



The Pakistan Credit Rating Agency Limited

Rating Report

Punjab Feeds Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
16-Sep-2021	BBB	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Globally, the poultry feed production stood at 1.2bln MT in 2020, up by 1% from 2019. Pakistan's annual poultry feed production is around ~3.5mln MT, with ~150 registered feed mills and ~200 unregistered feed mills catering to it. The industry generates an annual turnover of ~PKR 396bln (Jun-20). At the beginning of the COVID-19 pandemic, the closure of restaurants/marriage halls and export avenues led to a supply glut of poultry products in the local market. However, as business avenues became operational, demand for poultry products improved. Lately, a visible surge was also observed in feed and poultry product prices. This, along with SBP's interest rate cut along with deferment and/or restructuring option provided sufficient respite to the industry players. An uptick in prices and demand dynamics are expected if the hospitality segment remains operational.

The ratings reflect Punjab Feeds Limited's ('Punjab Feeds' or 'the Company') association with a strong business group, Olympia Group. The Group has a stable footing in chemicals, manufacturing, engineering, edible oil, poultry, poultry feed, power, and real estate segments of the economy. The Company is part of the Group's integrated poultry chain – oil/meal, feed, and poultry. Ratings draw strength from the Company's stable top line and consistent margins, along with efficient credit policies. The Company procures raw material in bulk due to seasonality constraints, posing an inherent price risk along with storage issues and a high holding period. This has been managed well by the Company and has yielded positive results while augmenting profitability. The Company has a modest capital structure supplemented by strong coverages and a healthy working capital cycle, which keeps the financial risk low. Demonstrated support from sponsors bode well for the Company's ratings.

The ratings are dependent upon improving margins and strict working capital discipline. The Company's ability to improve profitability while further strengthening coverage ratios remain critical. Any significant deterioration in business performance and/or financial health will negatively impact ratings.

Disclosure

Name of Rated Entity	Punjab Feeds Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Rating(Jun-21),Criteria Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria Rating Modifiers(Jun-21)
Related Research	Sector Study Poultry Feed(Jan-21)
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Profile

Legal Structure Punjab Feeds Limited ('Punjab Feeds' or 'the Company') was incorporated on August 31st, 1977, as a Public unlisted company.

Background Olympia Group came into existence as a family-owned business and became formally operational in 1975. The founder of Olympia Group, Mr. Munir Monnoo (Late), incorporated Karachi Feeds and Olympia Industries (Olympia Carpets) in 1975. Later on, during 1980s, poultry farms and breeders were incorporated, along with a solvent extraction unit. Currently, Olympia Group holds stable footing in chemicals manufacturing, edible oils extraction, poultry, textile, energy, agricultural crops, fruit orchards & real estate segments.

Operations Punjab Feeds produces two different types of feed namely; i) poultry feed and ii) cattle feed for birds and livestock of different types and age groups. The Company's feed mill is situated at 28-KM Lahore-Sheikhupura Road, Sheikhupura, with a production capacity of 45 MT per hour. During 3QFY21, the utilization level dipped to 36% (3QFY20: 41%) due to COVID-19 induced lockdown and closure of demand centers (restaurants and marriage halls).

Ownership

Ownership Structure The Company is owned by the sponsoring family, through Olympia Assets (37%), Mr. Humayun Monnoo (26%), Mr. M. Shakil Monnoo (13%), Mr. M. Nasir Monnoo (8%), Mr. M. Zeeshan Monnoo (6%), Mr. M. Khurshid Monnoo (5%), Mr. Aurangzeb Monnoo (3%) and other individuals of Monnoo family (1%).

Stability The Company's ownership is deemed stable, with Monnoo family gradually inducting its next generation in operations.

Business Acumen The Sponsoring family is well versed with operations of poultry and feed industry. Apart from shareholding in Punjab Feeds, the Monnoo family is involved in chemicals manufacturing, edible oils extraction, poultry, textile, energy, agricultural crops, fruit orchards & real estate.

Financial Strength Financial strength is deemed adequate, as Olympia Group has diversified exposure in different segments of the economy.

