The Pakistan Credit Rating Agency Limited

# Rating Report

## Ibrahim Fibres Limited

**Report Contents**



**Rating History**

| Dissemination Date | Long Term Rating | Short Term Rating | Outlook | Action | Rating Watch |
|---|---|---|---|---|---|
| 08-Feb-2023 | AA | A1+ | Stable | Maintain | - |
| 08-Feb-2022 | AA | A1+ | Stable | Maintain | - |
| 08-Feb-2021 | AA | A1+ | Stable | Maintain | - |
| 08-Feb-2020 | AA | A1+ | Stable | Upgrade | - |
| 09-Aug-2019 | AA- | A1+ | Stable | Maintain | - |
| 08-Feb-2019 | AA- | A1+ | Stable | Maintain | - |
| 10-Aug-2018 | AA- | A1+ | Stable | Maintain | - |
| 26-Jan-2018 | AA- | A1+ | Stable | Maintain | - |
| 22-Jun-2017 | AA- | A1+ | Stable | Maintain | - |

**Rating Rationale and Key Rating Drivers**

Ibrahim Fibres Limited (‘IFL’ or ‘the Company’) is principally involved in the manufacturing & sale of Polyester Staple Fibres (PSF) and Yarn. The ratings reflect IFL’s long-standing presence and sustained fundamentals underpinned by its solid market position as a leading player in the local PSF industry. Globally, the Asia-Pacific region is viewed as principal market for polyester demand on account of expansion in textile sector. Pakistan’s PSF industry has shown growth over the period owing to build up consumption of polyester throughout the textile chain like spinning, weaving, dyeing, composite, etc. Accordingly, IFL is a market leader and captures around 71% of market share followed by Lucky Core Industries Limited (formerly as ICI Pakistan Limited) ~24% and Rupali Polyester Limited ~5%. Like any other sector in Pakistan, PSF sector also operates in an ever-changing environment, wherein its operations and performance are influenced by several macroeconomic factors, including currency devaluation, inflation, hike in policy rates, high energy prices, and unfavorable interest rates. International commodity markets also witnessed a ‘commodity price super cycle,’ resulting in higher costs of doing business. Despite slowdown of domestic economy, IFL managed to record its highest level of sales at end of Sep’22 due to uptick in both sales volume and average selling prices. However, due to increased cost of materials, the same was not entirely transferred into profitability matrix of the Company. Besides, with depletion of forex reserves in Pakistan, it has been quite challenging for the Company to establish L/Cs for the import of core raw materials, thus creating supply-shortage of PSF in local textile sector. Going forward, if evolving economic scenario soothes down, IFL’s revenues are expected to escalate on back adequate orders in pipeline and further expansions in both PSF and Yarn divisions. The expansion shall be undertaken with predominantly internally generated cash flows. Further, imposition of anti-dumping duty on PSF imported from China since Oct-15 has always supported volumetric growth and margins. Profitability profile of the Company during 2022 remained adequate depicting efficient production and positive performance. During last period, the Company managed to retire most of its long-term debt. Thus, making the capital structure low leveraged, mainly comprised of short-term borrowings for its working capital requirements. IFL’s financial risk profile remains strong, accentuated by robust cash flows and healthy coverages. The ratings further incorporate the Company's association with the Ibrahim Group, which has demonstrated strong sustenance.

The ratings are dependent on the Company’s ability to sustain its position, topline growth and profitability amid challenging economic conditions. Optimal utilization of capacity enhancement in spinning and resulting improvement in margins will remain important.

**Disclosure**

| | |
|---|---|
| **Name of Rated Entity** | Ibrahim Fibres Limited |
| **Type of Relationship** | Solicited |
| **Purpose of the Rating** | Entity Rating |
| **Applicable Criteria** | Methodology \| Corporate Rating(Jun-22),Methodology \| Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology \| Rating Modifiers(Jun-22) |
| **Related Research** | Sector Study \| Polyester(Feb-22) |
| **Rating Analysts** | Iqra Toqeer \| iqra.toqeer@pacra.com \| +92-42-35869504 |

## Profile

**Legal Structure** Ibrahim Fibres Limited was incorporated as a Public Limited Company in 1986. It is registered on PSX having a free float of ~10.0% as at end Dec’22.
**Background** The Company was expanded by establishing additional spinning mills and a power generation company, all of which were merged into one entity, Ibrahim Fibres Limited in 2000.
**Operations** Ibrahim Fibres is primarily engaged in the production and marketing of Polyester Staple Fibre (PSF) and blended yarns with manufacturing facilities located at Shahkot near Faisalabad. The Company's total capacity currently stands at ~390,600 TPA of polyester while spinning presently comprises ~240,192 spindles.

