



The Pakistan Credit Rating Agency Limited

## Rating Report

### Unicol Limited

#### Report Contents

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
15-Mar-2024	A	A1	Stable	Maintain	-
17-Mar-2023	A	A1	Stable	Maintain	-
18-Mar-2022	A	A1	Stable	Maintain	-
19-Mar-2021	A	A1	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

Pakistan's ethanol industry is export based due to limited domestic consumption. The annual export of ethanol decreased and stood at 442,000 MT during FY23 (FY22: 592,000 MT). This decrease is mainly due to low production of ethanol that stood 475,000 MT during FY23 (FY22: 637,000 MT). Global prices of ethanol increased and stood at USD 951 /MT during FY23 (FY22: USD 936 /MT). The average export price of ethanol in Pakistan hovered around USD ~ 890/MT, while average local prices remained PKR ~ 161,000/MT during FY19 - FY23. Whereas, Production of sugarcane during MY23 is 91.1mln MT. Production of sugarcane is expected to be decreased in MY24 by ~13.7% due to decrease in sugarcane area by ~5.3% as well as reduction of crop yield by ~3.8% as scarcity of water is forecasted by on the backdrop of lack of adequate rainfall.

The ratings are indicative of Unicol's strong business profile emanating from strong and consistent margins coupled with the export-driven dynamics inherent to the ethanol industry. Also, the ratings draw attention from the Companies affiliation with three strong business groups : Ghulam Faruque Group, Amin Bawany Group, and Hasham Group. During the period, Unicol acquired the assets of M/S Popular Sugar Mills Ltd against the consideration amount for PKR 6.5bln for which PKR 5bln was financed through banks. Due to this transaction, Company's leverage has increased to 62.4%, during MY23 (MY22: 46.9%). The said unit having a crushing capacity of 8,000 TCD, located at Jan Muhammad Wala, near Sial More, Sargodha. It is engaged in the manufacturing and sale of refined sugar and its by-products; molasses and bagasse. Furthermore, the Company has produced ~24,000MT sugar, during 1QMY24. The diversification of revenue streams will result in increased stability, enhanced resilience against market fluctuations, and improved long-term growth prospects. During MY23, the Company posted the growth of 69%. The gross profit margin of the Company increased and stood at 33% during MY23 (MY22: 28%). Also, the net profit margin also increased and stood at 18% during MY23 ( MY22: 15%). The Company maintains an adequate working capital cycle coupled with improved inventory days. The average inventory days improved and stood at 85 days during MY23 (MY22: 88 days). Whereas, net working capital days also improved and stood at 83 days (96 days).

The ratings are dependent on the Company's ability to sustain its margins and healthy coverages while maintaining the necessary cushion and discipline in working capital management. The diversification of revenue streams has fortified the rating, although the sustainability of the rating will continue to hinge on the output derived from those streams. Significant deterioration in coverages will have a negative impact on ratings.

#### Disclosure

<b>Name of Rated Entity</b>	Unicol Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Corporate Rating(Jul-23),Methodology   Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology   Rating Modifiers(Apr-23)
<b>Related Research</b>	Sector Study   Sugar(Aug-23)
<b>Rating Analysts</b>	Muhammad Zain Ayaz   zain.ayaz@pacra.com   +92-42-35869504

## Profile

**Legal Structure** Unicol Limited ('Unicol' or 'the Company') is a public unlisted company, incorporated in 2003.

**Background** Unicol began its commercial operations in 2007. The distillery was setup as a joint venture among three sugar mills, namely, Faran Sugar Mills Ltd., Mehran Sugar Mills Ltd. and Mirpurkhas Sugar Mills Ltd. Later in 2014, Unicol also installed a Liquid Carbon Dioxide (LCo2) production plant. All the companies in JV agreement are listed on Pakistan Stock Exchange.

