The Pakistan Credit Rating Agency Limited

# Rating Report

## Noon Sugar Mills Limited

**Report Contents**



**Rating History**

| Dissemination Date | Long Term Rating | Short Term Rating | Outlook | Action | Rating Watch |
|---|---|---|---|---|---|
| 05-Apr-2023 | BBB+ | A2 | Stable | Maintain | - |
| 05-Apr-2022 | BBB+ | A2 | Stable | Maintain | - |
| 30-Sep-2021 | BBB+ | A2 | Stable | Maintain | - |
| 30-Sep-2020 | BBB+ | A2 | Stable | Upgrade | - |
| 07-Nov-2019 | BBB | A2 | Stable | Maintain | - |
| 08-May-2019 | BBB | A2 | Stable | Maintain | - |
| 12-Nov-2018 | BBB | A2 | Stable | Initial | - |

**Rating Rationale and Key Rating Drivers**

Pakistan’s sugar industry is the country's 2nd largest agro-based industry, comprising of 90 mills with an annual crushing capacity estimated at~ 80–90mln MT. Despite overcoming the challenge of raw material supply, the industry is facing a constraint due to the government-set support price for sugarcane. During MY22, the support prices for sugarcane in Punjab were fixed at PKR 225/maund and PKR 250/maund in Sindh. Actual realized prices were even higher. During MY22, the overall sugar production increased by ~24%, YoY, to 7.1mln MT (MY21: 5.7mln MT) due to better crop availability and an increase in area under cultivation. Subsequently, sugar prices witnessed ~12% decrease. During the current crushing season (MY23), loss of area under cultivation of roughly 4.7% amidst flash floods; the forecast of sugar production is affected and is estimated to be ~7mln MT. However, the carryover stock from MY22 and the expected sugar production during MY23 are likely to result in a surplus of local sugar production. Therefore, the Government has allowed exports of 0.25mln MT on the basis of production during MY22. The support prices have been fixed at PKR 300/maund for Punjab and PKR 302/maund for Sindh. Although low sugar prices locally and increased sugarcane prices have prompted many sugar mills to close the crushing early in MY23, sugar exports are expected to be favorable, ensuring liquidity remains intact.
The ratings reflect Noon Sugar Mills Limited's ('Noon Sugar' or 'the Company') diverse revenue stream, comprising the sale of sugar and ethanol exports. This diversification provides the Company with a competitive advantage and mitigates industry-specific risks and volatility. Despite higher costs for cane, the Company's topline benefited from elevated prices of sugar, in the local market, and ethanol, in the international market. Moreover, higher volumes supported the topline. The Company managed to improve its operational costs leading to better margins. The financial risk profile of the Company is deemed adequate, as it is characterized by effective working capital management, strong coverages, and a adequality leveraged capital structure. Strong governance framework augur well for the Company.

The ratings are dependent on sustaining business margins, while maintaining stable financial risk profile. Any deterioration to revenue, margins, and/or cashflows will impact the ratings negatively. Meanwhile, improvement in capital structure will benefit the ratings.

**Disclosure**

| | |
|---|---|
| **Name of Rated Entity** | Noon Sugar Mills 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 \| Sugar(Apr-22) |
| **Rating Analysts** | Faiqa Qamar \| faiqa.qamar@pacra.com \| +92-42-35869504 |

## Profile

**Legal Structure** Noon Sugar Mills Limited ('Noon Sugar Mills' or 'the Company') is a public listed company.

**Background** The Company was incorporated in 1964 and started its production operations in 1966, initially having a crushing capacity of 1,500 TCD. Additionally, it operates a distillery, which commenced operations in 1986, with a production capacity of 50,000 litres/day

**Operations** The Company has its head office located in Lahore, whereas, the mill is located in Bhalwal, Sargodha. The rated crushing capacity of the mill stands at 12,000 TCD and the distillery has an installed capacity of 130,000 liters. During the ongoing MY22, the Company witnessed increase of ~27% in sugar production, which stood at 104,720MT. Meanwhile, a slight decline in recovery rates was observed, standing at 9.36% (MY21: 9.6%). Furthermore, the Company has produced 27,256MT of ethanol in MY22 (MY21: 24,582MT).

## Ownership

**Ownership Structure** Majority of the shareholding lies with the Noon family, who holds a 62% stake in the Company. The family holds 57% directly through Ms. Tahia Noon and Mr. Salman Hayat Noon, whereas, 5% is held indirectly through Noon Industries limited, an associated company. Remaining shareholding is split between financial institutions and the general public.

