The Pakistan Credit Rating Agency Limited

Rating Report

KSB Pumps Company Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
29-Nov-2024	A+	A1	Stable	Maintain	Yes
29-Nov-2023	A+	A1	Stable	Maintain	Yes
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 the leading position of KSB Pumps Company Limited ("KSB Pumps" or "the Company") as a leading manufacturer of pumps, valves and related services in Pakistan. The ratings incorporate KSB Pumps' association with KSB SE & Co. KGaA, Germany (KSB Germany), which is one of the top five pump manufacturers in the world with a presence in over 150 countries. The Company operates a state-of-the-art manufacturing facility certified by KSB Germany as MBK – Made by KSB, and this certification is supplemented by strong systems and controls, providing access to KSB Germany's licensing and technical knowledge. Consequently, the Company enjoys a competitive advantage in both the domestic market and for exports to other countries, including group companies. Sale of pumps to industrial customers and exports to KSB group companies make up a significant part of revenues. 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 gone into indirect model for these projects with private companies for improved liquidity. The Company reported a topline of PKR 3,814mln for 9MCY24 (CY23: PKR 5,755mln, CY22: PKR4,965) and posted a net loss of PKR 139mln for 9MCY24 (CY23: PKR 1mln, CY22: PKR 39mln). However, the 3QCY24 showed positive performance, with a net profit of PKR 29mln. KSB Pumps saw an improvement in gross margins during CY23, reaching 20.4%. This positive trend has continued into 9MCY24, with margins reported at 19%. The rise is due to increase in exports share in its sales mix, however, their impact is invalidated at net level due to increase in finance cost. The Company is confident of achieving its budgeted figures for CY24, driven by the improved gross margin trend expected in the fourth quarter. This confidence is supported by a significant order in hand that will be expected to materialize in this period. To address the previously strained working capital and weakened coverage ratios, the Company initiated a rights issuance process, which was successfully completed in September 2024. The proceeds were utilized to fulfill working capital requirements and reduce outstanding running finance balances, resulting in a net cash surplus of PKR 250mln as of 9MCY24. Following the completion of the rights issuance, the Company’s balance sheet as of September 2024 reflects a debt-free position. This strategic move aligns with the confidence and trust placed by the Parent Company in KSB Pumps' operations, underscores its strategic importance, which 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 diversification, 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

Name of Rated Entity	KSB Pumps Company Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Rating Modifiers(Apr-24),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-24),Methodology | Corporate Rating(Jul-24)
Related Research	Sector Study | Machinery(Dec-23)
Rating Analysts	Shujat Ehsanullah Wasim | Shujat.Ehsan@pacra.com | +92-42-35869504

Profile

Legal Structure KSB Pumps Company Limited ("KSB Pumps" or "the Company") was incorporated in Pakistan on July 18, 1959 under the Companies Act, 1913 (now Companies Act, 2017) and is listed on the Pakistan Stock Exchange Limited. The plant is situated at Hazara Road, Hassanabdal. The Company has four regional offices and are located in Lahore, Rawalpindi, Karachi and Multan.

Background KSB Group traces its origins to Frankenthal, Germany, where it was established in 1871. In 1887, it became a public limited company under the name KSB SE & Co. KGaA ("KSB Germany"). Today, KSB operates 33 manufacturing sites worldwide and maintains a global presence across approximately 150 countries, supported by its own sales and marketing companies, manufacturing facilities, and service operations. KSB Germany expanded into Asia by establishing its first subsidiary in Pakistan in July 1959, followed by the construction of its first factory in 1964.

Operations KSB Pumps is principally engaged in the manufacture and sale of industrial pumps, valves, castings and related parts and provision of aftermarket services. It has a nameplate capacity of 6,000 pumps. To ensure convenient access for its customers, KSB Pumps 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 previously held ~58.89% of the Company's shares. However, following the completion of a rights issuance in September 2024, the sponsor's shareholding increased to ~73%. The remaining shares are distributed among insurance companies, financial institutions, and the general public.

