



The Pakistan Credit Rating Agency Limited

## Rating Report

### Engro Corporation Limited

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
21-Jun-2024	AA+	A1+	Stable	Maintain	-
23-Jun-2023	AA+	A1+	Stable	Maintain	-
25-Jun-2022	AA+	A1+	Stable	Maintain	-
25-Jun-2021	AA+	A1+	Stable	Maintain	-
26-Jun-2020	AA+	A1+	Stable	Maintain	-
27-Dec-2019	AA+	A1+	Stable	Maintain	-
28-Jun-2019	AA+	A1+	Stable	Maintain	-
28-Dec-2018	AA+	A1+	Stable	Maintain	-
27-Jun-2018	AA+	A1+	Stable	Upgrade	-

#### Rating Rationale and Key Rating Drivers

The ratings reflect Engro Corporation Limited's ('Engro Corp' or "the Company") strong risk profile and exceptional liquidity. The ratings incorporate established position of the Company as a conglomerate with a diverse pool of investments under four verticals: i) food and agriculture, ii) petrochemicals, iii) energy and related infrastructure, and iv) telecommunication infrastructure. The businesses under the Engro Corp's umbrella have maintained a steadfast growth trajectory, demonstrating the tenacity and strength of Engro Corp's strategic approach. Engro Fertilizers achieved record-breaking urea production through efficient plant operations, resulting in the highest-ever urea sales. Engro Polymer & Chemicals maintained an impressive 89% market share despite construction slowdown, leveraging exports to ensure uninterrupted plant operations. Engro Enfrashare expanded its tower portfolio, emphasizing sustainable energy and growth opportunities. Engro Eximp FZE facilitated global trade. Sindh Engro Coal Mining Company (SECMC) also achieved significant milestones in mine expansion. Thar coal, post-expansion, promises to be the most cost-effective base load energy source. Engro Powergen Thar prioritized reliability, securing higher collections. Engro LNG terminal first of the two terminals of Pakistan handled 73 vessels and delivered 215 bcf re-gasified LNG to the SSGC network, accounting for 13% to 15% of the total gas supply in Pakistan. Engro Corporation is evaluating the proposed divestment of its thermal energy assets, including shareholding in Engro Powergen Qadirpur Limited, Engro Powergen Thar (Pvt.) Limited, and Sindh Engro Coal Mining Company Limited held via Engro Energy Limited, through a sale of shares process by a consortium lead by Liberty Power Holding Pvt. Limited. DH Corp & Engro Corp are collectively evaluating a scheme of arrangement pertaining to Engro Corp, as a part of this arrangement, shares held by Engro Corp shareholders will be transferred to DH Corp. In return, Transferred Shareholders will receive 2.24407865 DH Corp shares for each Engro Corp share, based on a specified formula. Consequently, Engro Corp will transform into a wholly owned subsidiary of DH Corp, which will be renamed as 'Engro Holdings Limited'.

The Company continues to enjoy consistent dividend income from its subsidiaries. Engro Fertilizer announced substantially higher dividends. Enfrashare and Eximp received equity injection during the year while maintaining a low leveraged capital structure signifying its fortified financial risk profile. The ratings take into account HoldCo's strong organizational structure, meticulously crafted to steer the strategic trajectory of its subsidiaries, alongside a resilient governance framework.

The ratings are dependent on the management's ability to execute its envisaged strategy of growth and expansion amidst prevailing economic environment. Sustainability in the performance of subsidiaries, stable dividends and effective management of financial profile is important.

#### Disclosure

<b>Name of Rated Entity</b>	Engro Corporation Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology   Holding Company Rating(Jul-23),Methodology   Rating Modifiers(Apr-24)
<b>Related Research</b>	Sector Study   Holding Company(Aug-23)
<b>Rating Analysts</b>	Usama Ali   usama.ali@pacra.com   +92-42-35869504



## Profile

**Background** Engro Corporation Limited ('Engro Corp' or 'the Company') is a Holding company. Engro Corp's scrip is listed on Pakistan stock exchange (PSX). Esso Pakistan Fertilizer Company Limited was established in 1965 following the discovery of Mari gas field. It was the nations' first fertilizer brand. Post exit of its foreign partners, it was renamed as 'Engro Chemicals'. Engro over the years built a diverse set of businesses alongside fertilizer. It now manages all its distinct businesses through separate corporate structures – being subsidiaries, JV or associate of Engro Corp.