## Ownership

**Ownership Structure** Ibrahim Group continues to hold majority stake (~90%) in Ibrahim Fibres. This is held through the Group holding company, Ibrahim Holdings (Private) Limited.
**Stability** Ibrahim Group established Ibrahim Holdings (Pvt.) Limited for the purposes of succession planning and managing investments in subsidiary and associated companies, including Allied Bank Limited. This bodes well for sustainability of the Company, going forward.
**Business Acumen** The sponsors of the Company have over five decades of experience in textile sector and professional experience relating to banking, finance and power sectors.
**Financial Strength** The net worth of Ibrahim Group is considered very strong. The sponsors have shown willingness and ability to support the business as demonstrated in the past through an interest free loan to support operations. Ibrahim Group holds majority (~84.93%) ownership of Allied Bank of Pakistan.

## Governance

**Board Structure** The control of the Company vests in a seven-member Board of Directors chaired by Mr. Sheikh Mukhtar Ahmed. Remaining members comprise four Ibrahim Group affiliates and two independent directors.
**Members’ Profile** Mr. Sheikh Mukhtar – Chairman of Ibrahim Fibres and Ibrahim Group – has over 61 years of experience in establishing and successfully managing various industrial and financial companies. He also serves on the Boards of other Group companies. All Board members have significant industry related as well as diversified experience and they have been associated with the Company for a reasonably long period of time.
**Board Effectiveness** To ensure proper oversight, two committees are in place: Audit and Human Resource. Attendance of members in the meetings remains strong. Furthermore, the Board arranges Directors’ Training Program for directors during the year which is expected to equip the board members in fulfilling their role in an effective manner.
**Financial Transparency** The Company’s external auditor, M/s. Yousuf Adil - Chartered Accountants, provided an unqualified audit opinion on the Company's financial statements for the period ended December 31st, 2021. The Company's financial reporting year has changed from fiscal to calendar period. Audit for CY2022 is yet to be finalized.

## Management

**Organizational Structure** Ibrahim Fibres has a well-tiered, functionally departmentalized structure which is segregated for polyester units, spinning plants, and power generation plants.
**Management Team** Mr. Naeem Mukhtar is the CEO of the Company with over 37 years of experience of finance and industrial manufacturing. He is also the CEO of Ibrahim Holdings (Pvt.) Limited and Director in other Group companies. Most of the senior management has been associated with Ibrahim Fibres for a very long time.
**Effectiveness** Meetings are conducted by the senior management on a need basis for discussion and decision-making purposes.
**MIS** The Company has established well-integrated systematic processes and deployed Oracle as the ERP solution. This produces comprehensive MIS reporting.
**Control Environment** Ibrahim Fibres has an internal auditory function in place to ensure impartial oversight. There is a well-trained quality control department. The Company is ISO 9002 certified.

## Business Risk

**Industry Dynamics** Global demand for PSF is favourable with research projected estimate Polyester Staple Fiber (PSF) market size to reach USD 3024.3 million by 2026. The basic raw materials for PSF include Pure Terephthalic Acid (PTA) and Mono Ethylene Glycol (MEG). Being derivatives of crude oil, their prices fluctuate accordingly, thereby making PSF a price volatile product. This reflects that margin are significantly dependent on the international prices and exchange rate fluctuation. Furthermore, over 80% of the world’s production of PSF takes place in China, India and Southeast Asian countries, who are also the major exporters of the product. Almost ~36% of the industry’s financing comprises LTFF/TERF and Export Finance Schemes, which are offered at subsidized rates. Over ~70% of the Polyester Staple Fiber (PSF) is supplied to the textile value chain, i.e., the spinning sector.
**Relative Position** Pakistan's PSF industry is dominated by three main players: Ibrahim Fibres, Lucky Core Industries Limited, and Rupali Polyester. Of these, Ibrahim Fibres retains the lion’s share of the market (71%).
**Revenues** Ibrahim Fibres' topline is majorly driven by PSF segment, with spinning segment playing a supporting role. Revenues witnessed a fair uptick during FY21 at 50% YoY and moved to PKR 70,607mln from PKR 47,078mln in FY20 as overall demand of the industry improved post uplift of lock-down. During 3QCY22, the Company’s topline clocked at PKR 91,297mln. The trend is much likely to continue as Polyester has now become the most dominant man-made fabric.
**Margins** Instilling affects from topline, gross margins of the Company improved (FY21: 17.7%, FY20: 4.1%). This translated in operating margins as well (FY21: 15.5%, FY20: 1.7%). Finance cost also decreased due to reduced requirement of working capital and increased cash flows which moved the Company to regain profits, hence resulting in positive margins (FY21: 9.3%; FY20: -2.8%). At end of 3QCY22, the gross, operating and net margins of the Company recorded at 14.9%, 12.9%, and 7.1%.
**Sustainability** Ibrahim Fibres is running at almost full capacity. Furthermore, global oil prices have taken a hit, specifically in 2022 which had an impact on the prices of PTA, MEG and ultimately PSF. IFL's management is planning expansions in PSF, Yarn and Filament Yarn Plant with additional capacity of 200,000 MTs/annum, installation of 100,000 spindles, and installation of 35,000 MTs/annum, respectively.

