



The Pakistan Credit Rating Agency Limited

Rating Report

Cherat Packaging Limited

Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
28-Jun-2019	A	A1	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings reflect Cherat Packaging Limited's established position as the largest cement bag manufacturer in the country. Over the years, the company has built a strong business profile and recently diversified its revenues by adding flexible packaging. The company has maintained healthy margins and profitability. It imports its raw material, which remains sensitive to rupee devaluation. However, the management expects to sustain margins through timely inventory procurement and phased passing out of cost. The long term prospects of the company are linked with demand and expansion in local cement capacity, exports cement demand and flexible packaging business. The company has a leveraged capital structure supplemented by strong coverages and prudent working capital management. The long term debt is related to expansion activities, whereas short term debt has increased recently pursuant to aggressive inventory procurement. The company's association with Ghulam Faruque Group and its strong governance framework are the rating factors.

The ratings are dependent upon the management's ability to improve revenues while sustaining margins. Prudent management of the working capital, maintaining sufficient cash flows and optimal capital structure is imperative for the ratings. Materialization of management's strategy of diversification through flexible packaging into better margins and profitability is important.

Disclosure

Name of Rated Entity	Cherat Packaging Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Ratings(Jun-18)
Related Research	Sector Study Packaging(Oct-18)
Rating Analysts	Shahzaib Khalid shahzaib.khalid@pacra.com +92-42-35869504

Profile

Legal Structure Cherat Packaging Limited (CPL) is a public limited company, listed on Pakistan Stock Exchange Limited.

Background The company was incorporated in 1989 and started its production of paper sacks in 1992 and diversified its business with manufacturing of polypropylene bags in 2012. In 2017, company entered in the field of flexible packaging.

Operations The main business activities are manufacturing and selling of paper sacks, polypropylene bags and flexible packaging material. The plant has an annual production capacity of 595 million cement bags and 7,200 tons of flexo and roto printing. The company is also active in exporting bags to different parts of the world.

Ownership

Ownership Structure Cherat Packaging Limited is a part of Ghulam Faruque Group. Faruque (Pvt.) Ltd holds 10.3%, in Cherat Packaging Limited, followed by Cherat Cement Company Limited (7.4%), Greaves Pakistan Private Limited (5%), Mirpurkhas Sugar Mills Limited (5%) and remaining stake is held by general public, financial and non-financial institutions.

Stability Since inception, the Ghulam Faruque Group has continuously strengthened and diversified its lines of businesses.

Business Acumen Mr. Amer Faruque is the Chief Executive Officer of the company. He is a Bachelor of Science (BS) graduate in Business Administration majoring in Management / Marketing from Drake University USA. Mr. Akbarali Pesnani, the Chairman, is an MBA and fellow member of both the Institute of Chartered Accountants and Institute of Cost and Management Accountants of Pakistan. All other directors are also seasoned professionals and possess manifold experiences in the relevant fields.

Financial Strength Faruque Private Limited has net worth of ~PKR 4.4bln. Apart from packaging business, Ghulam Faruque group also owns shareholding in Cherat Cement, Mirpurkhas Sugar Mills and Greaves Pakistan (Pvt) Limited.

Governance

Board Structure The company's Board comprises eight members including CEO, six members are non-executive and one is independent director. The board is currently chaired by Mr. Akbarali Pesnani, the independent director, bring an external viewpoint to effectively carry out oversight function of the board.

Members' Profile All the directors are highly qualified and have extensive experiences in the fields of accounting, auditing, banking and financial services. There is a good mix of professional skills and qualifications possessed by the board members. Six out of eight directors possess more than ten years of strategic leadership experience.

Board Effectiveness Five board meetings were held during FY18. All directors attended at least three board meetings. The quality of discussion as captured in meeting minutes reflects high involvement of the board members in business activities.

Financial Transparency EY Ford Rhodes Chartered Accountants are the external auditors of the company, the firm is in the A Category of SBP's panel of auditors. They have expressed an unqualified opinion on the financial statements for the period ending June-18. The company has an in-house internal audit department which reports to the Audit Committee.

