



## The Pakistan Credit Rating Agency Limited

### Rating Report

#### Ismail Iqbal Securities (Pvt.) Limited | BMR

##### Report Contents

1. Rating Analysis
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3. Rating Scale
4. Regulatory and Supplementary Disclosure

##### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
20-May-2019	BMR3	-	Stable	Maintain	-
28-Dec-2018	BMR3	-	Stable	Initial	-

##### Rating Rationale and Key Rating Drivers

The rating reflects the company's continuous efforts to retain its market share in the brokerage industry despite vast volatility and lackluster trading volumes in Pakistan's Stock Market. The rating incorporates the business strategy of the sponsors, emerging business dynamics, effective deployment of human resources, improved risk framework, adequate IT infrastructure, properly designed organizational structure with all the departmental heads reporting to the CEO. The company is also in the process of indulging an independent director on its board to adopt the best practices of the industry which exhibits a positive gesture. The investment book dominated by investments in equity shares exposes the company to conflict of interest and market risk. Ongoing efforts have been made to reduce the size of proprietary book according to the company's policy which mitigate risks inherent in the brokerage business. Furthermore, the company has adequate capitalization levels with the Net Capital Balance of ~PKR 205mln as at end Dec-18. The company's revenue generation is mainly focused towards HNWI's and the management needs to increase the retail penetration.

The rating is dependent upon the company's ongoing efforts to improve its governance framework and careful monitoring of liquidity risks, strategic planning for improved returns, concerns regarding conflict of interest emanating from investment activities and continuous improvement in customer servicing tools will bode well for the company.

##### Disclosure

<b>Name of Rated Entity</b>	Ismail Iqbal Securities (Pvt.) Limited   BMR
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Broker Management Rating
<b>Applicable Criteria</b>	Methodology   Broker Management Rating(Jun-18)
<b>Related Research</b>	Sector Study   Brokerage & Security(Nov-18)
<b>Rating Analysts</b>	Shahzaib Khalid   shahzaib.khalid@pacra.com   +92-42-35869504



The Pakistan Credit Rating Agency Limited

# Brokerage & Securities

## Ownership

**Ownership Structure** Ismail Iqbal Securities Private Limited was established in 2004 as an equity brokerage company, having a strong association with Ismail Iqbal Group, which is recognized as a leader in the confectionery market, also engaged in education, logistics, and packaging businesses. Being a private limited company, Ismail Iqbal Securities is owned by three individuals, currently the CEO (Mr. Ahfaz Mustafa) is holding 65% shares of the company and 17.5% of total shares lies with his elder brother (another director of the company) and remaining 17.5% stake is held by their sister who is a non-active member.

**Stability** The company has not any written or formulated succession plan.

**Business Acumen** Ahfaz Mustafa - Bachelors of Science (Hons.) - has been associated with the company since 2007 and have 12 years of relevant experience. He started off with risk management and has steadily worked his way to the top position in the company.

**Financial Strength** The CEO Mr. Ahfaz Mustafa had a solid net worth as of end June-18 and has issued a personal guarantee in case of equity erosion in the company.

## Governance

**Board Structure** The company's board of directors comprises two experienced individuals including the CEO – Mr. Ahfaz Mustafa. The other director, Mr. Azhar Iqbal is a non-executive director and provides governance oversight.

**Members' Profile** Mr. Azhar earned his Bachelors in Economics from the prestigious University of Pennsylvania, and then went on to do his masters from NYU. He remained associated with the financial markets as a research analyst in New York for three years before returning to Pakistan and joining the Ismail Iqbal Group.

**Board Effectiveness** The company has an audit committee at the board level with proper TOR's. During the last year, two meetings were held to review the financial performance, discussion on company strategy and underwriting procedures.

**Financial Transparency** Internal audit at the company is performed by the compliance department. The company external auditors Baker Tilly Mehmood Idress Qamar are listed under "A" category by the State Bank of Pakistan list of approved auditors. The auditors issued an unqualified opinion on the financial statements for FY18.

