



The Pakistan Credit Rating Agency Limited

## Rating Report

### Byco Petroleum Pakistan Limited

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
25-Aug-2021	A-	A2	Stable	Maintain	Yes
25-Aug-2020	A-	A2	Stable	Initial	Yes

#### Rating Rationale and Key Rating Drivers

The ratings reflect the resilient business profile of Byco Petroleum Pakistan Limited (Byco) emanating from its diversified operational capability and its strategic importance in the domestic context. Byco possesses a notable share in meeting the economy's demand for petroleum products, with its refinery and marketing business. Byco's refinery business remains exposed to the vicissitudes in international crude and petroleum products' (POL) prices, which in turn, steer the gross refining margins (GRMs) of the Company. Significant challenge underlying the future of refinery industry in Pakistan pertains to up-gradation of the refining complexes. In order to cater the issue, 'Working Group' constituted by the Government that comprising of the Government officials and representative of refineries. This group finalised a draft 'Refining Policy' which envisages certain fiscal and tariff concessions to the refining sector that has improved implications on the financial condition of the refineries, also enabling up gradation of plants. However, the final approval and actual financial impact is yet to be seen. Economic activities have resumed despite continuing vicissitudes of COVID 19. This resulted in improved oil demand along with pricing implications supporting refining margins. It is important that the uptick trend continues, going forward. Uncertainty is still around as the third and fourth waves of the pandemic occasions frequent reviews of business timings and otherwise. Byco has resumed to report profitability from previous years losses and booked Net Profit of PKR 2,180mln in 9MFY21 (FY20: PKR (2,431)mln; FY19: PKR (1,684)mln; FY18: PKR 5,020mln). On the back of revival in economic dynamics, this trend is going to continue in upcoming periods. Byco's financial risk profile is well managed even in challenging position with essential borrowings to cater working capital needs and also stands in range bound. Nonetheless, Byco stands out in embarking on a new strategic venture to upgrade its refinery process in order to cope with the key challenges prevailing in the sector. The project also encompasses installation of DHDS plant, which would enable the company to produce Euro V & Euro-VI, compliant with requirements. Byco has completed the feasibility study for the DHDS plant and ground construction work has already been started, in next phase the Company starts to import the machinery. Management is of view that project will be completed in FY 2025. More recent changes in the capital structure on account of the divestment of Abraj Fund's stake, one of the two key sponsors poses changes on strategic sphere. Wherein, the key sponsoring family - Abbasciy family, is committed to ensure continuity and extending essential support.

The ratings are reflection of Byco's largest capacity, efficient processes that enables the company to effectively shield its business profile from external vulnerabilities. Improved performance indicators and promising financial discipline, are imperative to the ratings. The entity has been placed on Rating Watch to oversee challenges on the business and financial risk profile of the company, amongst others, related to industry dynamics.

#### Disclosure

<b>Name of Rated Entity</b>	Byco Petroleum Pakistan Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Corporate Rating(Jun-21),Criteria   Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria   Rating Modifiers(Jun-21)
<b>Related Research</b>	Sector Study   Refineries(Nov-20)
<b>Rating Analysts</b>	Saadat Mirza   saadat.mirza@pacra.com   +92-42-35869504

## Profile

**Legal Structure** Byco Petroleum Pakistan Limited (herein referred to as “Byco” or “the Company”) was incorporated in the year 1995, under the repealed Companies Ordinance, 1984 and was granted a certificate of commencement of business, later in the same year. The company is listed on the Pakistan Stock Exchange.

**Background** Byco was founded by its first Chairman, Mr. Parvez Abbasi. After installation of its first oil refinery, the company began commercial production in 2004. Byco’s marketing segment was formally launched in 2007. During 2017, Byco Terminals Pakistan Limited (wholly owned subsidiary) and Byco Oil Pakistan Limited (Parent Company) merged into Byco Petroleum Pakistan Limited.

**Operations** The Company currently operates in two business segments namely the Oil Refinery Business and Petroleum Marketing Business. Byco has two refineries in Hub - Baluchistan, with an aggregate rated capacity of 155,000 bpd, the highest in the industry. The company’s marketing segment has over 390 retail outlets across the country. The registered office is situated at the Harbour Front, Dolmen City, Clifton, Karachi.

## Ownership

**Ownership Structure** The company is a subsidiary of Cnergyico Mu Incorporated (CMI) (formerly Byco Industries Incorporated (BII)), Mauritius, which currently holds 69.83% shares in the company after divestment of 22% shares by IGCF Oil & Gas Limited (formerly Abraaj Mauritius Oil & Gas Limited (AMOGL)), while the rest is spread among other Financial Institutions and General Public.

**Stability** AMOGL is a wholly owned subsidiary of Abraaj Capital Limited – an Abraaj Group company. In 2018, the Group was forced into liquidation after a group of investors, commissioned an audit to investigate the alleged mismanagement of money in its health-care fund. Abraaj Group is taking exit from the ownership of the Byco. The timeline of such, is dependent upon the completion of the liquidation process of the Group.

