



The Pakistan Credit Rating Agency Limited

**Rating Report**

**Jadeed Feeds Industries (Pvt.) 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
25-Mar-2021	A-	A2	Stable	Initial	-

**Rating Rationale and Key Rating Drivers**

The global feed industry is valued at ~\$460bln, with poultry (~\$166bln) constituting ~36% of the total industry. Pakistan produces ~3.5mln MT annually, with ~150 registered feed mills and ~200 unregistered feed mills catering to it. The industry generates an annual turnover of ~PKR 396bln. Amidst the COVID-19 pandemic, closure of restaurants/marriage halls and export avenues led to a supply glut of poultry products in local market. Lately, as business avenues became operational, demand for poultry products has improved. A visible surge is also observed in feed and poultry product prices. This, along with SBP's interest rate cut and deferment/restructuring option has provided sufficient respite to the industry players.

The rating reflects Jadeed Feed's association with Jadeed Group, a leading and integrated player in the poultry supply chain. The Group has significant presence along poultry supply chain as it imports and breeds grandparent poultry stock (Ross 308). Lately, the Company has merged Jadeed Farms and Jadeed GP Farms into Jadeed Feeds. The Company's current business line comprises three main products: poultry feed variants, poultry breeding stock and day old chicks. At present, the Company has a strong topline dominated by poultry feed sales followed by poultry breeder stock and day old chick sales. Topline is expected to post stable growth on the back of significant demand for poultry products and increased prices. Margins are currently stable, however, are expected to improve once the internal synergies are streamlined. Inventory management system and related efficiencies would require the Company's attention to keep its working capital costs low. Financial risk profile of the Company is characterized by moderate leveraging, to fund working capital needs. The Company is expected to limit borrowings to the extent that leveraging remains moderate. The coverages are stable, however, and will further benefit from the low interest rate scenario leading to better cashflows. The Sponsors have agreed to execute a formal shareholding agreement providing clarity on succession and governance framework.

The ratings are dependent on the management's ability to prudently manage liquidity and working capital requirements. The management's ability to build profitable volumes and adherence to strong financial discipline remain critical for the ratings. Envisioned improvement in business and financial profile along with effective changes in governance framework would be beneficial. Significant deterioration in coverages and/or margins will have negative impact on the ratings.

**Disclosure**

<b>Name of Rated Entity</b>	Jadeed Feeds Industries (Pvt.) Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Corporate Ratings(Jun-20),Methodology   Correlation Between Long-Term And Short-Term Rating Scale(Jun-20),Criteria   Rating Modifier(Jun-20)
<b>Related Research</b>	Sector Study   Poultry Feed(Jan-21)
<b>Rating Analysts</b>	Faiqa Qamar   faiqa.qamar@pacra.com   +92-42-35869504

## Profile

**Legal Structure** Jadeed Feeds Industries (Pvt.) Limited ('Jadeed Feeds' or 'the Company') was incorporated in Jun-08 as a Private Limited Company as per the Companies Ordinance, 1984 (now Companies Act 2017).

**Background** Mr. Javaid, along with his brothers, setup poultry business in 1980's. In 2005, the assets split and S.B. Feeds was renamed as Jadeed Farms. Jadeed Farms has a placement capacity of 2.6mln breeder birds and a hatching capacity of 453mln eggs per annum. In 2008, the Group setup its first feed mill with a manufacturing capacity of 60MT per hour. In 2012, Jadeed GP Farms was setup with a placement capacity of 0.33mln grandparent stock and has a hatching capacity of 47.5mln eggs per annum. In 2016, the Group's second feed mill was setup with a feed manufacturing capacity of 120MT per hour. In 2017, the Group setup its edible oil mill, as its backward integration plan. Lately, the Group increased its combined feed manufacturing capacity to 240MT per hour and merged Jadeed Farms and Jadeed GP Farms into Jadeed Feeds.

**Operations** The Company is primarily involved in manufacturing and selling variants of poultry feed, along with breeding grand parent stock (Ross -308) and selling poultry breeding stock and day-old chicks. The Company's feed mills, located in Khanewal and Shahkot, have a combined capacity of 576,000MT per annum. Utilization levels posted a stable trend ~ 47%. Breeding farms, located across Pakistan, are fully utilized. The Company's hatcheries, located in Kot Momin, have a utilization levels of 55% amidst Covid-19 pandemic.