Management

Organizational Structure The Company has a well developed organisational structure. The Company operates through two regional offices, located in Lahore and Islamabad, and a registered office located in Peshawar, reporting to the Head Office in Karachi. All the functional Heads report to the Company's Chief Operating Officer. However, Chief Financial Officer and Chief Operating Officer report to the Chief Executive Officer of the Company.

Management Team The Chief Operating Officer, 'Mr. Yasir Masood (FCA)' who is also the Chief Financial Officer of the company having experience of more than two decades, is leading the CPL for thirteen years and has been a driving force in shaping CPL into one of the leading cement packaging brand in Pakistan. Furthermore, all functional departments are headed by seasoned professionals.

Effectiveness Management's effectiveness and efficiency can be ensured through the presence of management committees. There are no management committees in place, which indicates a room for improvement.

MIS CPL's manufacturing division is in KPK, head office in Karachi and regional offices are in Lahore and Islamabad, all are integrated through single ERP platform. The Company uses SAP and customized software to generate various types of operational reports as required by the management in order to monitor the activities effectively.

Control Environment To ensure operational efficiency and appraisal of internal controls, the Company has an in-house internal audit department. The audit committee reviews the performance of internal audit department to ensure their adequacy for planned scope of internal audit function. The Company has an effective mechanism for identification, assessment and reporting of all types of risk arising out of the business operations.

Business Risk

Industry Dynamics Demand for Pakistan's paper bag and polypropylene packaging industry is perpetual in nature. In case of CPL, the packaging demand is mainly derived from the demand of cement which currently exhibits a declining trend due to fluctuation in cement prices and increased federal excise duty and delay in large scale infrastructure projects by the Government.

Relative Position In the paper bags sector, CPL is the largest player in the industry representing ~39% of total market share of the country. Thal limited is the second largest player in the industry with ~23% of the market share. Whereas in the polypropylene segment, CPL also holds the highest market share of ~21%.

Revenues The company's topline depicts an increase of 14% in 9MFY19 as compared to same period of last year. For FY18, the company's topline clocked in at ~PKR 7,092mln, an increase of ~10% YoY mainly attributable to i) inflationary increase in prices and ii) increase in sales volumes. In FY18, exports contribute only ~3.8% to the topline (FY17: ~6.5%).

Margins In 9MFY19, CPL's gross margin witnessed an increase of ~60% to PKR 1142mln, due to economies of scale, diversification of operations, strategic relationship with supplier and strong decision making of Board.

Sustainability Keeping in view the economic environment of Pakistan and industry dynamics the demand for industry's product seems to be stagnant. The gross margins are also expected to remain the same. There is strong competition in the industry due to price sensitivity. The company has recently undergone a major expansion to meet the prospective demand of cement industry and with the installation of state-of-the-art machinery the Company is rapidly penetrating in to the flexible packaging market.

Financial Risk

Working Capital The net working capital cycle increased to 193 days in 9MFY19 (9MFY18: 140 days), which is mainly triggered by increase in inventory days. The company uses short-term borrowings to finance the working capital.

Coverages The company's Free Cash Flows From Operations stood at ~PKR 1009mln in 9MFY19, (9MFY18: PKR 566mln). The interest coverage ratio reduced to 3.5x in 9MFY19 (9MFY18: 8.1x), due to significant increase in finance cost.

Capitalization The capital structure of the company is moderately leveraged. At end March-19, the debt to total capital stood at ~57% (March-18: 37%). The significant increase in leveraging over the years is attributable to increase in long term borrowings, which are used mainly for financing and installation of universal paper sack line and flexible packaging project.



