



The Pakistan Credit Rating Agency Limited

## Rating Report

### Platinum Steel Mill (Pvt.) Limited

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#### Rating History

| Dissemination Date | Long Term Rating | Short Term Rating | Outlook | Action  | Rating Watch |
|--------------------|------------------|-------------------|---------|---------|--------------|
| 16-Nov-2023        | BBB              | A2                | Stable  | Upgrade | -            |
| 22-Nov-2022        | BBB-             | A2                | Stable  | Initial | -            |

#### Rating Rationale and Key Rating Drivers

Established in 2019 in the industrial sector of Port Qasim, Platinum Steel Mill (Pvt.) Limited (PSMPL or the Company) is a state of the art vertically integrated steel mill that incorporates the latest innovative technologies in manufacturing, efficiency and sustainability. Although the size is small, it is good to grow from. PSMPL produces high quality deformed steel rebar's and vertical integration of the steel plant gives it a competitive edge. During FY 23, being the first complete year in operation, the PSMPL posted topline of PKR 3.118 billion while maintaining its gross profit margins at comparative with the similar sized players in the industry. The Company has an equity base of PKR 1.224 billion. PSMPL is in process of installation of second furnace that will take the melting capacity to 100,000 tons per annum. The CAPEX is entirely financed by the sponsors themselves, and going forward there are no plans for any CAPEX related long term borrowings, thus keeping the leveraging at comfortable level. The Company has so far primarily relied on internally generated cash to meet its working capital requirements. However, on account of expansion, the Company may witness an increase in reliance on short-term borrowings. However, maintaining an optimal mix of capital structure remains important. Enhanced capacities are going to enable PSMPL, to explore untapped market and for this purpose management is focusing to improve its distribution channels. The impressive growth in topline, phased expansionary strategy and unwavering support of the Company's sponsors led towards ratings upgrade. Group's diversification into other businesses is also considered positive and ratings take comfort from the net worth of sponsors. Ratings also incorporate the essence of business's backward supply chain integration.

The ratings are dependent upon the company's ability to enhance its market share through volumetric growth as well as geographical diversification, effective and prudent management of financial risk indicators remains vital. PSMPL is a family owned and operated business exposing it to risks of same management and ownership. The overall governance framework is at very initial stages and needs improvement. Company is led by capable management. Business remains vulnerable to oscillations in macro-economic financial indicators.

#### Disclosure

|                              |  |
|------------------------------|--|
| <b>Name of Rated Entity</b>  | Platinum Steel Mill (Pvt.) 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   Steel(Sep-23)   |
| <b>Rating Analysts</b>       | Anam Waqas Ghayour   anam.waqas@pacra.com   +92-42-35869504  |

## Profile

**Legal Structure** Platinum Steel Mill (Private) Limited ("the Company") is a private limited company incorporated in Pakistan on 15 July 2019 under the Companies Act, 2017. The registered office of the Company is situated at C-49, K.D.A Scheme No.1, Main Karsaz Road, Gulshan Town, Karachi, Pakistan. The Company started its operations in June 2021.

**Background** Platinum Steels produces two key products: i) steel billets, ii) rebars including (a) Grade 60 Deformed Steel bars (b) Grade 72 Deformed Steel bars and are available in sizes ranging from 10mm to 40mm using Pakistan's first European technology-based induction furnace and revolutionary direct rolling mill.

**Operations** Platinum Steel has a melt shop with a nameplate capacity of 150,000 tpa & rolling mill with a capacity of 175,000tpa. The Company produces high-quality deformed steel rebar. Under ISO 9001:2015 certified quality management system the products are classified as Armourmax, Thundermax, and Ultramax.

## Ownership

**Ownership Structure** The Company is wholly (100%) owned by Baghpati family. Mr. Faisal Baghpati holds 99% and the remaining 1% shareholding is owned by Ms. Mehreen Faisal, wife of Mr. Faisal Baghpati.

**Stability** The 99% shares of the Company are held by Mr. Faisal Baghpati and the remaining 1% are held by Ms. Mehreen Faisal, and is maintained over the period since its incorporation. The key man risk/succession is a concern as the whole stake rests with Baghpati family.

**Business Acumen** The sponsor – Mr. Faisal Baghpati carries experience of 15 years of successfully working in the industry. The willingness towards the business is evident from the steadfast approach used by the management. Hence, sponsor's business acumen is considered adequate.