Stability KSB Germany's stable ownership in KSB Pumps highlights its long-term commitment to the Company. This stability has allowed KSB Pumps to continuously invest in infrastructure, technology, and service capabilities, promoting sustained growth and ensuring reliable service to meet customer needs.

Business Acumen KSB Germany demonstrates exceptional business acumen through its strategic global presence and continuous innovation in pump and valve technology. With production facilities spanning every continent, it is recognized as one of the world's leading manufacturers of centrifugal pumps and valves. The group offers technical assistance and support to KSB Pumps, enhancing the Company's operations and overall efficiency.

Financial Strength In CY23, KSB Germany's consolidated equity stood to €1,216.89 million, up from €1,125.57 million in CY22. The group's consolidated sales revenue reached approximately €2.819 billion (CY22: ~€2.573 billion), with an equity ratio of 45.6% (CY22: 45.4%). KSB Germany demonstrates both the ability and willingness to support the Company if required. In addition, the Parent Company maintains an Umbrella Facility with a pool of approximately €250 million, available for use by other group companies including KSB Pumps in times of need.

Governance

Board Structure The KSB Pumps Board of Directors (BoD) consists of eight members and is Chaired by Dr. Sven Baumgarten. In accordance with the Listed Company Code of Corporate Governance, the BoD includes four Independent Directors (ID), three Non-Executive Directors (NED) (including the Chairman), and one Executive Director (ED), who serves as the Chief Executive Officer of the Company.

Members' Profile KSB Pumps BoD brings together members from diverse educational and professional backgrounds, enriching the board with a wide range of expertise. NEDs include Dr. Sven Baumgarten, the Chairman with over two decades of experience and responsibility for KSB's operations in the Middle East, Africa, and Russia; Mr. Dieter Antonius Pott, Global Executive Officer of Finance/Accounting at KSB Germany since 2017; and Mr. Hasan A. Bilgrami, CEO of BioMasdar (Pakistan) Limited and former founding President & CEO of BankIslami Pakistan. IDs feature Mr. Asif Malik, a seasoned mechanical engineer with over 30 years of experience; Ms. Ayesha Aziz, a financial expert with 28 years in Project Finance, Debt Markets, and Asset Management; Mr. Shahid Mahmood, a Mechanical and Marine Engineer with extensive experience in heavy industry and power plants; and Mr. Asim Rafique, a Chartered Accountant with over 25 years of expertise in finance, strategy, taxation, and corporate affairs. The ED is Mr. Imran Ghani, the CEO of KSB Pumps, who brings over 31 years of extensive experience in key leadership roles across multicultural environments. There has been no change in the BoD since last review.

Board Effectiveness In CY23, four Board meetings were held with satisfactory attendance from all members. KSB Pumps has established two committees to support the Board: The Audit Committee and the Human Resource and Remuneration Committee, both chaired by ID's. The Board's strategic guidance enabled ongoing investments in technology and operational efficiency, driving sustained growth and enhancing the Company's service capabilities.

Financial Transparency A.F. Ferguson & Co., Chartered Accountants serves as the external auditors for KSB Pumps and issued an unqualified opinion on the company's financial statements for the year ended December 31, 2023, as well as a review report for the half year ended June 30, 2024. In addition to outsourcing the internal audit function to Tariq Abdul Ghani Maqbool & Co., Chartered Accountants, the Company also maintains an in-house internal audit department. This dual approach ensures the implementation of efficient internal controls and strong governance practices.

Management

Organizational Structure The Company has a well-defined organizational structure with clearly demarcated management authorities. Its operations are divided into seven broad divisions: (i) Operations, (ii) SupremeServ, (iii) Sales & Strategic Marketing, (iv) Finance & Control, (v) Admin & Corporate Affairs, (vi) Internal Audit, and (vii) Human Resources. Each division is further subdivided to ensure the smooth flow of operations and is led by qualified and experienced professionals. The Company's management is fully aligned with KSB Germany, ensuring consistency and strategic coherence across operations.