The Pakistan Credit Rating Agency Limited

PKR mln

CHERAT PACKAGING LIMITED

STATEMENT OF FINANCIAL POSITION

	Mar-19	Jun-18	Jun-17	Jun-16
	9M	12M	12M	12M
	Management	Audited	Audited	Audited
A NON-CURRENT ASSETS				
1 Operating Fixed Assets - Owned and Leasehold	5,134	4,782	1,816	1,650
2 Intangible Assets	7	6	7	4
3 Other Non-Current Assets	10	10	9	9
4 Deferred Taxation	-	-	-	-
<i>Non-Current Assets</i>	5,150	4,798	1,833	1,663
B INVESTMENTS				
1 Equity Instruments	-	-	-	-
2 Debt Instruments	-	-	-	-
3 Investment Property	-	-	-	-
<i>Investments</i>	-	-	-	-
C RELATED PARTY EXPOSURE				
1 Equity Instruments	309	476	871	512
2 Debt Instruments (Including Lending)	-	-	-	-
3 Due from Related Parties	-	-	-	-
<i>Related Party Exposure</i>	309	476	871	512
D CURRENT ASSETS				
1 Stores and Spares	271	172	95	83
2 Inventories				
a. Raw Material	3,757	1,802	1,361	1,196
b. Work in Process	-	58	35	25
c. Finished Goods	-	150	98	121
	3,757	2,009	1,495	1,342
3 Trade Receivables	1,405	1,054	899	718
4 Advances to Suppliers	42	20	5	4
5 Taxes	382	236	257	232
6 Other Current Assets	752	595	98	113
7 Cash and Bank Balances	12	9	15	18
<i>Current Assets</i>	6,622	4,095	2,863	2,510
E TOTAL ASSETS (A+B+C+D)	12,081	9,369	5,566	4,685
F CURRENT LIABILITIES				
1 Trade Payables	130	125	44	39
2 Advances from Customers	-	5	-	-
3 Taxes	-	-	-	-
4 Interest or Markup Payable	139	73	22	9
5 Employee Benefits Fund	-	3	17	29
6 Accrued Liabilities	-	62	66	55
7 Other Current Liabilities	653	557	420	591
8 Dividend Payable	10	8	6	4
<i>Current Liabilities</i>	931	833	574	727
G BORROWINGS				
1 Current Maturity of Long-Term Borrowings	190	85	40	200
2 Short-Term Borrowings	3,287	937	161	-
3 Long-Term Borrowings	2,695	2,735	570	220
4 Debt Instruments	-	-	-	-
<i>Borrowings</i>	6,172	3,757	771	420
H RELATED PARTY EXPOSURE				
1 Borrowings	-	-	-	-
2 Subordinate Borrowings	-	-	-	-
3 Preference Share Capital	-	-	-	-
4 Due to Related Parties	-	-	-	-
<i>Related Party Exposure</i>	-	-	-	-
I NON-CURRENT LIABILITIES				
1 Deferred Taxation	342	263	204	221
2 Other Non-Current Liabilities	-	-	-	-
<i>Non-Current Liabilities</i>	342	263	204	221
J NET ASSETS (E-F-G-H-I)	4,636	4,516	4,017	3,316
K SHAREHOLDERS' EQUITY				
1 Ordinary Share Capital	386	336	296	296
2 Capital Reserves	-	999	545	545
3 Revaluation Reserve				
a. Fixed Assets	-	-	-	-
b. Investments	-	278	708	429
	-	278	708	429
4 Revenue Reserves				
a. General Reserves	-	180	180	180
b. Unappropriated Profit	4,250	2,724	2,287	1,866
<i>Shareholders' Equity</i>	4,250	2,904	2,467	2,046
<i>Check</i>	4,636	4,516	4,017	3,316



The Pakistan Credit Rating Agency Limited

PKR mln

CHERAT PACKAGING LIMITED

STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

A SALES

- 1 Local
- 2 Export
- 3 Sales Tax
- 4 Discount
- 5 Others

Sales

B COST OF GOOD SOLD

- 1 Raw Material
- 2 Salaries, Wages and Benefits
- 3 Energy
- 4 Depreciation and/or Amortization
- 5 Others

Cost of Good Sold

C GROSS PROFIT

D Operating Expenses

- 1 Administrative and General Expenses
- 2 Selling and Marketing Expenses

Operating Expenses

E OPERATING PROFIT

F NON OPERATING INCOME

1 Related Party

- a. Dividend Income
- b. Share of Profit or (Loss)
- c. Return on Lending

Related Party

2 Income or Expense from Financial Assets

- a. Dividend Income
- b. Interest Income
- c. Gain or (loss) on Disposal of Investments
- d. Unrealized Gain or (Loss) on Investments