## Management

**Management Team** All the department heads lie between 10 to 35 years of experience in their relevant fields. Including Mr. Ahfaz Mustafa "the CEO of the company since 2008", he has nearly 12 years of experience in the equity market. Mr. Ghulam Farooq, a Qualified Chartered Accountant as CFO/Director Finance of the company has ~35 years of experience, Mr. Nazim Abdul Muttalib joined the company as EVP - Head of Broking. He is MPhil Finance and has vast experience in financial services industry. All other heads are also well qualified and have extensive relevant experience. There are no management committees in place.

**Organizational Structure** The company has a simplified organization structure. There are seven departments in the company, which directly report to the CEO. The company has created all requisite positions to ensure smooth operations. Key departments include: (i) Institutional sales, (ii) Retail sales, (iii) Research, (iv) Accounts and Finance, (v) Risk and (vi) Compliance

**Client Servicing** The company offers multiple account opening mediums. As soon as a trade is executed, the client is notified via email and SMS. The company communicates account statements and market reports to the clients on regular basis.

**Complaint Management** The company has provided an electronic form on the face of its website to lodge online complaints and complaints can be made via e-mail and calls.

**Extent Of Automation / Integration** The company utilizes an ERP called "V Trade". The system is fully synchronized with the market and has complete integration with the back office functions.

**Continuity Of Operations** The company has a well-defined disaster recovery and business continuity plan.

**Risk Management Framework** The company has risk management and compliance function and hired a designated staff for these departments. The company has formulated its Investment Policy Statement (IPS), underwriting, corporate finance and advisory policy, approved by the board. Investment and underwriting limits are clearly defined in related policies. The company has formal compliance department, headed by a well-qualified compliance manager. The department ensures that all the regulatory requirements are fulfilled on timely basis.

**Regulatory Compliance** Compliance Department ensures that all the regulatory requirements are adhered to. Compliance manager possesses more than 8 years of professional experience. Compliance department is also performing the internal audit function.

## Business Sustainability

**Business Risk** During first four months of CY19, KSE-100 posted a negative return of ~1%. Trading activity remained low on the back of negative market sentiments due to uncertainty on market performance in the backdrop of an economic slowdown, rising interest rate environment and consistent drag on IMF front. Concerns on upcoming budgetary measures remained in limelight. The overall trading volumes in first four months of CY19 remained low, (4MCY19: 86mln, CY18: 97mln, CY17: 102mln) as compared to previous years. This put pressure on income of all brokerage entities.

**Business Profile** Main activities of the company include brokerage, research and underwriting. In terms of value of traded shares, the company enjoys ~2% market share in the ready and futures equity market.

**Revenue And Profitability Analysis** The company's operating revenue comprises brokerage commission and gain/loss from trading in marketable securities. During 1H FY19, brokerage commission increased by ~37% to ~PKR 27.5mln, as compared to SPLY. The company made loss of ~PKR 12mln in its proprietary investments and at the same time company has booked deficit on Revaluation of Investments of ~PKR 17mln. This is mainly driven by the overall decline in the equity market.

## Financial Sustainability

**Credit Risk** For the assessment of client credit worthiness, the company has implemented due diligence procedures in addition to its KYC. Applicable policies and limits for leverage products have been adopted. An automated risk management system is in place that halts transactions for a particular client if margin falls below the allocated limit. Trade debts are low and their ageing is considered to be manageable.

**Market Risk** As at 1H FY19, the size of the short term investment book was ~PKR 53mln (FY18: ~PKR 71mln), which comprises quoted securities. Proprietary listed securities as compared to company's equity comprises ~16% in 1H FY19 (FY18: ~19%). Trading in proprietary book creates conflict of interest and exposes the investment portfolio to market risk. The company has formulated an investment policy to address the key risks pertaining to proprietary investments.

**Liquidity Profile** The liquidity risk for the company arises from T+2 settlement framework. At the end of 1H FY19, the liquid assets were 0.4x of the total asset book (FY18: 0.3x). In case a need arises, the company has approved bank lines of ~PKR 535mln. Liquid assets in relation to total liabilities decreased by 16% to 1.0x (FY18: 1.2x) due to increase in short term as well as long term liabilities. However, liquid assets are still more than sufficient to cover the current liabilities of the company.