Management Team KSB Pumps boasts a management team of experienced professionals, many of whom have been with the Company for an extended period. The team is led by CEO Mr. Imran Ghani, who brings extensive expertise in sales, after sales, and engineering. The Finance function is headed by Chief Financial Officer Mr. Imran Ahmad, who has over 20 years of experience in finance, control, treasury, supply chain, business controlling, digitization, IT, and compliance. Additionally, Mr. M. Imran Malik serves as Chief Commercial Officer, and Mr. Fida Hussain is the Chief Manufacturing Officer, both bringing valuable expertise to their respective roles.

Effectiveness The head of each department at KSB Pumps reports directly to the CEO, who in turn reports to the BoD. Regular meetings are held to ensure that plans are executed as intended. Additionally, KSB Pumps ensures the effectiveness of its management system (IMS) by consistently monitoring activities through the procedures outlined in its Integrated Management System. This approach guarantees compliance with national legislation and the Company's internal policies on environmental standards, occupational health, and safety.

MIS KSB Pumps utilizes SAP as its ERP solution, enabling comprehensive Management Information System (MIS) reporting. SAP is deployed by KSB Germany, providing real-time reporting to the Parent Company. In addition, KSB Pumps prepares and shares monthly MIS reports with the Parent Company to ensure consistent communication and alignment across the organization.

Control Environment KSB Pakistan maintains a strong control environment through a comprehensive IMS that ensures the highest standards across all operations. The Company's monthly MIS includes detailed performance reports, which are regularly reviewed by senior management to track progress and maintain alignment with strategic goals. KSB Pump's commitment to quality is evidenced by its ISO certifications, having been ISO 9001 certified since 1994, and later adding ISO 14001 and ISO 45001 certifications. These certifications, awarded by TUV Germany, reflect the Company's adherence to the latest global standards in quality, environmental management, and occupational health and safety.

Business Risk

Industry Dynamics Pakistan's pump and valve industry is composed of both organized and unorganized players. The demand for pumps and valves is primarily driven by government projects, particularly those related to water pumping and thermal power, although the private sector also contributes. Moreover, there is an increasing emphasis on boosting exports in the sector. The segment's revenue reached about PKR 5.3 billion in FY23, marking a 6.8% increase from PKR 4.9 billion in FY22. However, the pace of revenue growth has been slowing since FY21, which can be attributed to currency devaluation and rising energy costs, both of which have pushed up production costs and consequently raised pump prices, impacting demand. The main raw material for manufacturing pumps and valves is iron, sourced both locally and through imports.

Relative Position KSB Pumps is the leading player in pumps and valves industry catering to the need of both public and private clients with ~30%+ share of the industry. It is the only corporate player with a pump manufacturing facility, distinguishing itself from its competitors, who are primarily small SMEs controlling the remaining market share. KSB Pumps has maintained its leadership position for decades, supported by its superior after-sales services.

Revenues KSB Pumps generates revenue from three key segments: (i) Pumps & Valves, (ii) Services, and (iii) Project Sales. The Pumps & Valves segment is the primary contributor, accounting for 81% of sales during 9MCY24, compared to 80% in CY23. To stabilize its revenue, the Company has focused on expanding export sales, though the topline remains largely locally driven, with 77% of sales in 9MCY24 coming from domestic markets (compared to 68% in CY23). Additionally, KSB Pumps has increased its focus on private clients due to challenges in recovering payments from government departments, leading to a shift where non-government sales comprised 99% of revenue in 9MCY24. The Company's revenue decreased by 11.6% in 9MCY24, clocked to PKR 3,814mln compared to PKR 5,755mln in CY23. However, KSB Pakistan achieved an order intake of PKR 5,245mln in CY24, relatively stable as compared to PKR 5,282mln in CY23. The Company is confident in meeting its budgeted targets for CY24, anticipating that its budgeted turnover will be achieved in 4QCY24. This optimism is driven by the expectation that the orders currently in hand will be realized within this period, contributing to the projected revenue growth.