## Ownership

**Ownership Structure** The Company's major ownership resides with Mr. Jan Mohammad Javaid (81%). The remaining stake resides with his two sons Mr. Muhammad Sohaib Javaid (7%) and Mr. Muhammad Safwan Javaid (7%), and wife, Mrs. Shazia Javaid (5%).

**Stability** Ownership of the business is seen as stable as the major ownership vests with Mr. Javaid. The sponsors have agreed to execute a formal shareholding agreement providing clarity on succession and governance framework.

**Business Acumen** Jadeed Group has experienced multiple business cycles. The Group is among the few players that imports and breeds Grand Parent poultry stock and is among the highest GP chick producers in Pakistan. Currently, there are two companies working under Jadeed Group.

**Financial Strength** The sponsors have adequate net worth to provide capital support to the business. The Group has substantial financial strength with consolidated asset base of ~PKR 23bln and an equity base of ~PKR 7.6bln as of FY20.

## Governance

**Board Structure** The Company's BoD comprises three Executive Directors from the sponsoring family. Lack of independent oversight and diversity indicate room for improvement in the governance structure.

**Members' Profile** The BoD members are very well equipped with the relevant business knowledge. Mr. Javaid has ~ 40 years of experience in poultry and allied chain; while, Mr. Sohaib and Mr. Safwan have 15 years and 12 years of experience in the same field, respectively.

**Board Effectiveness** The BoD is assisted by Board Audit Committee, comprising 5 members. The Committee is headed by Mr. Safwan and meets on quarterly basis. The BoD convenes quarterly meetings. Minutes of the BoD and Committee meetings are adequately maintained.

**Financial Transparency** The Company's external auditors, Muniff Ziauddin and Co., has expressed an unqualified opinion on the financial statements of the Company for year ended Jun-20. The firm has been QCR rated by ICAP and is placed in category A of SBP's panel of auditors.

## Management

**Organizational Structure** The Company operates through three functions: Production, Finance, Marketing and Sales. All functional managers' report to the CEO, who makes pertinent decisions. Thus, highlighting key man risk of management.

**Management Team** The Company's management comprises of experienced professionals. Mr. Javaid, Group's CEO, has significant experience and expertise in the poultry and feeds industry. The Group CFO, Mr. Bilal, has almost two decade of overall experience. Mr. Faisal Rasheed, DGM Finance, has an overall experience of 15 years.

**Effectiveness** Management's effectiveness and efficiency is ensured through the presence of Sales and Management committee setup at Group level. The Committee, comprising 5 members, is headed by the CEO. The Committee meets on need basis to manage and monitor pertinent business matters in timely manner.

**MIS** Customized software, installed by Sidat Hyder, is used at group. Standardized reports are generated as per requirement.

**Control Environment** Internal Audit Function has been setup at Group level which ensures operational efficiency and implementation of policies and procedures of the Company.

## Business Risk

**Industry Dynamics** The global feed industry is valued at ~\$460bln, with poultry (~\$166bln) constituting ~36% of the total industry. Pakistan produces ~3.5mln MT annually, with ~150 registered feed mills and ~200 unregistered feed mills catering to it. Feed and Poultry industry generates an annual turnover of ~PKR 396bln from local sales and ~ PKR 1bln from export sales. Amidst the COVID-19 pandemic, closure of restaurants/marriage halls and export avenues led to a supply glut of poultry products in local market. this led to prices of poultry products decreased. Sale of feed and recovery from farms remained under pressure. Lately, as business avenues became operational, demand for poultry products has improved. A visible surge is also observed in feed and poultry product prices. SBP's interest rate cut and deferment/restructuring option has provided sufficient respite to the industry players.

**Relative Position** Jadeed Feeds hold a market share of ~14% on revenue basis and ~5% on production basis. The Company is the only player in the industry that imports and breeds grandparent poultry stock (Ross - 308).

**Revenues** Post-merger, the Company generates revenue by selling variants of poultry feed (72%), followed by day-old chicks (21%) and parent breeder stock (7%). The Company's top 10 customers generate ~8% of total revenue. Over years, the Company's revenue has increased and the same trend has been maintained by the Company during FY20 as Jadeed Feeds posted a revenue of PKR 27bln (FY19: PKR 23bln), increased by ~19%. Similarly, during 2QFY21, the Company's topline stood at PKR ~16.8bln, up by ~26%. (2QFY20~PKR 13.3bln) backed by increased demand and surge in poultry product prices.