**Structural Analysis** The principal activity of the Company is to manage its investments in subsidiaries, associates and joint ventures, engaged in fertilizer manufacturing and trading, PVC resin manufacturing and marketing, food, power generation, coal mining, telecommunication infrastructure, LNG and bulk chemical handling terminal and storage businesses.

## Ownership

**Ownership Structure** Dawood Group holds ~49.05% stake in Engro Corp, through Dawood Hercules Corporation Limited (~39.97%), related corporate entities (~2.90%), and individuals of Dawood family (~6.18%). Around 25% is held by general public and remaining shares are held by corporate entities, FIs and others.

**Stability** Ownership of the business is seen as stable as its major shareholding vests with the sponsors (Dawood Family) and its HoldCo. structure.

**Business Acumen** Dawood Group is a conglomerate with over three generations of experience in commercial and social enterprises. Currently, the Group has interests in various sectors including Fertilizer, Foods, Power Generation, Technology, Financial Services, Chemical Storage, and Petrochemicals. Strong affiliation and technical track record with international JVs have added to the success of companies within the Group.

**Financial Strength** Dawood Group's main holding companies are DH Corp and Dawood Lawrencepur Limited. The Group's main investments in Engro Corp are consolidated in DH Corp. Engro Corp has a strong consolidated asset base of ~PKR 786bln supported by an equity base of ~PKR 222bln as at 1QCY24.

## Governance

**Board Structure** The control of the Company vests with the nine-member Board of Directors. There are three Non-Executive Directors, one Executive Director and five Independent Directors. The Board is dominated by the sponsoring family. Majority of the members have long association with the Company.

**Members' Profile** The Board is chaired by Mr. Hussain Dawood, the patriarch of Dawood Family. He is a businessman and philanthropist and chairs an array of businesses and not-for-profit ventures. All members are seasoned professionals with experience in energy, chemical, technology and financial sectors, bringing a diverse range of requisite skills.

**Board Effectiveness** The BoD has three committees to assist the board in governing the affairs of the company. These comprise: a) Board People's Committee, b) Board Audit Committee, and c) Board Investment Committee. The committees remain an important medium through which strategic matters of Engro Corp and its subsidiaries are brought to the BoD.

**Transparency** The Company's external Auditors are A.F. Ferguson & Co. They have issued an unqualified opinion on annual financial statements of CY23.

## Management

**Organizational Structure** Engro Corp functions has a well-designed organizational structure which is divided across various functional divisions of Finance, Investment, Information Systems, Internal Audit, Human Resources, Corporate Communication, Legal and Public Affairs. Heads of these functions report directly to the CEO.

**Management Team** Mr. Ahsan Zafar Syed has been appointed as President & CEO in April'24. Mr. Ahsan began his journey with Engro in 1991 as a young engineer. Before his appointment as President and CEO of Engro Corporation, Mr. Ahsan led Engro's flagship fertilizer business. Mr. Farooq Barkat Ali serves as the CFO of Engro Corp, prior to this he has served as a CFO of Engro Fertilizer and Engro Energy. Mr. Farooq has been associated with the group for over three decades now. Management of Engro Corp derives further strength from CPO, CIO, CCO, GRR and company secretary.

**Management Effectiveness** Engro Corp has an Executive Committee, which includes CEOs of all its' subsidiary companies, Engro Corp's CFO, Chief HR Officer and Chief Secretary Officer. This is chaired by the CEO for efficacious management of the Group as a whole.

**Control Environment** Engro Corp has an in-house internal audit function, which reports directly to the Board Audit Risk Committee for all critical issues. Internal Audit Department (IAD) has been established at all Engro Group companies which reports to the Board Audit Committee of the respective company.