**Financial Strength** The sponsors have other businesses as well, like Kopak Paints and leased Shipping, and demonstrated their commitment towards the Company by injecting funds on as and when required basis. The willingness to support the Company in case need arises is considered high.

## Governance

**Board Structure** The overall control of board vests in two-members board of directors, both of them are from sponsoring family including the Chairman/CEO. Mr. Faisal Baghpati holds the position of the Chairman, as well as the office of Chief Executive Officer.

**Members' Profile** The profile of board members is good. The Chairman of the board, Mr. Faisal Baghpati has decent experience in the field of steel industry which helps the board to make timely and efficient decisions. Mr. Faisal is also carrying the director's position on Kopak Paints board, while Ms. Mehreen Faisal is serving as Commercial Advisor in Kopak Paints.

**Board Effectiveness** The private companies are required to appoint two directors. The Company ensured the regulatory requirement by appointing two directors. The board effectiveness may be strengthened by appointing independent directors and forming committees of the board.

**Financial Transparency** BDO Ebrahim & Co. Chartered Accountants are the external auditors of the company. They have expressed unqualified opinion on review report for the year ended 30th June 2022. BDO Ebrahim & Co. Chartered Accountants is in 'A' category of SBP list of external auditors and has a QCR rating. The audit of FY23 is under process.

## Management

**Organizational Structure** Platinum Steel has a lean organizational structure. The team is headed by the Chief Executive Officer. The CEO is directly overseeing the operations of Head of Sales, COO, Head of Supply Chain and Manager Accounts & Finance.

**Management Team** Mr. Faisal Baghpati is the Chief Executive Officer of the Company. He has been associated with the Company since its inception. Descending tier includes Mr. Obaid-ul-haq (MBA) serving as Head of Sales for Platinum Steel and associated with the team since April 2021 & Mr. Rehan Khaliq – ME – serving as COO since Nov'21. Mr. Faisal, the Chief Executive Officer, is supported by relatively new but experienced individuals who are equipped with necessary technical skills.

**Effectiveness** Effectiveness Platinum Steel has six functions namely (i) Marketing, (ii) Accounts, (iii) Production, (iv) Information Technology, (v) Sales, (vi) Quality Control. Each unit is overseen and supervised by an experienced resource that has been associated with the Company since its inception.

**MIS** The Company has implemented SAP B1 software, SAP Business One is a single and affordable business management system to manage the entire business from accounting, financials, inventory, sales, warehousing, customer relationships to reporting and analytics. As an Enterprise Resource Planning (ERP) system, SAP Business. One can streamline key processes to give the management better insights into the business and enable the management to make data-driven business decisions with real-time information to drive profitable growth.

**Control Environment** The company has established a quality control department that ensures the smooth functioning of both the plants along with maintaining the product quality. The company also ensures that all machinery is in working condition in order to maintain efficiency and reduce losses and wastage of material.

## Business Risk

**Industry Dynamics** The country's annual demand for steel products was recorded at ~11.2mln MT during FY23 (FY22: ~13.6mln MT) down ~17.6% YoY basis, with imports comprising ~39.2% of the total consumption and recording ~42.1% decline YoY. This largely resulted from SBP-imposed import curbs during FY23, a short-term intervention to control the depleting foreign exchange reserves. The decrease was due to a fall in both billets/ingots and HRC/CRC Sheets/Strips local production. In FY23, billet/ingot production decreased by ~16% YoY. Due to non-availability of raw material, local production also recorded ~10.1% decline YoY, resulting in higher local prices and reflecting in lower consumption levels, vis-à-vis high levels of inflation and a slowdown in the construction sector.

**Relative Position** Platinum Steel is one of the new players in south region. The Company's strategy to expand its Melting Mill capacity is vital to enhance its market share over the periods.

**Revenues** During FY23, topline of PSML significantly increased by 115% on YOY basis and stood at PKR 3,118mln (FY22: PKR 1,452mln). PSML gross profit also affected positively and increased to 5.7% from 3.3% in FY22. Growth mainly driven by relatively induced demand in the country due to hyperinflation globally and reduced developmental economic activities in the country. The volumetric growth will be vital for the growth of the Company in future.