**Margins** Gross margin stood at 11.2% in FY20 (FY19: 7%) as the Company was able to pass on the increasing raw material costs. Similarly, on operational level the margin increased to 7.7% (FY19: 4.6%). However, on net level the margin remained stable at 2% (FY19: 1.6%). The Company posted a net profit of PKR 539mln in FY20 (FY19: PKR 378mln). During 2QFY21, the Company's gross margin stood at 9.4% (2QFY20 10.4%). Similarly, operational margin dipped to 5.9% (2QFY20: 7.4%). However, net margin increased to 3.7% (2QFY20: 1.5%). Net profit during 2QFY21 stood at PKR 617mln (2QFY20 : PKR 196mln)

**Sustainability** The Company aims to optimize utilization of its production capacity along with keeping costs under control, going forward.

## Financial Risk

**Working Capital** The Company has a moderate working capital cycle, net cash cycle ~ 50-70 days, funded through short term borrowings. Inventory held days stood at 78 days in FY20 (FY19: 64 days) due to low demand amidst Covid-19. Receivable days stood at 30 days (FY19: 28 days). Payable days stood at 40 days (FY19: 51 days). In 2QFY21, inventory days remained stable at 75 days (2QFY20: 73 days). Similarly, receivable days and payable days stood at 29 days (2QFY20: 31 days) and 26 days (2QFY20: 31 days), respectively. Borrowing cushion against trade assets has improved, however, remains limited.

**Coverages** Free cash flows stood at ~PKR 2.9bln in FY20 (FY19: ~PKR 1.4bln), while finance cost stood at PKR 1.2bln in FY20 (FY19: PKR 542mln). Interest cover improved slightly to 2.6x during FY20 (FY19: 2.3x). Moreover, core and total interest cover stood at 1.8x each in FY20 (FY19: 1.2). Debt payback stood at 1.3 days in FY20 (FY19: 2.1). In 2QFY21, interest cover stood at 2.8x, core and total interest cover stood at 1.8x each, and debt payback days stood at 1.3x.

**Capitalization** The Company has moderately leveraged capital structure with debt-to-equity ratio at 57% in FY20 (FY19: 70%). Post merger, total debt increased to ~PKR 8.4bln (FY19: ~PKR 6.3bln) and mainly comprises short term borrowings (FY20: PKR 7.2bln, FY19: PKR 2.3bln). During 2QFY21, the leveraging ratio stands at 57%. The Company is expected to limit borrowings to the extent that leveraging remains moderate.