**Stability** Ownership structure of the Company is seen as stable as no major ownership changes are expected

**Business Acumen** The Company is a part of Noon Group which comprises a total of four companies. Other group companies are involved in trading services, with no significant asset base. The Group previously used to own and operate Noon Pakistan, most famous for its brand 'nurpur'. However, major shareholding of the Company was sold off to Fauji Foundation Limited (FFL).

**Financial Strength** With the exception of Noon Sugar Mills, majority of the companies are involved in trading which provide indenting services relating to the textile industry. Noon Sugar Mills is seen as the main company in the Group since other companies do not generate sufficient revenues and have an insignificant asset base.

## Governance

**Board Structure** The Company's Board comprises of seven members; Chairman, two Executive Director (including CEO), two non-Executive Directors, and two Independent Directors.

**Members' Profile** The Company's Board represents a good skill mix which comprises members who have extensive experience in the sugar industry. It is further aided by the Independent Directors who specialize and provide insight on legal and financial matters. Mr. K Iqbal Talib, the Board's Chairman, has over 4 decades of experience in the sugar industry.

**Board Effectiveness** The Corporation has established three distinct Board Committees, namely the Human Resources and Remuneration Committee, Technical Committee, and Audit Committee. Each committee is comprised of no fewer than three Board members.

**Financial Transparency** Shinewing Hameed Chaudhri & Company, Chartered Accountants, are the external auditors of the Company. They gave an unqualified opinion on financial statements of the Company ending in September, 2022. The firm is QCR rated by ICAP and is classified in Category 'B' in the panel of auditors by SBP.

## Management

**Organizational Structure** Noon Sugar Mills has a well-defined organizational structure that has various layers of management. All department heads are reportable to the Chief Executive Officer (CEO). However, the Head of Internal Audit and HR administratively report to the CEO and functionally report to the Audit Committee and HR & Remuneration Committee, respectively.

**Management Team** Lt. Col. (R) Abdul Khaliq Khan (CEO) served in the military for 25 years. He has been associated with the Group from last 20 years. He holds Master's Degree in International Relations. Other members of management are also well qualified with ample experience.

**Effectiveness** Management accounts and many other technical matters, are discussed among the management on a frequent basis.

**MIS** The management has implemented ERP system, which integrates major disciplines like cane accounts, general accounts and HR for efficient management.

**Control Environment** The Company has developed its internal audit department which has basic internal controls required to ensure compliance and efficiency. However, the Company needs to further develop and strengthen its control mechanism.

## Business Risk

**Industry Dynamics** During MY22, the support prices for sugar-cane in Punjab were fixed at PKR 225/maund and PKR 250/maund in Sindh. Actual realized sugarcane prices at the mill gate were even higher. During MY22, the overall sugar production increased by 24%, YoY, to 7.1mln MT (MY21: 5.7mln MT) due to better crop availability and an increase in area under cultivation. Subsequently, sugar prices witnessed ~12% decrease. During the current crushing season (MY23), loss of area under cultivation of roughly 4.7% amidst flash floods; the forecast of sugar production is affected and is estimated to be ~7mln MT. However, the carry-over stock from MY22 and the expected sugar production during MY23 are likely to result in a surplus of local sugar production. Therefore, the Government has allowed exports of 0.25mln MT on the basis of production during MY22. The support prices have been fixed at PKR 300/maund for Punjab and PKR 302/maund for Sindh. Although low sugar prices locally and increased sugarcane prices have prompted many sugar mills to close the crushing early in MY23, sugar exports are expected to be favorable for the industry, ensuring liquidity remains intact.

**Relative Position** The Company had a market share of ~1.5% in terms of sugar production owing to the high number of players in the industry.

**Revenues** The Company has two reportable segments, which are, Sugar and Distillery. Major portion of sales emanate from sugar sales which account for ~63% of total revenue. Additionally, a high portion of sugar sales are made locally, whereas, ethanol sales are export oriented and are made in Japanese and Swiss markets. During MY22, the Company posted net revenue worth ~PKR 12bln (MY21: ~PKR 9.2bln), reflecting an increase of ~30%. The increase in revenue emanated from higher sugar and ethanol sales compared to the corresponding period.

**Margins** During MY22, overall gross profit stood at ~PKR 1.56 bln, depicting an increase of ~55%, YoY, translating into a gross margin of ~13% (MY21: ~11%). Incline in gross margin is primarily attributable to significant increase in the profits from distillery division. Similarly, the operating margin improved to ~8% (MY21: ~6.7%) due to trickle-down effect. Finance cost observed a hike to ~PKR 390mln (MY21: ~PKR 266mln) due to increased interest rates despite reduced borrowing. As a result, the net margin stood at ~3.9% (MY21: ~2.8%).