**Margins** Platinum Steel's margins for the year FY23, Company's gross and operating margin stood at 5.7% and 1.7% respectively, as compare to 3.3% and -1.8% in FY22. Net margins of the company for FY23 are 0.4%. (FY22: -3.7%).

**Sustainability** Platinum Steel is actively working on improvement of distribution channels in order to capture the demand insight. Currently, the Company is capturing the south region of the city but it has plan to capture each region of the city. Moreover, Company's geographical diversification to enhance its market share remains vital for the performance.

## Financial Risk

**Working Capital** During FY23, Platinum Steel's working capital requirements represented by net cash cycle in days (function of inventory, receivables and payables) was recorded to 75-days (FY22: 135-days). During the period, the Company managed its working capital requirements through internally generated cash only. However, on account of expansion, the Company will have to increase its reliance on borrowings, despite having positive cashflows from the operations. Currently, PSML benefits from a non-funded running finance facility only totaling PKR 350 million. However, negotiations are currently underway to expand this facility to PKR 600 million.

**Coverages** During FY23, EBITDA surged up than last financial year and stood at PKR 234mln (FY22: PKR 157mln). The FCFOs also followed a similar growth pattern and were recorded at PKR 234mln; (FY22: PKR 104mln). The Company will be able to generate more FCFOs based on better operational performance and higher profitability. Furthermore, the cash inflow position will further improve in future as the Company has intentions to get the long-term borrowings to support its operational activities. During FY23, the coverage ratio stood at 32.2x.

**Capitalization** During FY23, the Company leverage stood at 61.6% including long term borrowings of PKR 27mln and subordinate loan from directors amounting PKR 1,938mln an unsecured interest free loan obtained from director and is repayable on demand. By the end of FY23, equity of the Company slightly increased and stood at PKR 1,224mln (FY22: PKR 1,211). The Company is in its initial phase and requires the extensive investments into it to grow. An optimal mix of capital structure (debt and equity) will help the Company to maximize its value.



| Platinum Steel Mill (Pvt) Limited<br>Steel | Jun-23<br>12M | Jun-22<br>12M | Jun-21<br>12M | Jun-20<br>12M |
|--|---------------|---------------|---------------|---------------|
|--|---------------|---------------|---------------|---------------|

**A BALANCE SHEET**

|                                |              |              |              |            |
|--------------------------------|--------------|--------------|--------------|------------|
| 1 Non-Current Assets           | 2,065        | 1,932        | 1,867        | 194        |
| 2 Investments                  | -            | -            | -            | -          |
| 3 Related Party Exposure       | -            | -            | -            | -          |
| 4 Current Assets               | 2,076        | 1,638        | 665          | 205        |
| <i>a Inventories</i>           | 1,024        | 964          | 387          | 41         |
| <i>b Trade Receivables</i>     | 479          | 117          | -            | -          |
| <b>5 Total Assets</b>          | <b>4,141</b> | <b>3,570</b> | <b>2,532</b> | <b>399</b> |
| 6 Current Liabilities          | 952          | 425          | 312          | 2          |
| <i>a Trade Payables</i>        | 929          | 370          | 300          | 1          |
| 7 Borrowings                   | 27           | 3            | -            | -          |
| 8 Related Party Exposure       | 1,938        | 1,931        | 955          | -          |
| 9 Non-Current Liabilities      | -            | -            | -            | -          |
| <b>10 Net Assets</b>           | <b>1,224</b> | <b>1,211</b> | <b>1,265</b> | <b>397</b> |
| <b>11 Shareholders' Equity</b> | <b>1,224</b> | <b>1,211</b> | <b>1,265</b> | <b>397</b> |

**B INCOME STATEMENT**

|   |            |             |             |            |
|---|------------|-------------|-------------|------------|
| 1 Sales   | 3,118      | 1,452       | 3           | -          |
| <i>a Cost of Good Sold</i>                        | (2,939)    | (1,404)     | (23)        | -          |
| <b>2 Gross Profit</b>                             | <b>178</b> | <b>48</b>   | <b>(20)</b> | <b>-</b>   |
| <i>a Operating Expenses</i>                       | (125)      | (74)        | (11)        | (5)        |
| <b>3 Operating Profit</b>                         | <b>54</b>  | <b>(26)</b> | <b>(31)</b> | <b>(5)</b> |
| <i>a Non Operating Income or (Expense)</i>        | 6          | (9)         | 2           | -          |
| <b>4 Profit or (Loss) before Interest and Tax</b> | <b>60</b>  | <b>(34)</b> | <b>(29)</b> | <b>(5)</b> |
| <i>a Total Finance Cost</i>                       | (8)        | (1)         | (1)         | (0)        |
| <i>b Taxation</i>                                 | (39)       | (18)        | (2)         | 2          |
| <b>6 Net Income Or (Loss)</b>                     | <b>13</b>  | <b>(54)</b> | <b>(32)</b> | <b>(4)</b> |