Income or Expense from Financial Assets

3 Income or Expense from Non-Financial Assets

- a. Profit or (Loss) on Sale of Assets
- b. Rental Income
- c. Surplus or (Deficit) on Revaluation
- d. Exchange Gain or (Loss)
- e. Other Income or (Expense)
- f. Extraordinary Items

Income or Expense from Non-Financial Assets

Non Operating Income

G PROFIT OR (LOSS) BEFORE INTEREST AND TAXES

H TOTAL FINANCE COST

1 Finance Cost

- a. Markup on borrowings
- b. Markup on Borrowings from Related Parties
- c. Dividend on Preference Shares

Finance Cost

2 Other Charges

3 Capitalized Interest

Total Finance Cost

I PROFIT OR (LOSS) BEFORE TAXATION

J Taxation

K NET INCOME OR (LOSS)

L OTHER COMPREHENSIVE INCOME

- 1 Items Potentially Re-classified to Profit & Loss
- 2 Items Not Potentially Re-classified to Profit & Loss

M TOTAL COMPREHENSIVE INCOME OR (LOSS)

N Unappropriated Profit or (Loss) Brought Forward

O Appropriations

- 1 Reserves
- 2 Dividends
 - a. Stock
 - b. Cash

P Unappropriated Profit or (Loss) Carried Forward

Mar-19	Jun-18	Jun-17	Jun-16
9M	12M	12M	12M
Management	Audited	Audited	Audited
5,792	7,947	7,022	7,858
-	305	446	349
-	(1,155)	(1,020)	(1,142)
-	(5)	(4)	(176)
-	-	-	-
5,792	7,092	6,444	6,889
(4,650)	(5,058)	(4,363)	(4,601)
-	(336)	(276)	(231)
-	(170)	(180)	(160)
-	(187)	(142)	(113)
-	(241)	(227)	(201)
(4,650)	(5,993)	(5,187)	(5,307)
1,142	1,098	1,256	1,582
(69)	(75)	(62)	(48)
(89)	(98)	(117)	(85)
(159)	(173)	(179)	(133)
983	925	1,077	1,449
27	22	14	17
-	0	0	0
-	-	-	-
27	22	14	17
-	-	-	-
-	0	0	0
-	-	-	6
-	-	-	-
-	0	0	6
-	7	6	6
-	-	-	-
-	-	-	-
-	-	-	-
(41)	(61)	(61)	(98)
-	-	-	-
(41)	(54)	(55)	(92)
(14)	(31)	(40)	(68)
969	893	1,037	1,381
(334)	(123)	(60)	(71)
-	-	-	-
-	-	-	-
(334)	(123)	(60)	(71)
-	(5)	(4)	(2)
-	-	-	-
(334)	(128)	(64)	(72)
635	765	973	1,308
(84)	(54)	(271)	(390)
551	711	702	919
-	-	-	-
-	-	-	-
551	711	702	919
169	7,230	6,808	6,114
-	-	-	-
-	-	-	-
(263)	(272)	(280)	(225)
(263)	(272)	(280)	(225)
457	7,670	7,230	6,808