**Sustainability** Being an export sector with minimal imports tends to bode well for the Company as the economic situation has favored exports and constrained imports into Pakistan. However, the Company is exposed to volatility and ensuing challenges in the sugar sector.

## Financial Risk

**Working Capital** Noon Sugar Mills faces an inherent stress in its working capital due to seasonality in crushing cycle. The company manages its working capital by taking advance payments from their customers, which it uses during the crushing season to purchase sugarcane stock. Any short fall is financed through short-term borrowings, which make up a major portion part of the company's balance sheet. In MY22, net working capital days witnessed a prominent improvement to 40 days (MY21: 61 days) on the back of improved inventory cycle (MY22: 39 days, MY21: 49 days) and receivable cycle (MY22: 10 days, MY21: 20 days). The short-term trade leverage witnessed significant improvement (MY22: ~ -13%, MY21: ~ -30%).

**Coverages** In MY22, the FCFO of the Company increased to ~PKR 1,092mln (MY21: ~PKR 655mln); courtesy of higher profitability. Meanwhile, finance cost observed a prominent increase to ~PKR 390mln (MY21: ~PKR 263mln). As a result, the interest coverage ratio increased to 2.9x (MY21: 2.6x). Additionally, core and total coverage ratio improved to 2.4x (MY21: 1.6x) and 2.4x (MY21: 1.6x) due to higher FCFO and reduced borrowings.

**Capitalization** Noon Sugar Mills has a highly leveraged capital structure, represented by a leveraging ratio of ~52.6% as at MY22 (MY21: ~65%). Majority of debt is composed of short-term borrowings which are utilized for meeting working capital requirements, accounting for 96% of total debt. During MY22, the company's total borrowing amounted to ~PKR 1,925 million, which is a decrease of about 23% compared to the previous year (MY21: ~PKR 2,489mln ). This decline includes the repayment of a long-term loan worth around PKR 75 million.