**C CASH FLOW STATEMENT**

|  |              |              |                |              |
|--|--------------|--------------|----------------|--------------|
| <i>a Free Cash Flows from Operations (FCFO)</i>                        | 234          | 104          | (102)          | (16)         |
| <i>b Net Cash from Operating Activities before Working Capital Cha</i> | 226          | 103          | (102)          | (16)         |
| <i>c Changes in Working Capital</i>                                    | (90)         | (669)        | (0)            | (192)        |
| <b>1 Net Cash provided by Operating Activities</b>                     | <b>136</b>   | <b>(566)</b> | <b>(103)</b>   | <b>(208)</b> |
| <b>2 Net Cash (Used in) or Available From Investing Activities</b>     | <b>(306)</b> | <b>(245)</b> | <b>(1,688)</b> | <b>(192)</b> |
| <b>3 Net Cash (Used in) or Available From Financing Activities</b>     | <b>35</b>    | <b>980</b>   | <b>1,854</b>   | <b>401</b>   |
| <b>4 Net Cash generated or (Used) during the period</b>                | <b>(135)</b> | <b>169</b>   | <b>64</b>      | <b>0</b>     |

**D RATIO ANALYSIS**

|   |        |          |          |       |
|---|--------|----------|----------|-------|
| <b>1 Performance</b>  |        |          |          |       |
| <i>a Sales Growth (for the period)</i>                                  | 114.7% | 52179.8% | N/A      | N/A   |
| <i>b Gross Profit Margin</i>  | 5.7%   | 3.3%     | -738.0%  | N/A   |
| <i>c Net Profit Margin</i>  | 0.4%   | -3.7%    | -1135.6% | N/A   |
| <i>d Cash Conversion Efficiency (FCFO adjusted for Working Capit</i>    | 4.6%   | -38.9%   | -3669.1% | N/A   |
| <i>e Return on Equity [ Net Profit Margin * Asset Turnover * (Total</i> | 1.1%   | -4.3%    | -3.8%    | -1.0% |
| <b>2 Working Capital Management</b>                                     |        |          |          |       |
| <i>a Gross Working Capital (Average Days)</i>                           | 151    | 219      | 40638    | N/A   |
| <i>b Net Working Capital (Average Days)</i>                             | 75     | 135      | 20857    | N/A   |
| <i>c Current Ratio (Current Assets / Current Liabilities)</i>           | 2.2    | 3.9      | 2.1      | 121.1 |
| <b>3 Coverages</b>  |        |          |          |       |
| <i>a EBITDA / Finance Cost</i>  | 32.4   | 292.6    | N/A      | N/A   |
| <i>b FCFO / Finance Cost+CMLTB+Excess STB</i>                           | 32.4   | 193.2    | N/A      | N/A   |
| <i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Financ</i>      | 8.7    | 18.7     | -9.4     | 0.0   |
| <b>4 Capital Structure</b>  |        |          |          |       |
| <i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>     | 61.6%  | 61.5%    | 43.0%    | 0.0%  |
| <i>b Interest or Markup Payable (Days)</i>                              | 0.0    | 0.0      | N/A      | N/A   |
| <i>c Entity Average Borrowing Rate</i>                                  | 0.4%   | 0.0%     | 0.0%     | 0.0%  |

### 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+   |   |
| 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-   |   |
| 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):

- 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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### **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

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- (4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
- (5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

### **Conduct of Business**

- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report | Clause 11-(A)(p).
- (8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
- (11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

### **Independence & Conflict of interest**

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

### **Monitoring and review**

- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 17-(a)
- (19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 17-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 17-(d)

### **Probability of Default**

(22) PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e., probability). PACRA's transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past; | Chapter III | 14-3(f)(vii)

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