The Pakistan Credit Rating Agency Limited

# Rating Report

## Pakistan Aluminium Beverage Cans Limited

**Report Contents**



**Rating History**

| Dissemination Date | Long Term Rating | Short Term Rating | Outlook | Action | Rating Watch |
|---|---|---|---|---|---|
| 24-Nov-2023 | A+ | A1 | Stable | Maintain | - |
| 24-Nov-2022 | A+ | A1 | Stable | Initial | - |

**Rating Rationale and Key Rating Drivers**

Pakistan Aluminium Beverage Cans Limited ("PABC" or the "Company") is the sole producer of aluminium-based beverage cans in Pakistan. The demand for aluminium cans is directly linked to consumption of beverage drinks which is always in increasing trend. The business model of PABC is that of B2B and directly supplies aluminium cans to beverage producers. The high entry barrier and time for installation of the production plant and technical expertise have provided strength to the Company to establish its brand name and capture the entire market share of Pakistan along with the major share of clients in Afghanistan and other countries. The company has established a sound customer base with a strong financial profile thus minimizing the credit risk to a low level. The CEO - Mr. Azam Sakrani has an extensive knowledge of the industry with an overall 30 years of experience and the chairman - Mr. Simon Michael Gwyn Jennings has an overall 40 years of experience in the global can industry. The governance structure is considered strong due to the presence of Board committees and having a sufficient number of board meetings. Furthermore, external auditors are category-A with satisfactory QCR rating. The Company has recently increased its rated production capacity from 700mln cans to 950mln cans p.a. PABC has financed and installed an on-grid solar system as well as fulfilling major energy needs of the Company. Going forward, the Company is in the process of finalizing enhancement of rated capacity to 1,200mln cans p.a. and improve market share for aluminium beverage cans in Pakistan and abroad by adding leading brands to its clientele. The financial risk profile of the Company is considered strong, with sufficient cashflows and a well-managed working capital cycle. During 6MCY23, the Company generated a top line of ~PKR 11,120mln (6MCY22: ~PKR 6,510mln, CY22: ~PKR 14,153mln), showing an increase of ~ 57% in revenue. As a result, during 6MCY23 the Company generated a bottom line of ~PKR 2,714mln (6MCY22: ~PKR 1,577mln, CY22: ~PKR 2,703mln). The Company has availed both short-term financial institutions to finance the import of aluminium-based raw materials and long- term facilities to enhance available capacity. The leveraging of the Company stood at ~33.7% as of Jun'23 (~47.9% as of Jun’22). Being associated with the well-established and stable Liberty Group and Soorty Enterprises bodes well for the rating.

The ratings are dependent on the Company’s ability to sustain its market position and management’s ability to run the operations of the Company optimally. With the upcoming growth in firm’s business & volumes; prudent financial discipline and implementation of a stringent control environment shall remain imperative.

**Disclosure**

| | |
|---|---|
| **Name of Rated Entity** | Pakistan Aluminium Beverage Cans Limited |
| **Type of Relationship** | Solicited |
| **Purpose of the Rating** | Entity Rating |
| **Applicable Criteria** | Methodology \| Corporate Rating(Jul-23),Methodology \| Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology \| Rating Modifiers(Apr-23) |
| **Related Research** | Sector Study \| Paper and Packaging(Nov-22) |
| **Rating Analysts** | Muhammad Atif Chaudhry \| Atif.Chaudhry@pacra.com \| +92-42-35869504 |

## Profile

**Legal Structure** Pakistan Aluminium Beverage Cans Limited (PABC or the “Company”) is a Public Listed Company. The Company got registered in 2014 and started its commercial production in September, 2017 as the first and only aluminum beverage cans manufacturer in Pakistan. The company was subsequently listed on Pakistan Stock Exchange in July-21 under the symbol “PABC”. The company has following certifications: ISO 9001, 2015 QMS, FSSC 22000 (V5.1) Food Safety and PFA License. The company is in process of getting certification of Halal.

**Background** PABC was set up to address a captive customer base, capitalizing on land connectivity of Pakistan, Afghanistan and central Asia. Ashmore Investment Management Limited & Liberty Group joined hands in 2015 to execute the project; while Ashmore divested with listing of the Company in Jul’21.

**Operations** The Company deals in B2B structure and deals with both local and international customers. The production facility is built on a 20.9 acre of land in Special Economic Zone, Faisalabad with a rated capacity to produce 950 million cans per annum, due to which it enjoys 10–year tax holiday under Special Economic Zones Act, 2012. The strategic location of PABC’s plant has been proven to be instrumental in its success, allowing cost advantage due to close proximity of PABC’s plant with key beverage bottlers in Pakistan, Afghanistan and central Asia.

## Ownership

**Ownership Structure** Currently directors and substantial shareholders own 75.62% shares, of which Hamida Salim Mukaty, Zain Ashraf Mukaty, and Soorty Enterprises (Pvt) Ltd holding a stake of 34.61%, 20.99% and 20% respectively.