**Business Acumen** The Abbasi family, Byco’s strategic sponsors, have strong business skills and industry-specific working knowledge, due to extensive experience in the oil industry, which has helped the company to achieve growth in market share in recent years, after the setback of a fire accident in the refinery complex, in 2015.

**Financial Strength** The company’s sponsors have showcased a willingness to support the entity on a continuing basis, as evident by substantial sponsor loans.

## Governance

**Board Structure** The control of the company vests with a seven-member Board of Directors (BoD) including the Chairman and the CEO. Five directors are representative of the Byco group, whereas the remaining two directors are independent.

**Members’ Profile** Byco’s BoD comprises qualified and experienced professionals. Mr. Mohammad Wasi Khan is the Chairman of the Board. Mr. Khan has been associated with the Byco Group since 2004. He brings with him, over 30 years of experience in the refining sector.

**Board Effectiveness** Board Committees are in place to exercise strategic oversight, namely the; (i) Audit Committee, (ii) Human Resource and Remuneration Committee and (iii) Risk Management Committee.

**Financial Transparency** M/s E&Y Sidat Hyder, Chartered Accountants, the external auditors of the company, have given an unqualified opinion on the company’s financial statements for the year ended June 30, 2020 and the period ended December 31, 2020. The firm has been categorized in the ‘A’ category by the SBP and has been QCR rated by ICAP.

## Management

**Organizational Structure** Presently, the company is divided in four main functions, namely i) Admin & HR, ii) Commercial, iii) Technical, and iv) Finance. Head of these departments report to the CEO, who in turn reports to the BoD.

**Management Team** Mr. Amir Abbascy has been the Chief Executive Officer of Byco since January 2017, while also serving on the Board as an executive director. He brings with him, extensive experience spanning 3 decades in the industry. He has an MBA from the Business School of Lausanne, Switzerland.

**Effectiveness** The robustness of control systems is a reflection of strong management. The management’s effective decision-making has led to processes becoming more systematic.

**MIS** Byco has implemented SAP as the ERP solution, to streamline planning and coordination across business lines, thereby increasing overall efficiency.

**Control Environment** Byco is one of the only refineries in Pakistan producing 92 RON PMG and are therefore not subject to the RON penalty. As part of the goal of adopting DuPont’s Process Safety Management system, the company has focused on safe commission activities, multiple turnarounds, EHS resource development, and sustainability, at its refineries.

## Business Risk

**Industry Dynamics** Pakistan consumed a total of -13mln metric tons (MT) of petroleum products in 9MFY21 (FY20: ~15mln MT). This decrease is mainly seen due to decrease in the consumption of MOGAS and HSD due to country wide lockdowns and restrictions on public transport. Consumption of black oil has been decreasing over the years mainly due to decline in the consumption of FO by ~ 33% to ~2.4mln MT (FY19: -3.5mln MT), as the government of Pakistan plans to gradually reduce reliance on oil-based power plants to other power sources i.e. LNG & coal

**Relative Position** With respect to the relative positioning of the players in the premium products (HSD and MOGAS); efficiency and utilization of available capacity is essential. Two refineries namely PARCO and Byco Petroleum retain a large chunk of the market share of ~52%, while Pakistan Refinery, National Refinery, and Attock Refinery, contribute ~48% to the total domestic supply of POL products.

**Revenues** Economic uncertainty had an impact on the topline of the company, with the net revenue amounting to PKR 101,328mln in 9MFY21 (FY20: PKR 173,899mln; 9MFY20: PKR 144,439mln), depicting a fall of 22% compared to the corresponding period. The Refinery and Marketing segments both contribute equally to the topline. Improvement in domestic economic activity and business sentiments have been witnessed during the period. Consequently, the demand for all the products improved nationwide. The increase in petroleum levy during the period, has impacted the net revenues..

**Margins** The gross profit and the net profit started to improve in FY21, primarily due to better inventory management and improvement in prices. During 9MFY21, the gross profit amounted to PKR 5,475mln (9MFY20: PKR 1,200mln), due to stable exchange rates and less inventory losses. However, operating expenses marginally increased, gross profit margins during 9MFY21, improved to 5.4% (9MFY20: 0.8%). Byco has resumed to report profitability from previous years losses and booked Net Profit of PKR 2,180mln in 9MFY21 (FY20: PKR (2,431)mln; FY19: PKR (1,684)mln; FY18: PKR 5,020mln.

**Sustainability** The refinery sector has been going through an existential crisis, as a result of the government’s demand for environment friendly fuel. Due to the substantial investment needed for the required upgrades to the refineries, the developments in this regard, have reached an impasse. In spite of an improvement in the recent offtake of FO, uncertainty persists in its long term outlook, due to the government’s preference for other input sources to be used by IPPs for electricity generation, such as LNG and Coal. In the wake of these challenges, Byco is embarking on a new venture to counter the FO offtake challenge and becoming compliant with Euro-V Standard HSD.

## Financial Risk

**Working Capital** Byco’s working capital requirement emanates from import of raw materials and remains a function of fluctuating crude oil prices in international markets. Byco’s average gross working capital days during 9MFY21 clocked in at 77days (FY20: 65days). Moreover, the average net working capital days stood at -26days (FY20: -14days). Byco’s financial risk profile is well managed even in challenging position with essential borrowings to cater working capital needs and also stands in range bound.