## Investment Strategy

**Investment Decision-Making** For investment decision making, the Company has two separate teams at group level i.e., Investment & Treasury team. Investment team is involved capital allocation and long term portfolio investment and reports to CIO along with BIFC. Treasury team is responsible for handling short-term investment book and is reportable to CFO.

**Investment Policy** The Company has short term investment portfolio as the portfolio i.e. ~99%, consists of Government Securities and Debt Instruments. Moreover, the equity portfolio spans across various sectors including chemical, fertilizers, PVC, food, power generation, coal mining, telecom and LNG storage.

**Investment Committee Effectiveness** The Group investment team liaisons with the rest of the Group companies, and receives updates on their performance regularly. The team then presents them to the BOD on a quarterly basis.

## Business Risk

**Diversification** The equity investment portfolio of the Company is diversified across various sectors including Food, Fertilizers, Petrochemicals, Energy, Terminal Services and Telecommunication Infrastructure.

**Portfolio Assessment** The Company has three type of investments on its balance sheet: Core, Strategic and Non-Strategic investments. Core investments include a mix of Listed and Unlisted subsidiaries. Strategic investments include JV's, associates and other investments. Non-Strategic investments include short term investments in Government Securities & debt instruments, Mutual Funds & Fixed Income placements.

**Income Assessment** During CY23, total investment income experienced a marginal increase of less than 1% and stood at ~PKR 29.8bln (CY22: ~PKR 29.6bln). 75% of investment income comprises of income from equity investments in form of dividends and the rest of 25% from short term investments and interest income on subordinated loans. The Company's profit before tax decreased by 17% and stood at ~PKR 17.5bln as compared to ~PKR 21.2bln during CY22. The 17% decrease in profitability is mainly due to an additional Super Tax on dividends and lower interest income, partially offset by reduced research and business development expenses. During 1QCY24 the topline increased by ~2% and stood at ~PKR 8bln (1QCY23: PKR7.9bln). Net profit showed the opposite trend and decreased by 1.2% and stood ~PKR 5.9bln (1QCY23: PKR 6bln)

## Financial Risk

**Coverages** During CY23, the Company's total operating cashflows stood at PKR 22.18bln (CY21: PKR 21.8bln) exhibiting a decrease of 1.7% due to high non-core income, inline with consistent profit before tax. Finance cost, had increased to PKR 125mln (CY22: PKR 87mln). Owing to high finance cost as compared to the cashflows, as of CY23 the coverages took a dip but remain fortified with interest ratio at 241.9x (CY22: 411.9x) and debt coverage at 52.9x (CY22: 81.6x). As of 1QCY23 the interest and debt coverage ratio stood at 2x and 0.5x respectively.

**Capital Structure** Engro Corp has largely an equity-based capital structure and the leveraging ratio stood at ~1.7% as at CY22 (CY22: ~1.2%) and 1.4% as at 1QCY24 (1QCY23: 1.3%). The Company's debt mainly includes lease-liabilities only and the capital structure is expected to remain very strong, going forward.

**Consolidated Position** The Company derives its financial strength from Dawood Group and subsidiary companies. Engro Corp's consolidated borrowings stood at PKR 181bln as at 1QCY24 (1QCY23: PKR 346bln) against consolidated equity base of PKR 221bln (1QCY23: PKR 235bln) translating into consolidated leveraging of ~45% (1QCY23: ~59%). Consolidated topline during 1QCY24 increased and stood at PKR 108bln (1QCY23: PKR 104bln) and following the same pattern bottom-line stood at PKR 10.3bln (1QCY23: PKR 8.7bln)