**Financial Risk** The debt structure is completely comprised of short-term borrowings which is 27% in 1H FY19 (FY18: ~1%). At 1H FY19, the Net capital Balance for the company stood at ~PKR 205mln (FY18: ~PKR 204mln). The company is allowed to take exposure of up to 25x of its NCB.

ISMAIL IQBAL SECURITIES PRIVATE LIMITED  
BALANCE SHEET

As at

## A. EARNING ASSETS

a. Finances

1. Margin Financing
2. Ready Futures (Spread Transactions)

b. Investments

1. Deposits with Banks and other institutions
  - a. Own Funds
  - b. Client Funds
2. Govt. Securities and Money Market Fund
3. Debt Securities & Income Funds
4. Long-Term
  - i) Listed Equities
  - ii) Unlisted Equities
  - iii)TREC
  - iv)Takaful
5. Short-Term
  - i) Listed Equities
  - ii) Unlisted Equities
  - iii)TREC
  - iv)Takaful

*Total Earning Assets*

## B. NON-EARNING ASSETS

1. Cash and Bank Balances
  - a. Own Funds
  - b. Client Funds
2. Advance Tax
3. Accounts Receivable
4. Advances, Deposits and Other receivables
5. Fixed Assets

*Non-Earning Assets*

## C. TOTAL ASSETS

## D. Funding

*1. Commercial*

- i) Advances from Customers
- ii) Trade payables

*2. FIs*

- i) Short-term Borrowings
- ii) Current Maturity of Long Term Debt
- iii) Long-term Borrowings

*Total Funding*

## E. Other Liabilities

1. Borrowings
2. Trade Payables
3. Other Liabilities (staff gratuity, Accrued mark-up)
4. Provision for Taxation

*Other Liabilities*

## F. EQUITY

1. Share Capital
2. Reserves:
  - i. Statutory Reserve
  - ii. Capital Reserve
  - iii. Reserve for Bonus Shares
  - iv. Revenue Reserve
  - v. Unappropriated Profit

*Pure Equity*

3. Surplus/(Deficit) on Revaluation of Investments
3. Unclaimed dividend

*Total Equity*

## G. TOTAL LIABILITIES &amp; EQUITY

## H. CONTINGENT LIABILITIES

31-Dec-18 1H FY19	30-Jun-18 FY18	30-Jun-17 FY17	30-Jun-16 FY 16
Un-audited	Audited	Audited	Audited
0	0	0	0
0	0	0	0
0	0	0	0
138	51	18	56
47	72	50	0
0	2	3	3
0	0	0	1
61	60	60	47
0	0	0	0
7	7	7	7
53	71	137	104
307	263	275	217
307	263	275	217
0	0	0	0
0	0	0	0
0	0	0	0
46	0	0	0
70	83	122	124
83	115	294	112
24	24	29	29
223	222	445	265
529	485	720	482
0	0	0	0
80	90	119	62
80	90	119	62
93	4	130	139
0	2	4	3
0	0	0	0
93	6	134	142
173	96	254	204
0	0	0	0
0	0	0	0
19	8	8	6
0	1	2	0
19	9	11	7
347	347	347	347
0	0	0	0
0	0	0	0
0	0	0	0
0	0	0	0
(8)	34	109	(75)
(8)	34	109	(75)
339	381	455	271
0	0	0	0
0	0	0	0
339	381	455	271
529	485	720	482
0	0	0	0

