



The Pakistan Credit Rating Agency Limited

**Rating Report**

**KSB Pumps Company 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 |
|--------------------|------------------|-------------------|---------|----------|--------------|
| 08-Dec-2022        | A+               | A1                | Stable  | Maintain | Yes          |
| 17-Dec-2021        | A+               | A1                | Stable  | Maintain | Yes          |
| 01-Feb-2021        | A+               | A1                | Stable  | Initial  | -            |

**Rating Rationale and Key Rating Drivers**

The ratings reflect leading position of KSB Pumps Company Limited ("KSB Pumps" or "the Company") as a premier manufacturer of pumps, valves and related services in Pakistan. Ratings incorporate KSB Pumps' association with KSB SE & Co. KGaA, Germany (KSB Germany), which is one of the top 5 pump manufactures of the world. The Company has a state-of-the-art manufacturing facility certified by KSB Germany as MBK – Made by KSB . This is supplemented by robust systems and controls with access to KSB Germany for licensing and technical knowledge. Resultantly, the Company enjoys competitive advantage in domestic market as well as for exporting to other companies across the world including group companies. The Company has substantial market share in the pump industry. Sale of pumps to industrial customers and raw components exports to KSB group companies make up a significant part of revenues. The Company has increased its exports by leveraging its MBK certification and strong expertise. The Company takes the advantage of private and foreign funded projects which ease the fiscal pressure on its Balance Sheet. Additionally, the Company's revenues are supported through project sales to public and private sectors; however, public sector proportion has decreased as company has now opted for an indirect model via partnering up with private players for these projects for better cash management. KSB Pumps margins have taken a hit at the gross level due to increase in raw material prices which is mostly imported keeping the company susceptible to currency risk. Higher exports will mitigate this to a large extent. KSB has booked humbled profitability of of PKR 26mln in 9MCY22 (FY21: PKR 27mln; FY20: PKR 16mln) and has an adequate financial profile characterized by moderately leveraged capital structure. The working capital of the Company is stretched due to long overdue receivables, mainly from the government. Strategic shift of transitioning to private customers from government clients will provide relief to cashflows and, in turn, coverages which has also been reflected in the projections shared by management. Company's association with KSB Group is considered positive. Ratings also take comfort from strong group support, technically and financially, and from its eligibility, under KSB group guidelines, to obtain intercompany loans and utilize umbrella credit facilities created by the parent company. However, during its entire history, the company never resorted to borrowing from Germany.

The ratings are dependent on the Company's ability to improve its core margins and profitability through execution of better margin projects and exports to group companies. Prudent working capital management and maintaining strong coverages with improved capacity utilization are imperative for the ratings going forward.

**Disclosure**

|                              |  |
|------------------------------|--|
| <b>Name of Rated Entity</b>  | KSB Pumps Company 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   Machinery(Dec-21)   |
| <b>Rating Analysts</b>       | Uswa Sikandar   uswa.sikandar@pacra.com   +92-42-35869504  |

## Profile

**Legal Structure** KSB Pumps Company Limited is a listed, public limited company, incorporated in July 1959. It got listed in 1971 on Pakistan Stock Exchange.

**Background** It is a subsidiary of KSB SE & Co. KGaA ('KSB Germany') which has a presence all over the globe with its own sales and marketing companies, manufacturing facilities and service operations. Its registered office and Head office is located at Lahore and manufacturing facility is situated at Hassanabdal which is also MbK (Made by KSB) certified.

**Operations** KSB pumps is a leading international supplier of pumps, valves and services. It has a nameplate capacity of 6,000 pumps. To enable easy access to its customers, KSB Pakistan has a nationwide operating network of Franchise & Dealers. In addition, the Company has full-fledged Service Department and state of the art service facility.

## Ownership

**Ownership Structure** KSB Germany holds ~58.89% of the company's shares. Rest of the shareholding is divided among, insurance companies, Financial Institutions and General public.