**Operations** Primary business activity of Unicol is to manufacture and sell ethanol and LCo2. The plant is located in Mirpurkhas, whereas, its head office is located on Beaumont Road, Karachi. The Company produces Anhydrous Ethanol (>99.9%), A-Grade Ethanol (>96%) and B Grade ethanol (>92%) with installed production standing at 160MT per day. Unicol produced 57,575MT of ethanol during MY23 (MY22: 54,639MT) with utilization of 103% (MY22: 98%). The Company also produces food-grade LCo2 of 99.9% purity level through sugarcane fermentation, with an installed production capacity of 72MT per day. Unicol produced 11,940MT of LCo2 during MY23 (MY22: 10,914MT), with utilization of 66% (MY22: 61%). During 1QMY24, the Company has also started production of sugar. The installed capacity of said unit is 8,000 TCD.

## Ownership

**Ownership Structure** Unicol is a JV among three sugar mills, Faran Sugar, Mehran Sugar and Mirpurkhas Sugar, each holding an equal stake of ~33.33%

**Stability** Ownership seems stable. The sponsoring groups, Ghulam Faruque, Amin Bawany and Hasham, have a strong standing in various segments of economy.

**Business Acumen** Ghulam Faruque, Amin Bawany and Hasham groups are ranked amongst the leading industrial groups of the country with diversified interests in cement, packaging, sugar, construction, renewable energy, consumer goods segments, terminal handling, industrial equipments etc.

**Financial Strength** The Company drives strength from strong footings of the Sponsoring Group. Moreover, the companies in the JV have strong financial strength derived from their operations. As shown in the table below, during Sep-23, the three companies had a cumulative assets base of ~PKR 28,241m, supported by an equity base of ~PKR 10,972m with the generated revenue base of ~ PKR 29,780m and posted a cumulative profit of ~PKR 3,502m during Sep-23.

## Governance

**Board Structure** Board of Directors comprises 7 members. There are 5 Non-Executive Directors, 1 Chief Executive and 1 Independent Director on the BoD. The three sponsoring companies have equal representation on the Company's Board.

**Members' Profile** The Company's Board comprises experienced individuals. Mr. Asif Qadir, Chairman of the Board, is an Independent Director. He has an overall experience of more than 4 decades and is also on the Board of Cherat Cement Ltd., Descon Oxychem Ltd., TriPack Films Ltd., Thal Ltd. and Liaqat National Hospital

**Board Effectiveness** During MY23, six Board meeting were convened among members with meeting minutes being captured formally. The Board is assisted by Board Audit Committee, which is chaired by Mr. Asif Qadir.

**Financial Transparency** The Company has appointed Grant Thornton as its external auditors. The firm has expressed an unqualified opinion on the financial statements of the Company for the year ended Sept-23.

## Management

**Organizational Structure** The Company's organizational structure reflects clear reporting lines and is split between the production site and head office. The Company operates through seven functions; namely, operations, procurement, sales & marketing, finance, IT, internal audit and HR. All functional heads reports to the Company's CEO, who then reports to the BoD. However, HR, IT, procurement and internal audit functions are shared at the group level

**Management Team** Management comprises experienced individuals. Mr. Aslam Faruque, CEO, has more than 25 years experience in sugar & ethanol industry. He's also CEO of Mirpurkhas Sugar Mills Ltd. He is supported by Mr. Mustapha Qaisar (COO), Mr. Saad Ali Khawaja (CFO) and Mr. M. Asad Siddiqui (Company Secretary).

**Effectiveness** Performance is discussed among the Directors on a weekly basis to review activity and operations. However, the Company has no formal management committees in place

**MIS** The Company uses SAP software, installed and managed by a Group company, Zensoft Pvt. Ltd. Reports are submitted to senior management as per requirement.

**Control Environment** Internal audit function is placed at group level. It ensures compliance and efficiency by quarterly evaluations while reporting to Audit Committee.