**ISMAIL IQBAL SECURITIES PRIVATE LIMITED**
**INCOME STATEMENT**

For the period ended

	<b>31-Dec-18</b>	<b>30-Jun-18</b>	<b>30-Jun-17</b>	<b>30-Jun-16</b>
	<b>1H FY19</b>	<b>FY18</b>	<b>FY17</b>	<b>FY 16</b>
	<b>Un-audited</b>	<b>Audited</b>	<b>Audited</b>	<b>Audited</b>
<b>1. Fee-Based Income</b>				
a. Brokerage	28	40	66	47
b. Advisory Fees	0	0	0	0
c. Commission / Underwriting	0	9	1	0
d. Others (including MFS)	0	0	0	0
	28	49	67	47
<b>2. Operating Expenses</b>				
a. Personnel Expenses*	28	31	34	27
b. Other Non-interest/Mark Up Expenses*	7	41	25	21
	(35)	(72)	(59)	(48)
<b>3. Brokerage Income / (Loss)</b>	<b>(7)</b>	<b>(23)</b>	<b>8</b>	<b>(0)</b>
<b>3 Non Fee-Based Income</b>				
a. Gain on Sale of Investments	(12)	(33)	172	31
b. Surplus/(Deficit) on Revaluation of Investments	(17)	(10)	15	1
	(29)	(43)	186	32
<b>Other Income</b>				
a. Dividend Income	3	9	14	6
b. Share of profit of subsidiaries/associates	0	0	0	0
c. Exchange Gain/(Loss)	0	0	0	0
d. Net Profit/(Loss) on sale of fixed assets	0	0	0	0
e. Rental Income	0	0	0	0
f. Mark up Exposure deposit	0	2	2	1
g. Mark up on MF	0	7	2	0
h. Others income	3	0	1	2
	5	18	19	9
<b>5. Total Operating Income / (Loss)</b>	<b>(31)</b>	<b>(48)</b>	<b>213</b>	<b>40</b>
<b>6. Financial Charges</b>	<b>(6)</b>	<b>(9)</b>	<b>(15)</b>	<b>(10)</b>
<b>8. Profit / (Loss) Before Tax</b>	<b>(37)</b>	<b>(58)</b>	<b>199</b>	<b>30</b>
<b>9. Taxes</b>	<b>(6)</b>	<b>(17)</b>	<b>(15)</b>	<b>(6)</b>
<b>10. Net Income</b>	<b>(42)</b>	<b>(75)</b>	<b>184</b>	<b>24</b>
<b>12. Unappropriated Profit / (Loss) Brought Forward</b>	<b>34</b>	<b>109</b>	<b>(75)</b>	<b>(99)</b>
<b>12. Adjustments Available for Appropriations</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>13. Appropriations</b>	<b>(8)</b>	<b>34</b>	<b>109</b>	<b>(75)</b>
a. Statutory Reserve	0	0	0	0
b. Share buy back	0	0	0	0
c. Revenue Reserve	0	0	0	0
c. Cash Dividend	0	0	0	0
d. Bonus Dividend	0	0	0	0
	0	0	0	0
<b>14. Unappropriated Profit/(Loss) Carried Forward</b>	<b>(8)</b>	<b>34</b>	<b>109</b>	<b>(75)</b>
<b>* Proportionated in FY18</b>				