**Stability** KSB Germany is one of the largest and leading manufacturers of pumps and valves of the world. Long term association of the Company with KSB Germany brings stability to its ownership. The parent company keeps a pool of € ~250 million in an Umbrella facility for other group Companies to use in the time of need.

**Business Acumen** KSB Germany has production facilities on every continent and is recognized as world's leading manufacturer of centrifugal pumps and valves. It provides technical assistance and support to KSB Pumps which improves the Company and helps the Company in maintaining its leading position.

**Financial Strength** Total equity for the KSB Germany for 2021 amounts to € 869.1 million. The group's consolidated sales revenue is € ~2.34 billion (2020: € ~2.2 billion) and equity ratio is 37.6 % (2020: 32.9%). KSB Germany has the ability and willingness to support the Company, if needed.

## Governance

**Board Structure** KSB Pumps has an eight-member Board chaired by Dr. Sven Baumgarten including four independent directors .

**Members' Profile** Board members have diverse profile all bringing decades of experience with them. Dr. Sven Baumgarten has over 2 decades of experience and is in charge of the entire KSB Region Middle East, Africa & Russia as Regional Executive Officer.

**Board Effectiveness** During current period, attendance of BOD members in meetings remained satisfactory. KSB Pumps has two committees to assist the board, Audit committee and Human resource and remuneration committee. Chairmen of both these committees are non-executive directors.

**Financial Transparency** A.F Ferguson & Company are the company's external auditors who gave an unqualified opinion on the Company's financial statements FTY ended Dec 31st 2021 and HY ended June 30, 2022. The Company has an in-house internal audit department.

## Management

**Organizational Structure** The Company's overall operations are segregated into 7 broad divisions, namely: (i) Operations (ii) Supreme SERV (iii) Sales & Strategic Marketing (iv) Finance & Control (v) Admin & Corporate Affairs (vi) Internal Audit (vii) Human Resources . Every department is categorized into various sub-divisions to ensure smooth flow of operations. The Company's management is totally aligned with KSB Germany.

**Management Team** KSB pumps has a management team of experienced professionals who have been associated with the company for a long time . Management team is led by CEO, Mr. Imran Ghani who has an exhaustive experience in Sales, After Sales and Engineering while Finance function is headed by Chief Financial Officer, Mr. Imran Ahmad who has replaced Ms. Faryal Zafar. Mr. Imran Ahmed has over 20 years of experience in Finance and control, treasury, supply chain, Business controlling, Digitization & IT and compliance

**Effectiveness** The Company has formal management committees in place and they report to the CEO.

**MIS** KSB Pump deploys SAP as an ERP solution that provides comprehensive MIS reporting. SAP is deployed by KSB Germany with real-time reporting to the parent company. The Company also prepares and shares monthly MIS reports with the Parent company.

**Control Environment** The Company's monthly MIS comprises comprehensive performance reports which are reviewed frequently by senior management. The company also has several certifications for quality, environment, health and safety.

## Business Risk

**Industry Dynamics** Pakistan's pump and valve industry consists of few organized and unorganized players. Pump and valve industry is dependent on government spending as majority of projects such as water pumping, thermal power and other government projects give rise to demand of Pumps and Valves. Major raw material of Pump and Valve is iron which is both imported and locally purchased. Currency devaluation and higher energy costs have pushed cost of pumps high impacting price hence demand of the pumps.

**Relative Position** KSB Pumps is the leading player in pumps and valves industry catering to the need of both public and private clients with ~40%+ share of the industry. It is the only corporate player with the pump manufacturing facility among its competitors which are small SME's holding the remaining market share. With superior after sales services, it is maintaining its leading position since decades.

**Revenues** KSB Pumps derives revenue from three segments i) Pumps & valves ii) Services and (iii) Project sales. Pumps & Valves are major contributor with 74% contribution in sales. The Company has expanded export sales to bring stability in the topline which is still predominantly local oriented, (3QCY22 - 78%, CY21 - 86%) . Company's focus towards private clients has also increased due to poor recoveries from govt. dept. ( 3QCY21 - Govt : 14% , Non-govt. : 86%) . The company has reported 11.1% growth in sales in current period and the revenue has increased to Rs 3.61 billion in 3QCY22 compared to Rs. 3.04 billion in 3QCY2021.