The Pakistan Credit Rating Agency Limited

Financial Summary

Jadeed Feeds Industries (Pvt.) Ltd  
Poultry Feed

PKR mln

	Dec-20	Jun-20	Dec-19	Jun-19	Dec-18	Jun-18	Dec-17	Jun-17
	6M	12M	6M	12M	6M	12M	6M	12M
<b>A BALANCE SHEET</b>								
1 Non-Current Assets	7,226	7,414	7,616	4,193	3,607	2,749	2,493	2,252
2 Investments	1	1	-	-	-	-	-	-
3 Related Party Exposure	-	-	-	-	-	-	-	-
4 Current Assets	12,161	11,132	10,360	9,081	8,234	5,196	5,046	5,370
a Inventories	7,315	6,551	5,559	5,053	4,714	2,857	2,788	2,622
b Trade Receivables	2,772	2,538	2,543	1,997	1,755	1,557	1,495	1,724
5 Total Assets	19,388	18,547	17,976	13,274	11,840	7,945	7,539	7,622
6 Current Liabilities	2,793	3,429	2,910	3,596	3,235	2,190	1,631	949
a Trade Payables	2,100	2,747	1,963	3,224	2,903	1,967	1,448	835
7 Borrowings	9,231	8,372	8,941	6,258	5,604	3,428	3,737	4,513
8 Related Party Exposure	-	-	-	-	-	-	-	-
9 Non-Current Liabilities	335	335	168	797	668	76	39	129
10 Net Assets	7,028	6,411	5,957	2,624	2,333	2,252	2,133	2,030
11 Shareholders' Equity	7,028	6,411	5,957	2,624	2,333	2,252	2,133	2,030
<b>B INCOME STATEMENT</b>								
1 Sales	16,833	27,279	13,270	23,164	9,978	15,426	7,872	12,182
a Cost of Good Sold	(15,256)	(24,222)	(11,863)	(21,524)	(9,323)	(14,563)	(7,431)	(11,491)
2 Gross Profit	1,577	3,057	1,407	1,641	655	863	441	691
a Operating Expenses	(586)	(959)	(426)	(585)	(302)	(240)	(122)	(181)
3 Operating Profit	991	2,098	981	1,056	353	623	319	510
a Non Operating Income or (Expense)	(13)	8	(2)	(7)	(4)	(16)	(8)	(10)
4 Profit or (Loss) before Interest and Tax	978	2,106	979	1,049	348	607	311	500
a Total Finance Cost	(361)	(1,179)	(595)	(542)	(205)	(335)	(171)	(302)
b Taxation	-	(388)	(189)	(129)	(56)	(39)	(20)	(90)
6 Net Income Or (Loss)	617	539	196	378	88	233	120	107
<b>C CASH FLOW STATEMENT</b>								
a Free Cash Flows from Operations (FCFO)	1,005	2,981	1,431	1,224	543	714	360	410
b Net Cash from Operating Activities before Working Capital Changes	1,005	1,906	983	745	375	373	161	109
c Changes in Working Capital	(1,740)	(1,688)	(1,613)	(1,250)	(896)	1,446	1,075	(651)
1 Net Cash provided by Operating Activities	(734)	218	(630)	(505)	(520)	1,818	1,235	(542)
2 Net Cash (Used in) or Available From Investing Activities	(200)	(1,816)	(1,554)	(2,680)	(1,839)	(423)	(349)	106
3 Net Cash (Used in) or Available From Financing Activities	859	1,697	2,235	3,258	2,429	(1,380)	(851)	441
4 Net Cash generated or (Used) during the period	(75)	99	51	73	70	15	35	4
<b>D RATIO ANALYSIS</b>								
<b>1 Performance</b>								
a Sales Growth (for the period)	23.4%	17.8%	14.6%	50.2%	29.4%	26.6%	29.3%	--
b Gross Profit Margin	9.4%	11.2%	10.6%	7.1%	6.6%	5.6%	5.6%	5.7%
c Net Profit Margin	3.7%	2.0%	1.5%	1.6%	0.9%	1.5%	1.5%	0.9%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	-4.4%	4.7%	-1.4%	-0.1%	-3.5%	14.0%	18.2%	-2.0%
e Return on Equity (Net Profit Margin * Asset Turnover * Total Assets/Sha	17.9%	9.8%	7.8%	18.0%	9.0%	10.6%	11.2%	5.3%
<b>2 Working Capital Management</b>								
a Gross Working Capital (Average Days)	104	108	104	92	101	104	100	130
b Net Working Capital (Average Days)	78	68	69	51	57	71	73	105
c Current Ratio (Current Assets / Current Liabilities)	4.4	3.2	3.6	2.5	2.5	2.4	3.1	5.7
<b>3 Coverages</b>								
a EBITDA / Finance Cost	2.8	2.8	3.0	2.6	2.5	2.6	2.6	2.1
b FCFO / Finance Cost+CMLTB+Excess STB	1.8	1.8	1.6	1.2	1.4	1.3	1.3	0.9
c Debt Payback (Total Borrowings+Excess STB)/(FCFO-Finance Cost)	1.3	0.6	0.9	2.1	1.9	2.9	2.7	3.7
<b>4 Capital Structure</b>								
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	56.8%	56.6%	60.0%	70.5%	70.6%	60.4%	63.7%	69.0%
b Interest or Markup Payable (Days)	117.5	70.6	83.5	73.5	75.1	50.6	25.1	63.2
c Entity Average Borrowing Rate	8.0%	14.7%	16.8%	10.5%	9.5%	8.5%	8.2%	6.6%

**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>
--	---

**Disclaimer:** PACRA has used due care in preparation of this document. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA shall owe no liability whatsoever to any loss or damage caused by or resulting from any error in such information. Contents of PACRA documents may be used, with due care and in the right context, with credit to PACRA. Our reports and ratings constitute opinions, not recommendations to buy or to sell.

### **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.
- (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)

### **Proprietary Information**

(23) All information contained herein is considered proprietary by PACRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA's prior written consent