The Pakistan Credit Rating Agency Limited

PKR mln

CHERAT PACKAGING LIMITED
STATEMENT OF CASHFLOWS

A CASH FLOWS FROM OPERATING ACTIVITIES

	Mar-19	Jun-18	Jun-17	Jun-16
	9M	12M	12M	12M
	Management	Audited	Audited	Audited
1 Profit Before Tax	635	765	973	1,308
2 Adjustments for:				
a. Depreciation and/or Amortization	212	191	145	115
b. Other Non-Cash Charges or Items	(1)	1	1	(5)
c. Recurring Non Core (Income) or Expense	(19)	(22)	(14)	(17)
d. Total Finance Cost	334	128	64	72
	526	299	196	165
EBITDA	1,161	1,064	1,169	1,473
3 Subtract:				
a. Taxes Paid	(152)	(142)	(276)	(82)
b. Others	-	(0)	(0)	-
Free Cash Flows from Operations (FCFO)	1,009	922	892	1,392
4 Related Parties - Income receipt or (expense paid)	19	22	14	17
5 Other Investments - Income receipt or (expense paid)	-	-	-	-
Total Operating Cash Flows (TCF)	1,029	943	907	1,409
6 Total Finance Cost Paid	(268)	(77)	(51)	(96)
Net Cash from Operating Activities before Working Capital Changes (WCC)	761	866	856	1,312
7 Changes in Working Capital				
a. (Increase) or Decrease in Total Current Assets	(2,377)	(1,092)	(349)	(566)
b. Increase or (Decrease) in Total Current Liabilities (Excl. Borrowings)	31	170	(168)	489
Net Cash provided by Operating Activities	(2,346)	(922)	(517)	(77)
	(1,586)	(56)	339	1,235

B CASH FLOWS FROM INVESTING ACTIVITIES

1 Capital Expenditure	(569)	(3,159)	(317)	(383)
2 Proceeds from sale of Fixed Assets	5	2	1	2
3 (Purchase) or Sale of Investments	-	-	(96)	1
4 Investment or Loan in Related Party	-	-	-	-
5 Others	0	-	-	-
Net Cash (Used in) or Available From Investing Activities	(563)	(3,157)	(412)	(380)

C CASH FLOWS FROM FINANCING ACTIVITIES

1 Proceeds from Issue of Ordinary Shares	-	493	-	283
2 Dividends Paid	(263)	(272)	(280)	(225)
3 Net Increase or (Decrease) in Short Term Borrowings	2,351	775	21	(405)
4 Net Increase or (Decrease) in Long Term Borrowings	65	2,210	330	(500)
5 Net Increase or (Decrease) in Preference Share Capital	-	-	-	-
6 Rentals Against Lease	-	-	-	-
7 Others	-	-	-	-
Net Cash (Used in) or Available From Financing Activities	2,152	3,207	72	(848)

D NET INCREASE OR (DECREASE) IN CASH AND BANK BALANCES

E OPENING BALANCE OF CASH AND BANK BALANCES

F CLOSING BALANCE OF CASH AND BANK BALANCES

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The Pakistan Credit Rating Agency Limited

CHERAT PACKAGING LIMITED
RATIO ANALYSIS

Mar-19	Jun-18	Jun-17	Jun-16
9M	12M	12M	12M
Management	Audited	Audited	Audited

A EARNINGS/PROFITABILITY

- 1 Sales Growth (for the period)
- 2 Gross Profit Margin
- 3 Operating Profit Margin
- 4 Non Operating Income / PBIT
- 5 PBIT Margin
- 6 Effective Tax Rate
- 7 Dividend Cover (X)
- 8 Cash Conversion Efficiency (EBITDA/Sales)
- 9 Cash Conversion Efficiency (FCFO/Sales)
- 10 Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)
- 11 Pre-Tax Return on Equity
- 12 Return on Assets (ROA)

8.9%	10.1%	-6.5%	10.7%
19.7%	15.5%	19.5%	23.0%
17.0%	13.0%	16.7%	21.0%
-1.5%	-3.5%	-3.9%	-4.9%
16.7%	12.6%	16.1%	20.0%
13.2%	7.0%	27.8%	29.8%
2.1	2.6	2.5	4.1
20.0%	15.0%	18.1%	21.4%
17.4%	13.0%	13.8%	20.2%
-23.1%	0.0%	5.8%	19.1%
18.5%	17.9%	26.5%	39.5%
6.9%	9.5%	13.7%	19.6%

DuPont Analysis

- 13 Return on Equity (ROE)
- 14 Net Profit Margin
- 15 Leverage (Total Assets / Equity)
- 16 Asset Turnover (Sales / Total Assets)

16.1%	16.7%	19.1%	27.7%
9.5%	10.0%	10.9%	13.3%
2.3	1.8	1.4	1.4
72.0%	95.0%	125.7%	147.0%