**ISMAIL IQBAL SECURITIES PRIVATE LIMITED**  
**RATIO ANALYSIS**

	<b>31-Dec-18</b>	<b>30-Jun-18</b>	<b>30-Jun-17</b>	<b>30-Jun-16</b>
	<b>1H FY19</b>	<b>FY18</b>	<b>FY17</b>	<b>FY 16</b>
	<b>Un-audited</b>	<b>Audited</b>	<b>Audited</b>	<b>Audited</b>
<b>A. PERFORMANCE</b>				
1. ROE	-13.1%	-4.7%	80.8%	17.6%
a Net Profit Margin	-154.2%	-152.5%	275.5%	50.6%
b Asset Turnover	5.4%	2.4%	18.6%	19.6%
c Financial Leverage	156.4%	127.3%	158.0%	177.6%
2. ROA	-8.0%	-15.4%	25.6%	5.0%
3. Cost-to-Fee Income	125.4%	147.9%	88.1%	100.7%
4. Cost-to-Total Operating Income	324.8%	187.4%	72.4%	98.9%
5. Taxes / Pre-Tax Profit	15.8%	29.2%	-7.5%	-20.3%
6. Net Non-Earning Assets / Assets net of Non-Interest Liabilities	39.9%	44.8%	61.3%	54.3%
<b>B. FINANCIAL EXPOSURE</b>				
1 Short Term Proprietary Listed Securities / Equity	15.8%	18.5%	30.0%	38.4%
2 Total Investments / Equity	90.6%	69.0%	60.3%	80.0%
3 Fixed Income / Total Capital	0.0%	0.6%	0.7%	1.1%
4. NCB / Equity	60.6%	53.6%	34.0%	38.1%
<b>C. LIQUIDITY</b>				
1. Trade Related Assets / Trade Related Liabilities	0.9	0.9	1.0	2.0
2. Liquid Assets / Total Assets	0.4	0.3	0.2	0.3
3. Liquid Assets / Trade Related Liabilities	2.4	1.4	1.3	2.6
4. Liquid Assets / (Short term Borrowings + Advances from Customers + Accounts Payable)	1.1	1.3	0.6	0.8
5. Liquid Assets / Total Liabilities	1.0	1.2	0.6	0.8
6. Liquid Investments / Equity	0.6	0.3	0.3	0.6
<b>B. COVERAGE RATIOS</b>				
1. EBITDA/Gross Interest	n/m	n/m	14.7	6.4
<b>C. CAPITAL ADEQUACY</b>				
1. Equity / Total Assets	64.0%	78.5%	63.3%	56.3%
2. Total Equity (including surplus on revaluation) / Total Assets	64.0%	78.5%	63.3%	56.3%
3. Total Debt / Equity	27.4%	1.5%	29.5%	52.3%
4. Dividend Payout Ratio	N/A	N/A	N/A	N/A
<b>D. GROWTH</b>				
1. Total Assets	9.2%	-32.6%	49.3%	-86.4%
2. Investments	16.7%	-4.3%	26.5%	-85.3%
2. Equity	-11.1%	-16.4%	67.8%	-90.6%
3. Brokerage Revenue	37.5%	-39.4%	39.8%	-89.6%
4. Investment Yield	-7.7%	-9.3%	83.6%	4.8%
5. Revenue	12.6%	-26.8%	41.2%	3.0%

## BROKER MANAGEMENT RATING SCALE

SYMBOL	DEFINITION	
<b>BMR 1A</b>	<b>Excellent</b>	Excellent regulatory compliance, control environment, and financial management; governance and risk management frameworks are extremely effective; HR, IT, and customer services are strongly proactive.
<b>BMR 1++</b> <b>BMR 1+</b> <b>BMR 1</b>	<b>Strong</b>	Strong regulatory compliance, control environment, and financial management; governance and risk management frameworks are highly effective; HR, IT, and customer services are highly proactive.
<b>BMR 2++</b> <b>BMR 2+</b> <b>BMR 2</b>	<b>Sound</b>	Sound regulatory compliance, control environment, and financial management; governance and risk management frameworks are effective; HR, IT, and customer services are proactive.
<b>BMR 3++</b> <b>BMR 3+</b> <b>BMR 3</b>	<b>Adequate</b>	Adequate regulatory compliance, control environment, and financial management; governance and risk management frameworks are satisfactory; HR, IT, and customer services are adequate.
<b>BMR 4++</b> <b>BMR 4+</b> <b>BMR 4</b>	<b>Inadequate</b>	Inadequate regulatory compliance, control environment, and financial management; governance and risk management frameworks need improvements; HR, IT, and customer services are insufficient.
<b>BMR 5</b>	<b>Weak</b>	Weak regulatory compliance and business practices.

### SURVEILLANCE AND VALIDITY OF THE RATING

PACRA shall not keep the Broker Management Rating under constant surveillance. The rating will be reviewed at least once every six months. Any material happening during a period that may warrant a revision of rating will be incorporated in the following review.

### 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'.

### WITHDRAWN

A rating is withdrawn on a) termination of rating mandate, or b) cessation of underlying entity.

**DISCLAIMER:** The rating is based on information that is obtained from the client and sources we consider to be reliable but its accuracy and completeness are not guaranteed. PACRA shall owe no liability whatsoever to any loss or damage caused by or resulting from any error in such information. Our rating and related analyses are statements of opinions about the relative standing of the company and its affairs as of the date they are expressed. These are not recommendations to buy or subscribe/unsubscribe any services. None of the information in this document may be copied or otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA's written consent. *This disclaimer is in accordance with Section 14(3)(x) of the 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.
- (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)
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- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst’s area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (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)

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