,880)	(1,625)	(5,283)	(1,025)	(4,479)
2 Gross Profit	218	816	328	203	699	211	789
<i>a Operating Expenses</i>	(159)	(606)	(264)	(146)	(634)	(161)	(564)
3 Operating Profit	60	211	64	57	66	51	225
<i>a Non Operating Income or (Expense)</i>	4	19	16	(1)	19	10	4
4 Profit or (Loss) before Interest and Tax	64	229	80	57	84	61	228
<i>a Total Finance Cost</i>	(24)	(48)	(16)	(7)	(18)	(4)	(22)
<i>b Taxation</i>	(29)	(114)	(53)	(23)	(83)	(20)	(123)
6 Net Income Or (Loss)	11	67	11	27	(17)	36	84
<b>C CASH FLOW STATEMENT</b>							
<i>a Free Cash Flows from Operations (FCFO)</i>	28	176	58	50	44	53	153
<i>b Net Cash from Operating Activities before Working Capital</i>	8	133	46	44	26	48	133
<i>c Changes in Working Capital</i>	(243)	(230)	(214)	(38)	(9)	40	(149)
1 Net Cash provided by Operating Activities	(234)	(97)	(168)	6	17	88	(16)
2 Net Cash (Used in) or Available From Investing Activities	(20)	(36)	(17)	(10)	(71)	(6)	(27)
3 Net Cash (Used in) or Available From Financing Activities	269	170	202	85	47	(35)	55
4 Net Cash generated or (Used) during the period	15	37	17	81	(6)	47	12
<b>D RATIO ANALYSIS</b>							
<b>1 Performance</b>							
<i>a Sales Growth (for the period)</i>	3.2%	47.7%	40.7%	22.3%	13.5%	-6.1%	-4.3%
<i>b Gross Profit Margin</i>	9.6%	9.2%	7.8%	11.1%	11.7%	17.1%	15.0%
<i>c Net Profit Margin</i>	0.5%	0.8%	0.3%	1.5%	-0.3%	2.9%	1.6%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working C</i>	-9.4%	-0.6%	-3.7%	0.6%	0.6%	7.5%	0.1%
<i>e Return on Equity [ Net Profit Margin * Asset Turnover * (T</i>	1.5%	3.3%	1.8%	8.5%	-1.3%	11.1%	6.7%
<b>2 Working Capital Management</b>							
<i>a Gross Working Capital (Average Days)</i>	78	66	64	69	77	88	86
<i>b Net Working Capital (Average Days)</i>	50	43	46	49	59	71	73
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	2.2	1.9	2.2	2.0	2.1	2.1	2.1
<b>3 Coverages</b>							
<i>a EBITDA / Finance Cost</i>	3.8	6.9	8.4	13.4	9.9	21.4	15.6
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	1.1	3.2	2.4	4.6	1.2	9.6	5.8
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Fi</i>	0.5	0.1	0.3	0.1	1.0	0.2	0.2
<b>4 Capital Structure</b>							
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equit</i>	20.0%	13.4%	26.5%	20.5%	16.4%	11.2%	13.5%
<i>b Interest or Markup Payable (Days)</i>	46.8	55.6	81.3	50.7	51.8	36.3	47.1
<i>c Entity Average Borrowing Rate</i>	19.2%	11.7%	9.4%	9.6%	7.3%	8.7%	11.9%

### Credit Rating

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Scale	Long-term Rating Definition
AAA	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	<b>Very high credit quality.</b> Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
AA-	
A+	
A	<b>High credit quality.</b> Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
A-	
BBB+	
BBB	<b>Good credit quality.</b> Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BBB-	
BB+	
BB	<b>Moderate risk.</b> Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
BB-	
B+	
B	<b>High credit risk.</b> A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
B-	
CCC	
CC	<b>Very high credit risk.</b> Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
C	
D	Obligations are currently in default.

Scale	Short-term Rating Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



\*The correlation shown is indicative and, in certain cases, may not hold.

**Outlook (Stable, Positive, Negative, Developing)** Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

**Rating Watch** Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

**Suspension** It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

**Withdrawn** A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults, or/and e) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

**Harmonization** A change in rating due to revision in applicable methodology or underlying scale.

**Surveillance.** Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

**Note.** This scale is applicable to the following methodology(s):

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

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### **Rating Team Statements**

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

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

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

### **Restrictions**

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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)
- (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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