B WORKING CAPITAL MANAGEMENT

- 1 Inventories (Average Days)
 - a. Raw Material (Average Days)
 - b. Work in Process (Average Days)
 - c. Finished Goods (Average Days)
- 2 Trade Receivables (Average Days)
- 3 Gross Working Capital (Average Days)
- 4 Trade Payables (Average Days)
- 5 Net Working Capital (Average Days)
- 6 Short-Term Trade Leverage
- 7 Short-Term Total Leverage
- 8 Current Ratio (Total Current Assets/Total Current Liabilities)

141	90	80	65
131	81	72	63
3	2	2	1
7	6	6	N/A
58	50	46	38
199	140	126	103
6	4	2	2
193	136	124	101
34.3%	65.4%	91.4%	98.1%
36.3%	56.8%	74.3%	71.0%
7.1	4.9	5.0	3.5

C COVERAGES

- 1 EBITDA / Finance Cost
- 2 FCFO / Finance Cost
- 3 FCFO / Finance Cost+CMLTB
- 4 FCFO / Finance Cost+CMLTB+Excess STB
- 5 TCF / Finance Cost+CMLTB+Excess STB
- 6 Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)

3.5	8.6	19.4	20.9
3.0	7.5	14.8	19.7
2.1	4.4	8.9	5.1
2.1	4.4	8.9	5.1
2.2	4.5	9.1	5.2
3.2	3.5	0.7	0.3

D CAPITAL STRUCTURE

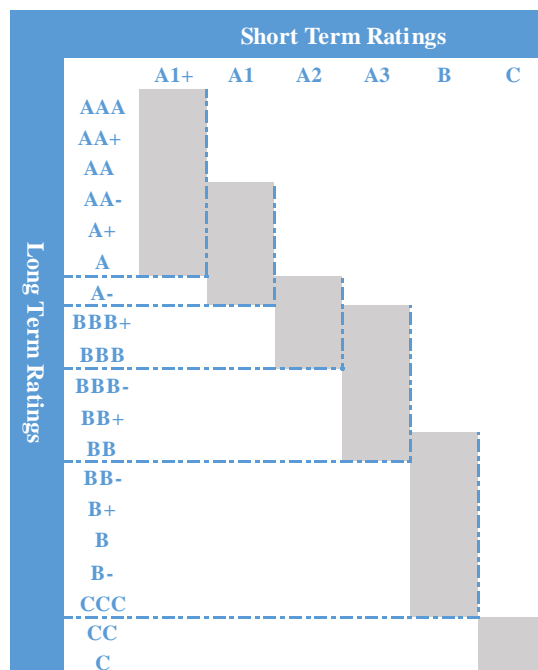
- 1 Total Borrowings / Total Borrowings+Equity
- 2 Total Borrowings / Total Borrowings + Equity (net of Revaluation Reserve)
- 3 Current Borrowings / Total Borrowings
- 4 Interest or Markup Payable (Day)
- 5 Average Borrowing Rate
- 6 Average 6MKIBOR
- 7 Spread over KIBOR

57.1%	45.4%	16.1%	11.2%
57.1%	47.0%	18.9%	12.7%
56.3%	27.2%	26.1%	47.6%
114	215	132	45
9.0%	5.4%	10.1%	16.8%
9.6%	6.4%	6.1%	6.3%
-0.7%	-0.9%	4.0%	10.5%

Credit Rating Scale & Definitions

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 Ratings		Short Term Ratings	
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	A1+	The highest capacity for timely repayment.
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.	A1	A strong capacity for timely repayment.
AA		A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
AA-		A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
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.	B	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
A		C	An inadequate capacity to ensure timely repayment.
A-			
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.		
BBB			
BBB-			
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.		
BB			
BB-			
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.		
B			
B-			
CCC	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.		
CC			
C			
D	Obligations are currently in default.		



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, a) some material identifiable event and/or b) deviation from expected trend. 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 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) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults, or/and f) 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.

Disclaimer: PACRA's ratings are an assessment of the credit standing of entities/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

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)
- (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)

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