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

Engro Corporation Limited Holding Company	Mar-24	Dec-23	Mar-23	Dec-22	Dec-21
	3M	12M	3M	12M	12M
	Audited	Audited	Audited	Audited	Audited
<b>A BALANCE SHEET</b>					
1 Investments	25,071	23,870	35,121	47,605	40,247
2 Related Party Investments	60,056	59,734	53,975	54,516	58,020
3 Non-Current Assets	2,628	2,759	2,433	2,567	1,303
4 Current Assets	9,052	2,453	10,042	1,978	2,184
<b>5 Total Assets</b>	<b>96,807</b>	<b>88,816</b>	<b>101,572</b>	<b>106,666</b>	<b>101,755</b>
6 Current Liabilities	15,967	14,132	13,368	12,716	9,431
7 Borrowings	1,135	1,203	1,111	1,151	357
8 Related Party Exposure	1,890	1,851	1,781	1,490	1,373
9 Non-Current Liabilities	254	192	63	43	59
<b>10 Net Assets</b>	<b>77,563</b>	<b>71,438</b>	<b>85,247</b>	<b>91,265</b>	<b>90,535</b>
<b>11 Shareholders' Equity</b>	<b>77,563</b>	<b>71,438</b>	<b>85,247</b>	<b>91,265</b>	<b>90,535</b>
<b>B INCOME STATEMENT</b>					
1 Total Investment Income	8,018	29,869	7,870	29,685	24,144
a Cost of Investments	(45)	(125)	(87)	(87)	(51)
<b>2 Net Investment Income</b>	<b>7,973</b>	<b>29,744</b>	<b>7,783</b>	<b>29,598</b>	<b>24,093</b>
a Other Income	683	12	463	1,368	1,288
b Operating Expenses	(759)	(5,791)	(1,199)	(7,448)	(5,139)
<b>4 Profit or (Loss) before Interest and Tax</b>	<b>7,897</b>	<b>23,965</b>	<b>7,047</b>	<b>23,518</b>	<b>20,241</b>
a Taxation	(1,931)	(6,399)	(1,008)	(2,321)	(1,725)
<b>6 Net Income Or (Loss)</b>	<b>5,966</b>	<b>17,566</b>	<b>6,039</b>	<b>21,196</b>	<b>18,516</b>
<b>C CASH FLOW STATEMENT</b>					
a Total Cash Flow	54	21,808	578	21,793	22,699
b Net Cash from Operating Activities before Working Capital Changes	9	21,773	530	21,768	22,672
c Changes in Working Capital	45	415	278	72	352
<b>1 Net Cash provided by Operating Activities</b>	<b>54</b>	<b>22,188</b>	<b>808</b>	<b>21,839</b>	<b>23,024</b>
<b>2 Net Cash (Used in) or Available From Investing Activities</b>	<b>(208)</b>	<b>20,583</b>	<b>346</b>	<b>(40,247)</b>	<b>13,420</b>
<b>3 Net increase (decrease) in long term borrowings</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>4 Net Cash (Used in) or Available From Financing Activities</b>	<b>(114)</b>	<b>(37,277)</b>	<b>(80)</b>	<b>(19,843)</b>	<b>(15,313)</b>
<b>5 Net Cash generated or (Used) during the period</b>	<b>(268)</b>	<b>5,494</b>	<b>1,073</b>	<b>(38,251)</b>	<b>21,131</b>
<b>D RATIO ANALYSIS</b>					
<b>1 Performance</b>					
a Asset Concentration (Market Value of Largest Investment / Market Value c	49.9%	43.4%	37.5%	32.7%	31.7%
b Core Investments / Market Value of Equity Investments	77.1%	74.6%	68.8%	61.4%	63.1%
c Marketable Investments / Total Investments at Market Value	7.8%	8.4%	16.6%	20.5%	17.3%
<b>2 Coverages</b>					
a TCF / Finance Cost	2.0	241.2	10.9	411.9	873.7
b TCF / Finance Cost + CMLTB	0.5	52.9	5.2	81.6	62.2
c Loan to Value (Funding / Market Value of Equity Investments )	0.0	0.0	0.0	0.0	0.0
<b>3 Capital Structure (Total Debt/Total Debt+Equity)</b>					
a Leveraging [Funding / (Funding + Shareholders' Equity)]	1.4%	1.7%	1.3%	1.2%	0.4%
b (Funding + Off Balance Sheet Exposure) / Shareholders' Equity	1.5%	1.7%	1.3%	1.3%	0.4%

### 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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- (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 | 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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