## Financial Risk

**Working Capital** The Company's working capital needs are driven from its inventory requirements of PTA, MEG, cotton and viscose through a mix of internal generation and short-term borrowings. The sales are predominantly cash based, and historically, net working capital cycle remained short. During FY21, there has been a decrease in the net working capital cycle which stood at 52 days (FY20: 81 days). During 3QCY22, the days significantly recorded at 76 days. While the gross working capital days stood at 79 days in 3QCY22.
**Coverages** As the Company’s profit base experienced returns at PBIT level post-pandemic crises therefore, during FY21, free cashflow from operations significantly increased and recorded strong at PKR 13,470mln (FY20: PKR 3,122mln). During 3QCY22, the FCFO stood at PKR 12,207mln. Furthermore, the finance cost of the Company stood at PKR 208mln during same period. Previously, interest coverage ratio of the Company remarkably improved to 7.2x (FY20: 1.9x) as the profits returned to Company's level PBIT. However, at end Sep'22, the Company's interest coverage and core coverage ratios significantly stood at 69.7x and 35.9x, respectively.
**Capitalization** Historically, the Company has maintained a low leveraged capital structure. During FY21, the leverage further improved to 15.4% (FY20: ~ 31%) on account of abridged total debt (FY21: PKR 8,095mln, FY20: PKR 17,041mln). Short-term debt constitutes >70% of total debt book. However, during 3QCY22, the leverage ratio stood at 12.5% with short term borrowings constituting more than 50%.