Governance

Board Structure The Board comprises of seven members, all from the sponsoring family only, with diversified range of experiences. Out of seven, two are executive directors, whereas five are non-executive directors. The Board lacks independent oversight.

Members' Profile The Board was previously Chaired by Mr. Munir Monnoo. After his demise in 2020, Mr. M. Khurshid Monnoo is acting as the Board's Chairman. Mr. M. Nasir Monnoo is the Chief Executive Officer of Punjab Feeds. He possesses more than 45 years of experience, and is a graduate of University of Texas, USA.

Board Effectiveness There are no BoD committees in place. During FY21, 4 Board meetings, with majority attendance, were held to discuss pertinent matters and make strategic decisions.

Financial Transparency The former external auditors of the Company, Sheikh and Chaudri Chartered Accountants have given an unqualified opinion on the financial statements, for the year ended Jun-20. During FY21, the Company appointed Kamran & Co. Chartered Accountants. They are QCR rated, however, are not placed in SBP panel of auditors.

Management

Organizational Structure Punjab Feeds organization structure is setup according to its operational requirements. The Company operates through four departments, namely; sales, production, procurement and finance. All departments eventually report to the CEO. Support and IT departments work as shared services for the Group.

Management Team The Company is headed by Mr. M. Nasir Monnoo, the CEO. Mr. M. Zeeshan Monnoo (son of Mr. M. Nasir Monnoo), the Resident Director, oversees the day-to-day operations of the Company. He is supported by the General Manager, Mr. Syed Kazim Hussain, and the Chief Financial Officer, Mr. Tahir Mehmood. Both are associated with the Group for more than 40 years.

Effectiveness There are no management committees established. Pertinent matters discussed are documented as per requirement.

MIS To monitor and control the production activity, the Company uses an in-house software designed by the Group's IT department. Reports are reviewed daily and weekly by the GM and CFO, before presenting to the Resident Director.

Control Environment Internal audit function has not been established. For internal dissemination, most of the information is documented as per the requirement. Feed formulation is programmed and monitored by Mr. M. Zeeshan Monnoo.

Business Risk

Industry Dynamics Globally, the poultry feed production stood at 1.2bln MT in 2020, up by 1% from 2019. Pakistan's annual poultry feed production is around ~3.5mln MT, with ~150 registered feed mills and ~200 unregistered feed mills catering to it. The industry generates an annual turnover of ~PKR 396bln (Jun-20). At the beginning of the COVID-19 pandemic, the closure of restaurants/marriage halls and export avenues led to a supply glut of poultry products in the local market. However, as business avenues became operational, demand for poultry products improved. Lately, a visible surge was also observed in feed and poultry product prices. This, along with SBP's interest rate cut along with deferment and/or restructuring option provided sufficient respite to the industry players. An uptick in prices and demand dynamics are expected if the hospitality segment remains operational.

Relative Position Among the top 12 best players in Pakistan's feed industry, Punjab Feeds Limited holds a small market share.

Revenues Feed is sold to local poultry farms through feed sales officers and agents. The Company sells feed for poultry (96%) and cattle (4%) in different variants. Topline has dipped marginally to PKR 3bln during 3QFY21 from PKR 3.2bln during 3QFY20, reflecting a decrease of 6%. This decrease is volume driven, as lesser feed bags were sold during 3QFY21 (3QFY21: 1,030,853 bags, 3QFY20: 1,207,727 bags) on back of COVID-19 induced lockdown country wide. However, average price per bag rose by 7% to PKR 2,779/bag, from PKR 2,605/bag.

Margins The Company has posted a trend of stable margins over the years. During 3QFY21, the Company posted steady gross margin of 5% (3QFY20: 5%), passing on increase cost of raw materials to the customers. Gross profit stood at PKR 152mln (3QFY20: PKR 167mln). Operating margins also remained stable at 3%, as reduced selling & admin expenses (3QFY21: PKR 56mln, 3QFY20: PKR 61mln) were balanced off by a reduced topline. Reduced short term borrowings to meet the raw material procurement needs, along with lower interest rate kept the finance cost low at PKR 20mln (3QFY20: PKR 38mln). Resultantly, the Company achieved a bottom-line of PKR 52mln during 3QFY21 (3QFY20: PKR 46mln). Net profit margin improved to 2% during 3QFY21 (3QFY20: 1%).