**Margins** During 3QCY22 gross margin showed decline from its normal ~16-20% level and recoded at 14.8% (CY21: ~13.7%, CY20: ~16.5%). Major reason for decrease in GP margins is increase in fuel cost as well as raw material prices primarily due to rupee depreciation . In 3QFY22, company's operating profit margin was recorded at 2.4% (3QCY21~ 0.9%) while its bottom-line reported profit of ~PKR 26mln (3QCY21: PKR (13) million.

**Sustainability** KSB Pumps is increasing its exports and prioritizing private sector projects due to receivables being stuck in government projects. Company has now gone into indirect model of doing business with government as it signs up with private contractors which have secured contracts from government. Hence, it is now privately engaged by these contractors in the market at lesser amounts compared to direct engagement by government. This shift results in expeditious recoveries from customers. A Workshop facility in Karachi shall be operational next year which shall leverage new as well as operational sales. The company is also venturing into Marine sector.

## Financial Risk

**Working Capital** KSB Pumps meets its working capital requirements through a mix of internal generation and short-term borrowings (STBs). During 3QCY22, utilization of short-term borrowing lines was recorded at 55.2% around PKR 1.8 billion indicating heavy reliance on STB facilities to fulfill its working capital needs. The Company's trade leveraging position has declined significantly during the period to 12.1% (3QCY21: ~18.8%) depleting its borrowing capacity. Going forward, due to shift in its business model towards private sector, company expects fast cash recoveries helping it to be less reliant on working capital lines.

**Coverages** The company has a low debt-servicing coverage ratio of 0.8x in 3QCY22 (3QCY21: 0.5x) due to increase in short term borrowings which recoded at PKR 1,816 million in current period (3QCY2021: PKR 1,145 million) and weak FCFO's which recoded at PKR 166 million (3QCY2021: PKR 140 million). Interest coverage has been recorded at 1.0x (3QCY21: 2.1x). The situation is expected to improve from next year as loan taken for expansion of foundry will be repaid fully and company will have good recovery ratios from its private business partners.

**Capitalization** KSB Pumps has a moderately leveraged capital structure as its debt to equity ratio has been recorded at ~48.5% in 3QCY22 compared to ~43% in 3QCY21. The Company's total debt amounts to ~PKR 1.881bln in 3QCY22, comprising ~97% of STBs while the remaining minimal portion constitutes long-term debt.