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

| Ibrahim Fibres Limited | Sep-22 | Dec-21 | Jun-21 | Jun-20 | Jun-19 |
|---|---|---|---|---|---|
| Polyester | CY 9M | CY 6M | FY 12M | FY 12M | FY 12M |
| **A BALANCE SHEET** | | | | | |
| 1 Non-Current Assets | 39,522 | 40,260 | 40,863 | 39,611 | 32,116 |
| 2 Investments | 13 | 12 | 12 | - | - |
| 3 Related Party Exposure | 0 | - | - | - | - |
| 4 Current Assets | 43,038 | 31,467 | 20,686 | 19,977 | 21,454 |
| *a Inventories* | *23,878* | *17,720* | *9,199* | *9,703* | *10,818* |
| *b Trade Receivables* | *2,481* | *1,351* | *1,129* | *860* | *517* |
| **5 Total Assets** | 82,573 | 71,740 | 61,561 | 59,588 | 53,570 |
| 6 Current Liabilities | 12,586 | 8,065 | 5,386 | 2,375 | 4,399 |
| *a Trade Payables* | *573* | *780* | *529* | *423* | *679* |
| 7 Borrowings | 7,951 | 9,695 | 8,095 | 17,041 | 6,607 |
| 8 Related Party Exposure | - | - | - | - | - |
| 9 Non-Current Liabilities | 6,854 | 4,767 | 3,708 | 2,306 | 3,090 |
| **10 Net Assets** | 55,659 | 49,212 | 44,373 | 37,865 | 39,474 |
| **11 Shareholders' Equity** | 55,659 | 49,212 | 44,373 | 37,865 | 39,474 |
| **B INCOME STATEMENT** | | | | | |
| **1 Sales** | 91,297 | 48,960 | 70,607 | 47,078 | 66,238 |
| *a Cost of Good Sold* | *(77,656)* | *(39,193)* | *(58,142)* | *(45,127)* | *(62,391)* |
| **2 Gross Profit** | 13,640 | 9,767 | 12,465 | 1,951 | 3,847 |
| *a Operating Expenses* | (1,824) | (1,010) | (1,531) | (1,147) | (1,111) |
| **3 Operating Profit** | 11,817 | 8,757 | 10,933 | 804 | 2,736 |
| *a Non Operating Income or (Expense)* | *(505)* | *(659)* | *(521)* | *3* | *(79)* |
| **4 Profit or (Loss) before Interest and Tax** | 11,312 | 8,099 | 10,412 | 807 | 2,657 |
| *a Total Finance Cost* | *(208)* | *(251)* | *(959)* | *(1,658)* | *(612)* |
| *b Taxation* | *(4,657)* | *(2,441)* | *(2,875)* | *(445)* | *(1,046)* |
| **6 Net Income Or (Loss)** | 6,447 | 5,407 | 6,579 | (1,295) | 998 |
| **C CASH FLOW STATEMENT** | | | | | |
| *a Free Cash Flows from Operations (FCFO)* | *12,207* | *9,199* | *13,470* | *3,122* | *5,335* |
| *b Net Cash from Operating Activities before Working Capital Changes* | *11,945* | *8,888* | *12,161* | *1,508* | *4,865* |
| *c Changes in Working Capital* | *(8,021)* | *(8,544)* | *2,158* | *(1,263)* | *(2,422)* |
| **1 Net Cash provided by Operating Activities** | 3,924 | 344 | 14,320 | 246 | 2,443 |
| **2 Net Cash (Used in) or Available From Investing Activities** | (2,171) | (1,274) | (5,339) | (10,390) | (5,567) |
| **3 Net Cash (Used in) or Available From Financing Activities** | (1,747) | 984 | (8,946) | 10,125 | 3,114 |
| **4 Net Cash generated or (Used) during the period** | 6 | 54 | 35 | (19) | (10) |
| **D RATIO ANALYSIS** | | | | | |
| **1 Performance** | | | | | |
| *a Sales Growth (for the period)* | 44.5% | 38.7% | 50.0% | -28.9% | 22.9% |
| *b Gross Profit Margin* | 14.9% | 19.9% | 17.7% | 4.1% | 5.8% |
| *c Net Profit Margin* | 7.1% | 11.0% | 9.3% | -2.8% | 1.5% |
| *d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)* | 4.6% | 1.3% | 22.1% | 3.9% | 4.4% |
| *e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/Sha* | 15.4% | 23.1% | 16.0% | -3.4% | 2.5% |
| **2 Working Capital Management** | | | | | |
| *a Gross Working Capital (Average Days)* | 79 | 55 | 54 | 85 | 58 |
| *b Net Working Capital (Average Days)* | 76 | 52 | 52 | 81 | 55 |
| *c Current Ratio (Current Assets / Current Liabilities)* | 3.4 | 3.9 | 3.8 | 8.4 | 4.9 |
| **3 Coverages** | | | | | |
| *a EBITDA / Finance Cost* | 82.2 | 47.9 | 15.3 | 2.6 | 9.6 |
| *b FCFO / Finance Cost+CMLTB+Excess STB* | 35.9 | 43.6 | 7.2 | 1.9 | 8.9 |
| *c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)* | 0.2 | 0.2 | 0.6 | 6.8 | 0.3 |
| **4 Capital Structure** | | | | | |
| *a Total Borrowings / (Total Borrowings+Shareholders' Equity)* | 12.5% | 16.5% | 15.4% | 31.0% | 14.3% |
| *b Interest or Markup Payable (Days)* | 115.9 | 119.4 | 70.6 | 114.9 | 108.5 |
| *c Entity Average Borrowing Rate* | 4.5% | 3.9% | 7.0% | 12.1% | 9.8% |

## Credit Rating

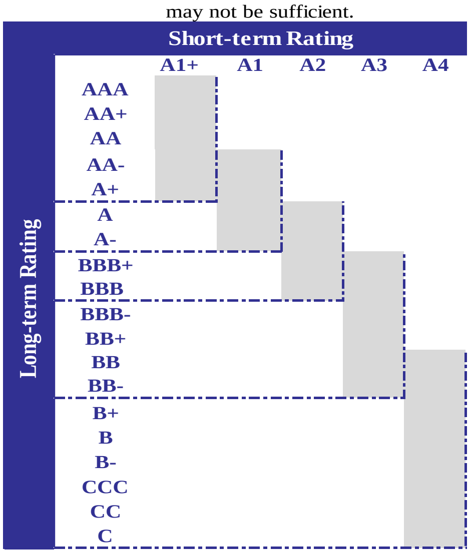
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

### Long-term Rating

| Scale | Definition |
|---|---|
| AAA | **Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments |
| AA+<br>AA<br>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. |
| A+<br>A<br>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. |
| BBB+<br>BBB<br>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. |
| BB+<br>BB<br>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. |
| B+<br>B<br>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. |
| CCC<br>CC<br>C | **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. |
| D | Obligations are currently in default. |

### Short-term Rating

| Scale | 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 |
| 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 surveill 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

**Rating Team Statements**

(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) **Conflict of Interest**

i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term “family members” shall include only those family members who are dependent on the analyst and members of the rating committee

**Restrictions**

(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
(4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
(5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

**Conduct of Business**

(6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
(7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report | 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 | 18-(a)
(19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

**Probability of Default**

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

**Proprietary Information**