Sustainability The uncertainty due to the COVID-19 outbreak created challenges for the industry and the Company. Sustaining operations and generating adequate revenues will be tough if the lockdown is enforced again for longer periods.

Financial Risk

Working Capital Punjab Feeds has high net working capital days emanating predominantly from high raw material inventory days (maize) procured on a seasonal basis (3QFY21: 47 days, 3QFY20: 51 days). The Company has opted for cash sales so as to sustain and improve its liquidity. However, extended credit period is provided to Olympia Poultry Farms, a Group company. This lead to high average debtor days of 89 (3QFY20: 69 days). The Company delays payments to creditors, hence improving payable days to 58 (3QFY20: 50 days). Resultantly, net working capital days stood at 77, deteriorating from 70 days as at 3QFY20.

Coverages Coverages are a function of Punjab Feeds' decreasing finance costs and improving free cashflows. As at 3QFY21, interest coverage rose significantly to 4.7x, (3QFY20: 1.9x), due to low finance costs of PKR 20mln (3QFY20: PKR 38mln), emanating from lower short-term borrowings (3QFY21: PKR 192mln, 3QFY20: PKR 325mln) and reduced policy rate. Higher free cashflows (3QFY21: PKR 89mln, 3QFY20: PKR 65mln) resulted from improved profitability of the Company. They also supplemented the coverages at core and total levels (3QFY21: 4.4x, 3QFY20: 1.9x).

Capitalization The Company's total debt consists of short-term borrowings (58%), from various commercial banks. Short term borrowings (3QFY21: PKR 192mln, 3QFY20: PKR 325mln) are availed to finance its working capital requirements. The Sponsors provided support by injecting PKR 128mln (3QFY20: PKR 128mln) as a subordinate loan to facilitate the working capital cycle. Equity stood at PKR 943mln (3QFY20: PKR 879mln), rising on the back of unappropriated profits (3QFY21: PKR 718mln, 3QFY20: PKR 639mln). As a result, leverage stood at a modest level of 26% as at 3QFY21 (3QFY20: 34%).