| KSB Pumps<br>Machinery  | Sep-22<br>9M | Dec-21<br>12M | Dec-20<br>12M | Dec-19<br>12M |
|---|--------------|---------------|---------------|---------------|
| <b>A BALANCE SHEET</b>  |              |               |               |               |
| 1 Non-Current Assets  | 1,068        | 1,045         | 1,160         | 1,266         |
| 2 Investments   | -            | -             | -             | -             |
| 3 Related Party Exposure  | -            | -             | -             | -             |
| 4 Current Assets  | 4,998        | 4,833         | 3,534         | 3,674         |
| <i>a Inventories</i>  | 1,417        | 1,445         | 677           | 794           |
| <i>b Trade Receivables</i>  | 1,645        | 1,587         | 1,397         | 1,306         |
| 5 Total Assets  | 6,066        | 5,878         | 4,693         | 4,941         |
| 6 Current Liabilities   | 2,107        | 1,979         | 1,477         | 1,498         |
| <i>a Trade Payables</i>   | 1,036        | 954           | 701           | 619           |
| 7 Borrowings  | 1,881        | 1,836         | 1,159         | 1,336         |
| 8 Related Party Exposure  | -            | -             | -             | -             |
| 9 Non-Current Liabilities   | 77           | 77            | 90            | 149           |
| 10 Net Assets   | 2,002        | 1,987         | 1,967         | 1,958         |
| 11 Shareholders' Equity   | 2,002        | 1,987         | 1,967         | 1,958         |
| <b>B INCOME STATEMENT</b>   |              |               |               |               |
| 1 Sales   | 3,610        | 4,334         | 3,607         | 3,756         |
| <i>a Cost of Good Sold</i>  | (3,074)      | (3,740)       | (3,012)       | (3,022)       |
| 2 Gross Profit  | 536          | 594           | 595           | 734           |
| <i>a Operating Expenses</i>   | (449)        | (563)         | (509)         | (533)         |
| 3 Operating Profit  | 86           | 32            | 86            | 201           |
| <i>a Non Operating Income or (Expense)</i>                              | 153          | 109           | 73            | 87            |
| 4 Profit or (Loss) before Interest and Tax                              | 240          | 140           | 159           | 287           |
| <i>a Total Finance Cost</i>   | (176)        | (109)         | (135)         | (171)         |
| <i>b Taxation</i>   | (37)         | (4)           | (7)           | (29)          |
| 6 Net Income Or (Loss)  | 26           | 27            | 16            | 88            |
| <b>C CASH FLOW STATEMENT</b>  |              |               |               |               |
| <i>a Free Cash Flows from Operations (FCFO)</i>                         | 166          | 216           | 198           | 303           |
| <i>b Net Cash from Operating Activities before Working Capital Cha</i>  | 24           | 130           | 51            | 152           |
| <i>c Changes in Working Capital</i>                                     | (2)          | (543)         | 76            | (139)         |
| 1 Net Cash provided by Operating Activities                             | 22           | (413)         | 127           | 13            |
| 2 Net Cash (Used in) or Available From Investing Activities             | (127)        | (64)          | (45)          | (83)          |
| 3 Net Cash (Used in) or Available From Financing Activities             | (201)        | (235)         | (198)         | 81            |
| 4 Net Cash generated or (Used) during the period                        | (306)        | (712)         | (116)         | 11            |
| <b>D RATIO ANALYSIS</b>   |              |               |               |               |
| <b>1 Performance</b>  |              |               |               |               |
| <i>a Sales Growth (for the period)</i>                                  | 11.1%        | 20.2%         | -4.0%         | -24.2%        |
| <i>b Gross Profit Margin</i>  | 14.8%        | 13.7%         | 16.5%         | 19.5%         |
| <i>c Net Profit Margin</i>  | 0.7%         | 0.6%          | 0.5%          | 2.3%          |
| <i>d Cash Conversion Efficiency (FCFO adjusted for Working Capit</i>    | 4.5%         | -7.6%         | 7.6%          | 4.4%          |
| <i>e Return on Equity [ Net Profit Margin * Asset Turnover * (Total</i> | 1.8%         | 1.4%          | 0.8%          | 4.6%          |
| <b>2 Working Capital Management</b>                                     |              |               |               |               |
| <i>a Gross Working Capital (Average Days)</i>                           | 231          | 215           | 211           | 252           |
| <i>b Net Working Capital (Average Days)</i>                             | 156          | 145           | 144           | 184           |
| <i>c Current Ratio (Current Assets / Current Liabilities)</i>           | 2.4          | 2.4           | 2.4           | 2.5           |
| <b>3 Coverages</b>  |              |               |               |               |
| <i>a EBITDA / Finance Cost</i>  | 1.5          | 2.7           | 2.5           | 2.7           |
| <i>b FCFO / Finance Cost+CMLTB+Excess STB</i>                           | 0.8          | 0.6           | 0.5           | 1.1           |
| <i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finan</i>       | 12.9         | 2.2           | 6.8           | 1.8           |
| <b>4 Capital Structure</b>  |              |               |               |               |
| <i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>     | 48.5%        | 48.0%         | 37.1%         | 40.6%         |
| <i>b Interest or Markup Payable (Days)</i>                              | 53.7         | 106.7         | 52.6          | 80.6          |
| <i>c Entity Average Borrowing Rate</i>                                  | 11.9%        | 7.3%          | 9.5%          | 12.4%         |

**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   |   |
| 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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(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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(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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