**Coverages** The Free Cash Flows from Operations (FCFO) during 9MFY21 amounted to PKR ~7,184mln (9MFY20: PKR ~2,689mln), owing to the improved profitability during the period. Since the FCFO, during the period 3MFY20, comfortably met the finance cost, the Debt Payback Ratio improved from previous periods to stood at 7.9x. Similarly, the coverages depicted inched up, during 9MFY21, with the ratio FCFO-to-Finance Cost, clocking in at 3.9x (FY20: 1.3x).

**Capitalization** The debt-to-equity ratio, as at end-9MFY21, clocked in at 57.9% (end-FY20: 65.7%), depicting a highly leveraged structure. Total Borrowings, including loan from the sponsor, amounted to PKR~37,885mln (end-FY20: PKR~48,455mln). As at end-9MFY21, the equity stood at PKR~27,523mln (end-FY20: PKR~25,344mln) on the back of reported profits during the period after heavy losses.



The Pakistan Credit Rating Agency Limited

Financial Summary  
PKR mln

Byco Petroleum Pakistan Ltd Refineries	Mar-21 9M	Jun-20 12M	Jun-19 12M	Jun-18 12M
<b>A BALANCE SHEET</b>				
1 Non-Current Assets	73,128	72,772	71,316	72,443
2 Investments	-	-	-	-
3 Related Party Exposure	16,932	16,932	16,932	16,932
4 Current Assets	38,499	36,312	41,895	40,374
a Inventories	24,944	22,879	29,260	29,391
b Trade Receivables	4,860	4,357	5,337	5,464
5 Total Assets	128,558	126,016	130,143	129,748
6 Current Liabilities	56,478	44,951	51,708	61,614
a Trade Payables	43,038	33,419	41,828	47,979
7 Borrowings	33,949	34,802	30,852	17,610
8 Related Party Exposure	3,936	13,653	13,533	12,101
9 Non-Current Liabilities	6,672	7,267	6,689	9,043
10 Net Assets	27,523	25,343	27,361	29,381
11 Shareholders' Equity	27,523	25,344	27,361	29,381
<b>B INCOME STATEMENT</b>				
1 Sales	101,328	173,899	197,831	166,290
a Cost of Good Sold	(95,853)	(171,002)	(195,871)	(157,141)
2 Gross Profit	5,475	2,896	1,960	9,150
a Operating Expenses	(1,144)	(1,512)	(1,406)	(1,231)
3 Operating Profit	4,331	1,384	553	7,919
a Non Operating Income or (Expense)	(290)	145	278	329
4 Profit or (Loss) before Interest and Tax	4,041	1,530	832	8,248
a Total Finance Cost	(1,862)	(3,960)	(3,070)	(2,878)
b Taxation	-	-	554	(350)
6 Net Income Or (Loss)	2,180	(2,431)	(1,684)	5,020
<b>C CASH FLOW STATEMENT</b>				
a Free Cash Flows from Operations (FCFO)	7,184	4,955	3,144	10,032
b Net Cash from Operating Activities before Working Capital Changes	4,592	(1,509)	1,080	8,623
c Changes in Working Capital	9,070	(102)	(9,879)	(1,033)
1 Net Cash provided by Operating Activities	13,662	(1,611)	(8,799)	7,590
2 Net Cash (Used in) or Available From Investing Activities	(3,220)	(3,331)	(2,781)	(3,157)
3 Net Cash (Used in) or Available From Financing Activities	(11,397)	7,393	11,969	(3,937)
4 Net Cash generated or (Used) during the period	(956)	2,452	389	497
<b>D RATIO ANALYSIS</b>				
<b>1 Performance</b>				
a Sales Growth (for the period)	-22.3%	-12.1%	19.0%	88.1%
b Gross Profit Margin	5.4%	1.7%	1.0%	5.5%
c Net Profit Margin	2.2%	-1.4%	-0.9%	3.0%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	16.0%	2.8%	-3.4%	5.4%
e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/Sh	10.7%	-9.4%	-6.2%	18.5%
<b>2 Working Capital Management</b>				
a Gross Working Capital (Average Days)	77	65	64	73
b Net Working Capital (Average Days)	-26	-14	-19	-18
c Current Ratio (Current Assets / Current Liabilities)	0.7	0.8	0.8	0.7
<b>3 Coverages</b>				
a EBITDA / Finance Cost	3.9	1.3	1.3	3.7
b FCFO / Finance Cost+CMLTB+Excess STB	0.2	0.1	0.1	0.3
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	7.9	57.4	727.6	7.1
<b>4 Capital Structure</b>				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	57.9%	65.7%	61.9%	50.3%
b Interest or Markup Payable (Days)	66.3	82.3	46.8	20.0
c Entity Average Borrowing Rate	5.6%	9.1%	9.0%	8.6%

**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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- (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)

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- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
- (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)

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- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA's opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

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- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

### **Probability of Default**

(22) PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA's transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(F-VII)

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