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Financial Summary

PKR mln

	Mar-21	Dec-20	Sep-20	Jun-20	Mar-20	Dec-19	Sep-19	Jun-19	Jun-18
	9M	6M	3M	12M	9M	6M	3M	12M	12M
A BALANCE SHEET									
1 Non-Current Assets	344	344	344	349	362	367	371	375	196
2 Investments	-	-	-	-	-	-	-	-	-
3 Related Party Exposure	-	-	-	-	-	-	-	-	-
4 Current Assets	1,658	1,649	1,640	1,628	1,590	1,582	1,563	1,564	1,335
a Inventories	511	499	443	503	458	498	709	733	733
b Trade Receivables	964	961	1,025	959	977	904	679	633	390
5 Total Assets	2,001	1,993	1,983	1,977	1,952	1,949	1,934	1,939	1,531
6 Current Liabilities	684	558	560	773	562	512	660	764	525
a Trade Payables	598	491	471	672	485	452	564	679	426
7 Borrowings	202	338	343	136	332	408	319	229	319
8 Related Party Exposure	128	128	128	128	128	108	58	58	58
9 Non-Current Liabilities	45	46	48	49	51	52	54	56	22
10 Net Assets	943	923	905	891	879	869	844	833	608
11 Shareholders' Equity	943	923	905	891	879	869	844	833	608
B INCOME STATEMENT									
1 Sales	2,974	1,879	881	4,019	3,206	2,250	952	3,905	3,710
a Cost of Good Sold	(2,822)	(1,783)	(836)	(3,810)	(3,039)	(2,132)	(902)	(3,690)	(3,482)
2 Gross Profit	152	96	45	209	167	117	49	215	228
a Operating Expenses	(56)	(36)	(18)	(79)	(61)	(42)	(20)	(89)	(95)
3 Operating Profit	96	60	28	130	106	75	29	126	133
a Non Operating Income or (Expense)	(2)	(1)	(0)	1	(2)	(2)	(1)	(5)	(7)
4 Profit or (Loss) before Interest and Tax	94	58	27	131	104	74	29	120	125
a Total Finance Cost	(20)	(13)	(7)	(49)	(38)	(23)	(14)	(23)	(23)
b Taxation	(21)	(13)	(6)	(24)	(19)	(15)	(4)	(27)	(32)
6 Net Income Or (Loss)	52	32	14	58	46	36	11	70	71
C CASH FLOW STATEMENT									
a Free Cash Flows from Operations (FCFO)	89	45	20	122	65	51	15	89	122
b Net Cash from Operating Activities before Working Capital	62	45	20	77	65	51	15	67	99
c Changes in Working Capital	(107)	-	-	(62)	-	-	-	(29)	(202)
1 Net Cash provided by Operating Activities	(45)	45	20	14	65	51	15	38	(102)
2 Net Cash (Used in) or Available From Investing Activities	(1)	-	-	(0)	-	-	-	2	(3)
3 Net Cash (Used in) or Available From Financing Activities	57	-	-	(27)	-	-	-	(95)	130
4 Net Cash generated or (Used) during the period	11	45	20	(13)	65	51	15	(56)	25
D RATIO ANALYSIS									
1 Performance									
a Sales Growth (for the period)	-1.3%	-6.5%	-12.3%	2.9%	9.5%	15.2%	-2.5%	5.3%	-
b Gross Profit Margin	5.1%	5.1%	5.1%	5.2%	5.2%	5.2%	5.5%	6.1%	
c Net Profit Margin	1.8%	1.7%	1.6%	1.4%	1.4%	1.6%	1.1%	1.8%	1.9%
d Cash Conversion Efficiency (FCFO adjusted for Working Ca	-0.6%	2.4%	2.3%	1.5%	2.0%	2.3%	1.6%	1.5%	-2.1%
e Return on Equity [Net Profit Margin * Asset Turnover * (To	7.6%	7.0%	6.3%	6.7%	7.2%	8.5%	5.1%	9.7%	11.7%
2 Working Capital Management									
a Gross Working Capital (Average Days)	135	142	152	128	120	112	132	116	110
b Net Working Capital (Average Days)	77	85	93	67	70	66	73	65	68
c Current Ratio (Current Assets / Current Liabilities)	2.4	3.0	2.9	2.1	2.8	3.1	2.4	2.0	2.5
3 Coverages									
a EBITDA / Finance Cost	6.3	3.5	3.0	3.6	1.9	2.5	1.3	7.1	7.4
b FCFO / Finance Cost+CMLTB+Excess STB	4.4	3.3	2.8	2.5	1.9	2.5	1.2	3.7	5.0
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Fin	1.5	2.1	2.5	1.8	3.2	1.9	5.4	0.9	0.6
4 Capital Structure									
a Total Borrowings / (Total Borrowings+Shareholders' Equity	25.9%	33.6%	34.2%	22.9%	34.3%	37.2%	30.9%	25.6%	38.2%
b Interest or Markup Payable (Days)	70.1	81.8	83.4	29.3	125.3	85.1	104.6	24.0	31.5
c Entity Average Borrowing Rate	6.3%	5.8%	6.4%	12.0%	10.9%	10.2%	14.5%	6.0%	5.3%

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	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
AA-	
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.
A-	
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.
BBB-	
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.
BB	
BB-	
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.
B-	
CCC	
CC	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.
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>Entities</p> <ul style="list-style-type: none"> a) Broker Entity Rating b) Corporate Rating c) Financial Institution Rating d) Holding Company Rating e) Independent Power Producer Rating f) Microfinance Institution Rating g) Non-Banking Finance Companies (NBFCs) Rating 	<p>Instruments</p> <ul style="list-style-type: none"> a) Basel III Compliant Debt Instrument Rating b) Debt Instrument Rating c) Sukuk 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)

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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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.
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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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- (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)
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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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