Margins During 9MCY24, the Company's gross margins held relatively steady at 19.1%, compared to approximately 20.4% in CY23. The Company reported a net loss of around (PKR 140mln), a notable drop from a net profit of PKR 1mln in CY23. This decline was primarily due to high finance costs, which amounted to PKR 285mln in 9MCY24, compared to PKR 357mln in CY23. However, the Company posted a positive net profit of PKR 29.6mln in the 3QCY24. Management remains cautiously optimistic about the fourth quarter, citing confirmed orders in the pipeline that are expected to be fulfilled, which could contribute to a modest but positive overall net profit for CY24.

Sustainability KSB Pumps is strategically increasing its exports and prioritizing private sector projects to improve cash flow, avoiding delays in government-related receivables. The 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. This new indirect business model is improving the speed of receivables collection, addressing liquidity concerns. The company is also expanding its footprint in after-sales services with its SupremeServ brand, launching dedicated workshops in Karachi (June 2023) and Lahore (August 2023). This move not only diversifies KSB Pumps' revenue streams but also solidifies its position in providing comprehensive service solutions. As the company navigates the pressures of inflation and rising energy costs, it continues to invest in sustainability. A new 850 kW solar plant, expected to be operational by end of CY24, will provide substantial annual savings of PKR 38 million. This complements existing solar installations at Hasanabdal -1000KW and Lahore - 120KW, with plans for a solar setup in Karachi, achieving a comprehensive solar footprint across all major locations.

Financial Risk

Working Capital KSB Pumps addresses its working capital needs through a combination of internal cash generation and short-term borrowings. In the 6MCY24, the Company utilized 69% of its available short-term borrowing lines, reflecting a significant dependence on these facilities to manage working capital. However, by the end of 3QCY24, short-term borrowings were reduced to "nil" following the successful completion of a rights issuance. The proceeds from this issuance were used to meet working capital requirements and pay off outstanding running finance balances, resulting in a net cash surplus of PKR 250mln. This strategic move aligns with the confidence of KSB SE & Co. KGaA in the Company's operations and underscores Pakistan's importance as a focus country.

Coverages The Company's debt servicing coverage ratio declined to -0.2x in 9MCY24, compared to 0.7x in CY23, driven by a net loss, weak cash flows, and increased short-term borrowings. Free cash flows from operations (FCFO) were negative, recorded at PKR (48mln) in 9MCY24, down from PKR 546mln in CY23. Finance costs also rose to PKR 235mln in 9MCY24, compared to PKR 357mln in CY23, mainly due to higher KIBOR rates and increased short-term borrowings. However, the repayment of all short-term borrowings by the end of September 2024, funded by proceeds from the rights issuance, is expected to enhance coverage ratios. If management successfully implements its plan to maintain zero borrowings in the future, these ratios could be further strengthened.

Capitalization KSB Pumps, which previously had a moderately leveraged capital structure with a leverage ratio of 46.4% in 6MCY24 (up from 45.4% in CY23), has undertaken significant financial adjustments. The Company utilized proceeds from a 134% rights issuance to fully repay all short-term borrowings, bringing leverage down to zero by the end of 3QCY24. This capital restructuring resulted in a modest increase in equity, which grew from PKR 2,014mln in CY23 to PKR 3,822mln as of 9MCY24. The rights issuance raised PKR 1,947mln, with 82.7% of the funds subscribed by the Company's sponsor, thereby strengthening its financial foundation.