## Business Risk

**Industry Dynamics** The share of sugarcane in the GDP of Pakistan is 0.9% during MY23. Production of sugarcane during MY23 is 91.1m MT. Production of sugarcane is expected to be decreased in MY24 by ~13.7% due to decrease in sugarcane area by ~5.3% as well as reduction of crop yield by ~3.8% as scarcity of water is forecasted by on the backdrop of lack of adequate rainfall. The minimum support price of sugarcane is expected PKR 400/maund in Punjab, PKR 425/maund in Sindh and PKR 400/maund in KPK during MY24. The average global prices of ethanol recorded USD ~749 /MT during CY19-CY23. While USDA estimates exports of sugar around ~0.25m MT in MY24, it appears highly unlikely, considering the expected reduction in sugar productivity by 6% in MY24.

**Relative Position** According to its production, Unicol has a market share of ~12% in ethanol during MY23, whereas during 1QMY24, the sugar production holds market share of ~0.3%.

**Revenues** The Company's revenue stream is export based, accounting for ~98% of total revenue during MY23. Sales revenue during MY23 stood at ~PKR 15,064m (MY22: PKR 8,917m), surging by ~69% over the preceding year. The growth in revenue was primarily due to 31% higher ethanol volumes as the actual production of Ethanol increased by 5%. (MY23: 57,575MT, MY22: 54,639MT). Moreover, higher ethanol prices in international market also supplemented the revenue. During MY23, the local sale stood at PKR 286m (MY22: PKR 250m) that counted 2% of total sales and export sales stood at PKR 14,822m (MY22: PKR 8,703m) that counted 98% of total sales.

**Margins** The gross profit margin of the Company stood at 33% during MY23 (MY22: 28%). Also, that the gross profit margin for 1QMY24 stood at 21% (1QMY23: 33%). Following the trend, Operating profit margin increased and stood at 29% during MY23 (MY22: 22%) due to increase in sales. For 1QMY24, Operating profit margin stood at 16% (1QMY23: 32%). Net profit margin of the Company increased and stood at 18% during MY23 (MY22: 15%). Net profit margin for 1QMY24 stood at 1% (1QMY23: 27%).

**Sustainability** During the period, Unicol acquired the assets of M/S Popular Sugar Mills Ltd against the consideration amount for PKR 6.5bn for which PKR 5bn was financed through banks.

## Financial Risk

**Working Capital** During MY23, the Company was able to improve net working capital days to 83 (MY22: 96 days), on the back of lower average inventory days and trade receivable days. Receivable days stood at 1 day during MY23 (MY22: 10 days) due to payments received from debtors. On the other hand, average inventory days also improved and stood at 85 days during MY23 (MY22: 88 days). Trade payables stood at 3 days during MY23 (MY22: 2 days). Also, the average inventory days for 1QMY24 deteriorated at 133 days (1QMY23: 65 days). Whereas, net working capital days deteriorated and stood at 128 days during 1QMY24 (1QMY23: 69 days).

**Coverages** Interest coverage decreased and stood at 3.6x during MY23 (MY22: 7.0) due to increase in finance cost that increased and stood at PKR: 1,109m during MY23 (MY22: PKR 291m). Following this, total interest coverage also decreased and stood at 1.9x during MY23 (MY22: 6.0x). Debt payback ratio improved slightly (MY23: 1.7x, MY22: 0.0x) due to increase in profits the Company has earned during the year. The Company's FCFO increased and stood at PKR 4,045m during MY23 (MY22: PKR 2,027m) due to increase in sales. On the other hand, FCFO for 1QMY24 stood at PKR 651m (1QMY23: PKR 1,106m) due to decrease in profit before tax PKR 71m during 1QMY24 (1QMY23: PKR 1,090m) and due to increase in finance cost (1QMY24: PKR 507m, 1QMY23: PKR 98m). Interest coverage ratio for 1QMY24 decreased and stood at 1.3x (1QMY23: 11.3x). Debt payback ratio for 1QMY24 increased and stood at 8.7x (1QMY23: 0.0x).