The Pakistan Credit Rating Agency Limited

*Financial Summary*
*PKR mln*

| Noon Sugar Mills | Sep-22 | Jun-22 | Sep-21 | Jun-21 | Sep-20 | Sep-19 |
|---|---|---|---|---|---|---|
| Sugar | 12M | 9M | 12M | 9M | 12M | 12M |
| **A BALANCE SHEET** | | | | | | |
| 1 Non-Current Assets | 1,806 | 1,721 | 1,616 | 1,528 | 1,527 | 1,485 |
| 2 Investments | - | - | - | 16 | 8 | 8 |
| 3 Related Party Exposure | - | - | - | - | - | - |
| 4 Current Assets | 2,779 | 5,169 | 2,810 | 5,122 | 2,739 | 2,719 |
| *a Inventories* | *1,161* | *3,368* | *1,406* | *3,330* | *1,006* | *1,147* |
| *b Trade Receivables* | *313* | *598* | *338* | *803* | *677* | *680* |
| **5 Total Assets** | 4,585 | 6,889 | 4,426 | 6,666 | 4,273 | 4,211 |
| 6 Current Liabilities | 854 | 1,230 | 549 | 873 | 610 | 556 |
| *a Trade Payables* | *364* | *617* | *222* | *331* | *173* | *226* |
| 7 Borrowings | 1,925 | 4,073 | 2,489 | 4,064 | 2,041 | 2,680 |
| 8 Related Party Exposure | - | - | - | 434 | 434 | - |
| 9 Non-Current Liabilities | 73 | 67 | 60 | 60 | 56 | 46 |
| **10 Net Assets** | 1,733 | 1,519 | 1,328 | 1,236 | 1,133 | 929 |
| **11 Shareholders' Equity** | 1,733 | 1,519 | 1,328 | 1,236 | 1,133 | 929 |
| **B INCOME STATEMENT** | | | | | | |
| **1 Sales** | 11,966 | 8,705 | 9,190 | 6,727 | 6,138 | 5,671 |
| *a Cost of Good Sold* | *(10,407)* | *(7,660)* | *(8,183)* | *(5,987)* | *(5,178)* | *(4,806)* |
| **2 Gross Profit** | 1,559 | 1,044 | 1,006 | 740 | 960 | 865 |
| *a Operating Expenses* | (604) | (420) | (395) | (315) | (329) | (267) |
| **3 Operating Profit** | 956 | 624 | 612 | 425 | 631 | 598 |
| *a Non Operating Income or (Expense)* | *91* | *72* | *32* | *33* | *27* | *15* |
| **4 Profit or (Loss) before Interest and Tax** | 1,046 | 696 | 643 | 458 | 658 | 613 |
| *a Total Finance Cost* | *(390)* | *(290)* | *(263)* | *(209)* | *(335)* | *(341)* |
| *b Taxation* | *(193)* | *(157)* | *(123)* | *(88)* | *(66)* | *(47)* |
| **6 Net Income Or (Loss)** | 464 | 249 | 257 | 161 | 256 | 225 |
| **C CASH FLOW STATEMENT** | | | | | | |
| *a Free Cash Flows from Operations (FCFO)* | *1,092* | *705* | *658* | *484* | *710* | *728* |
| *b Net Cash from Operating Activities before Working Capital* | *694* | *490* | *390* | *317* | *362* | *400* |
| *c Changes in Working Capital* | *161* | *(1,904)* | *59* | *(2,102)* | *83* | *(52)* |
| **1 Net Cash provided by Operating Activities** | 855 | (1,414) | 449 | (1,785) | 445 | 348 |
| **2 Net Cash (Used in) or Available From Investing Activities** | (346) | (222) | (229) | (121) | (198) | (281) |
| **3 Net Cash (Used in) or Available From Financing Activities** | (624) | 1,527 | (44) | 1,965 | (254) | (55) |
| **4 Net Cash generated or (Used) during the period** | (114) | (109) | 176 | 59 | (7) | 13 |
| **D RATIO ANALYSIS** | | | | | | |
| **1 Performance** | | | | | | |
| *a Sales Growth (for the period)* | 30.2% | 26.3% | 49.7% | 46.1% | 8.2% | -- |
| *b Gross Profit Margin* | 13.4% | 12.0% | 11.0% | 11.0% | 15.6% | 15.3% |
| *c Net Profit Margin* | 3.9% | 2.9% | 2.8% | 2.4% | 4.2% | 4.0% |
| *d Cash Conversion Efficiency (FCFO adjusted for Working C* | 10.5% | -13.8% | 7.8% | -24.1% | 12.9% | 11.9% |
| *e Return on Equity [ Net Profit Margin * Asset Turnover * (T* | 30.3% | 23.4% | 20.9% | 21.1% | 24.8% | 24.3% |
| **2 Working Capital Management** | | | | | | |
| *a Gross Working Capital (Average Days)* | 49 | 90 | 69 | 127 | 107 | 118 |
| *b Net Working Capital (Average Days)* | 40 | 77 | 61 | 117 | 95 | 103 |
| *c Current Ratio (Current Assets / Current Liabilities)* | 3.3 | 4.2 | 5.1 | 5.9 | 4.5 | 4.9 |
| **3 Coverages** | | | | | | |
| *a EBITDA / Finance Cost* | 3.4 | 3.0 | 3.1 | 2.9 | 2.5 | 2.3 |
| *b FCFO / Finance Cost+CMLTB+Excess STB* | 2.4 | 2.0 | 1.6 | 1.9 | 2.0 | 1.1 |
| *c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Fir* | 0.1 | 0.2 | 0.6 | 1.6 | 1.6 | 1.3 |
| **4 Capital Structure** | | | | | | |
| *a Total Borrowings / (Total Borrowings+Shareholders' Equity* | 52.6% | 72.8% | 65.2% | 78.4% | 68.6% | 74.3% |
| *b Interest or Markup Payable (Days)* | 15.5 | 108.0 | 54.9 | 120.1 | 53.4 | 80.6 |
| *c Entity Average Borrowing Rate* | 10.2% | 8.9% | 6.9% | 6.8% | 9.7% | 12.4% |

## Credit Rating

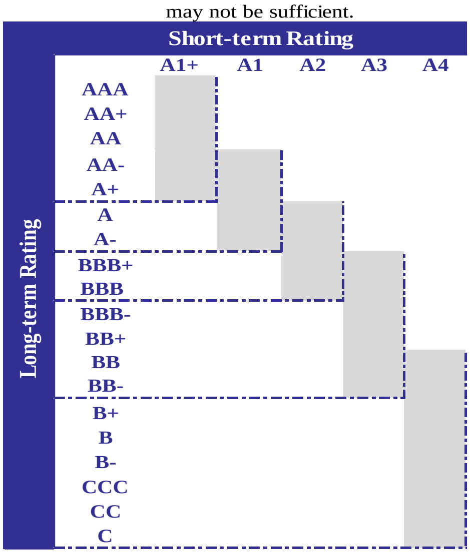
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

### 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

## Regulatory and Supplementary Disclosure
(Credit Rating Companies Regulations,2016)

**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**