KSB Pumps Company Limited
Nov-24
Rating Report
www.PACRA.com

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ancial Summary

PKR mln

KSB Pumps Ltd. Machinery	Sep-24 9M	Dec-23 12M	Dec-22 12M	Dec-21 12M
A BALANCE SHEET				
1 Non-Current Assets	1,142	1,222	1,064	1,045
2 Investments	-	-	-	-
3 Related Party Exposure	-	20	16	-
4 Current Assets	6,049	5,006	4,664	4,833
a Inventories	*2,002*	*1,378*	*1,194*	*1,445*
b Trade Receivables	*1,701*	*1,762*	*1,673*	*1,587*
5 Total Assets	7,191	6,248	5,743	5,878
6 Current Liabilities	2,239	2,469	2,054	1,979
a Trade Payables	*1,337*	*1,546*	*1,010*	*954*
7 Borrowings	-	1,676	1,593	1,836
8 Related Party Exposure	1,030	-	-	-
9 Non-Current Liabilities	100	88	85	77
10 Net Assets	3,822	2,014	2,012	1,987
11 Shareholders' Equity	3,822	2,014	2,012	1,987
B INCOME STATEMENT				
1 Sales	3,814	5,755	4,965	4,334
a Cost of Good Sold	*(3,086)*	*(4,581)*	*(4,190)*	*(3,740)*
2 Gross Profit	728	1,174	775	594
a Operating Expenses	(625)	(760)	(548)	(563)
3 Operating Profit	103	413	227	32
a Non Operating Income or (Expense)	*99*	*(29)*	*101*	*109*
4 Profit or (Loss) before Interest and Tax	202	385	328	140
a Total Finance Cost	*(285)*	*(372)*	*(254)*	*(109)*
b Taxation	*(57)*	*(11)*	*(30)*	*(4)*
6 Net Income Or (Loss)	(140)	1	43	27
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*(48)*	*546*	*366*	*216*
b Net Cash from Operating Activities before Working Capital Changes	*(48)*	*213*	*143*	*130*
c Changes in Working Capital	*(73)*	*(89)*	*191*	*(543)*
1 Net Cash provided by Operating Activities	(121)	124	334	(413)
2 Net Cash (Used in) or Available From Investing Activities	(58)	(254)	(143)	(64)
3 Net Cash (Used in) or Available From Financing Activities	1,947	-	(263)	(235)
4 Net Cash generated or (Used) during the period	1,767	(130)	(71)	(712)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	-11.6%	15.9%	14.5%	20.2%
b Gross Profit Margin	19.1%	20.4%	15.6%	13.7%
c Net Profit Margin	-3.7%	0.0%	0.9%	0.6%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	-3.2%	8.0%	11.2%	-7.6%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sl*	-6.4%	0.0%	2.2%	1.4%
2 Working Capital Management				
a Gross Working Capital (Average Days)	246	191	217	215
b Net Working Capital (Average Days)	142	109	145	145
c Current Ratio (Current Assets / Current Liabilities)	2.7	2.0	2.3	2.4
3 Coverages				
a EBITDA / Finance Cost	1.3	1.9	1.9	2.7
b FCFO / Finance Cost+CMLTB+Excess STB	-0.2	1.5	1.5	0.6
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.0	0.0	0.0	2.2
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	0.0%	45.4%	44.2%	48.0%
b Interest or Markup Payable (Days)	0.0	105.2	96.8	106.7
c Entity Average Borrowing Rate	21.9%	22.7%	13.1%	7.3%

PACRA Entity Rating Scale

Together. Creating Value.

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
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+ AA AA-	Very high credit quality. 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.
A+ A A-	High credit quality. 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.
BBB+ BBB BBB-	Good credit quality. 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.
BB+ BB BB-	Moderate risk. 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.
B+ B B-	High credit risk. 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.
CCC CC C	Very high credit risk. 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.
D	Obligations are currently in default.

Scale	Short-Term Rating
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.

Rating Modifiers | Rating Actions

Outlook (Stable, Positive, Negative, Developing)	Rating Watch	Suspension	Withdrawn	Harmonization
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'.	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.	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.	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.	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. Rating actions may include "maintain", "upgrade", or "downgrade".

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 Company

Regulatory and Supplementary Disclosure
(Credit Rating Companies Regulations,2016)

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 | 17-(a)
(19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)
Proprietary Information