**Capitalization** The Company has a moderately leveraged capital structure represented through a debt-to-equity ratio of ~62.4% in MY23 (MY22: 47%). Also, the leverage for 1QMY24 stood at 70% (1QMY23: 58%). Total debt during MY23 stood at PKR 8,887m (MY22: PKR 3,033m). Total debt for 1QMY24 stood at PKR 12,719m (1QMY23: 5,686m).



The Pakistan Credit Rating Agency Limited

Financial Summary  
PKR mln

Unicol Limited Sugar	Dec-23 3M	Sep-23 12M	Sep-22 12M	Sep-21 12M
<b>A BALANCE SHEET</b>				
1 Non-Current Assets	8,943	9,086	2,309	2,469
2 Investments	18	309	479	16
3 Related Party Exposure	-	-	-	1
4 Current Assets	11,015	6,067	4,256	2,775
a Inventories	6,654	3,973	3,043	1,271
b Trade Receivables	45	47	48	441
5 Total Assets	19,977	15,463	7,043	5,262
6 Current Liabilities	1,875	1,226	571	367
a Trade Payables	274	174	65	53
7 Borrowings	12,719	8,887	3,033	1,800
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	5,382	5,350	3,440	3,095
11 Shareholders' Equity	5,382	5,350	3,440	3,095
<b>B INCOME STATEMENT</b>				
1 Sales	3,653	15,064	8,917	8,382
a Cost of Good Sold	(2,895)	(10,093)	(6,456)	(7,229)
2 Gross Profit	758	4,971	2,460	1,154
a Operating Expenses	(192)	(646)	(510)	(403)
3 Operating Profit	565	4,325	1,951	751
a Non Operating Income or (Expense)	22	(290)	(159)	(11)
4 Profit or (Loss) before Interest and Tax	588	4,035	1,792	740
a Total Finance Cost	(517)	(1,131)	(305)	(153)
b Taxation	(39)	(169)	(167)	(85)
6 Net Income Or (Loss)	32	2,735	1,320	502
<b>C CASH FLOW STATEMENT</b>				
a Free Cash Flows from Operations (FCFO)	651	4,045	2,027	895
b Net Cash from Operating Activities before Working Capital Changes	320	3,265	1,758	742
c Changes in Working Capital	(4,900)	(952)	(1,315)	324
1 Net Cash provided by Operating Activities	(4,580)	2,313	444	1,066
2 Net Cash (Used in) or Available From Investing Activities	311	(6,852)	(561)	(127)
3 Net Cash (Used in) or Available From Financing Activities	3,832	5,030	261	(1,025)
4 Net Cash generated or (Used) during the period	(437)	490	144	(86)
<b>D RATIO ANALYSIS</b>				
<b>1 Performance</b>				
a Sales Growth (for the period)	-3.0%	68.9%	6.4%	43.9%
b Gross Profit Margin	20.7%	33.0%	27.6%	13.8%
c Net Profit Margin	0.9%	18.2%	14.8%	6.0%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	-116.3%	20.5%	8.0%	14.5%
e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity) ]	2.4%	62.2%	40.4%	15.9%
<b>2 Working Capital Management</b>				
a Gross Working Capital (Average Days)	134	86	98	64
b Net Working Capital (Average Days)	128	83	96	62
c Current Ratio (Current Assets / Current Liabilities)	5.9	4.9	7.5	7.6
<b>3 Coverages</b>				
a EBITDA / Finance Cost	1.4	3.9	6.9	7.0
b FCFO / Finance Cost+CMLTB+Excess STB	0.9	1.9	6.0	3.8
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	8.7	1.7	0.0	0.2
<b>4 Capital Structure</b>				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	70.3%	62.4%	46.9%	36.8%
b Interest or Markup Payable (Days)	107.2	134.9	75.4	60.4
c Entity Average Borrowing Rate	24.8%	17.8%	8.4%	4.8%

### 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+	<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	
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	<b>Very high credit risk.</b> Substantial credit risk "CCC" Default is a real possibility.
CC	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.

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

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

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(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)

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- 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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- (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).
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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)
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- (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)
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### **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)

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