**Stability** Ms. Hamida Salim Mukaty is part of the Liberty Group and the initiator of SINA healthcare trust. Soorty Enterprises is one of the oldest denim manufacturers in Pakistan having 6.5mln meter/month fabric rated capacity in LEED Platinum Denim Mill.

**Business Acumen** Acumen The owners are mostly business personnel with extensive years of experience from SINA healthcare trust and Soorty enterprises having an average 42 years of business experience.

**Financial Strength** The liberty group has many projects such as: Steel Plant, Hydro, wind and coal Power projects. The Soorty Enterprises has been in industry since last 42 years. The Mukatys and the Soortys having major stake in the Company extends financial benefits in times of need as well.

## Governance

**Board Structure** The BoD of PABC comprises of 7 members with chairman as non-executive director. There are a total of four non-executive directors, two independent directors and one executive director as the CEO. The board structure is fully compliant as per CCG guidelines including one female director in the board as well.

**Members’ Profile** The CEO - Mr. Azam Sakrani has overall 30 years of experience and Chairman – Mr. Simon Michael Gwyn Jennings has 40 years of experience. Mr. Asad Shahid Soorty as a non-executive member is also part of Audit committee. Ms. Hamida Salim Mukaty represents the board as a non-executive director. The overall average experience of the board is 21 years.

**Board Effectiveness** The Board met five times during CY22 and four times during HY23, with the majority attendance to discuss pertinent matters. The minutes of the meetings are documented properly. To ensure effective governance, the Board has formed two committees, namely, (i) Audit and Risk Committee (ii) Human Resource and Remuneration Committee Both committees are chaired by independent directors.

**Financial Transparency** PABC appoints Kreston Hyder Bhimji & Company Chartered Accountants (Category-A Auditor as per SBP and Satisfactory QCR-Rating) as external auditor. The Company discloses an adequate amount of information in notes of annual reports as required for all listed companies.

## Management

**Organizational Structure** The Company has established a well-defined management structure divided into functional departments with clear lines of responsibilities.

**Management Team** The CEO - Mr. Azam Sakrani has an overall 30 years of experience. The CFO – Mr. Asad Zaidi has an overall experience of 20 years. The Company Secretary - Mr. Sohail Akhtar Gogal has an overall experience of 19 years and have been associated with the group for past 1 years. The General Manager/Controller Plant – Mr. Mohamed Moustafa has an overall experience of 26 years and been associated with the company for past 3 years. Head of Internal Audit – Mr. Obaid-Ur-Rehman has an overall experience of 10 years and been associated with the Company for past 5 years.

**Effectiveness** The experience of the sponsors along with a professional management team has helped the Company to streamline their operations and cut down on their costs. There are two committees. The audit and risk committee headed by Independent directors.

**MIS** The Company has outsourced SAP Business One Module as Management Information System which is adequate for normal business processes.

**Control Environment** The annual accounts are audited for opinion by the external auditors appointed. Independent Internal audit function is established that is led by the Head of Internal Audit and reports directly to audit committee and board of directors of the company as per CCG guidelines.

## Business Risk

**Industry Dynamics** Pakistan’s packaging industry consists of four major segments, paper, plastic, tinplate and glass. PABC operates under tinplate/Cans segment of the industry. The demand of this segment is directly correlated with canned beverages production. Most of the segment’s direct costs consist of imported raw materials. Therefore, volatility in exchange rates and international price trends has a significant impact on costs.

**Relative Position** PABC is the only producer of Aluminium Beverage Cans in Pakistan and solely fulfills all the local demand.

**Revenues** The Company’s top line shows an increasing trend due to increase in sale price but the increase in prices of products has impacted demand. Though, an industry-wide volumetric decrease in sales has been reported the selling prices have absorbed the impact to much extent. During 6MCY23, the Company generated a top line of ~PKR 11,120mln (6MCY22: ~PKR 6,510mln, CY22: ~PKR 14,153mln, CY21: ~PKR 7,230mln), showing an increase of ~ 57% in revenue.

**Margins** In 6MCY23, the gross margin and operating profit margin both increased as compared to 6MCY22. The GP margin increased from ~ 35.6% in 6MCY22 to ~ 39.6% in 6MCY23 (CY22: ~33.4%, CY21: ~35.5%) while the OP margin increased from ~ 27.2% in 6MCY22 to ~ 30.7% in 6MCY23. As result, the net profit margin of the Company increased from ~ 24.2% in 6MCY22 to ~ 24.4% in 6MCY23 (CY22: ~19.1%, CY21: ~21.8%).

**Sustainability** Cash conversion efficiency stood at 27.9% at 1HCY23 as compared to 32.0% in 1HCY22. Return on assets and return on equity of the company stood at 31.9% and 65.9% respectively at end Jun’23. (Jun'22: 23.6% and 60.2%). Asset turnover for the company was 130.9% as of Jun’23 showing efficient structure.

## Financial Risk

**Working Capital** The Company has reduced the working capital requirement by efficiently managing the inventory and reducing receivable days by collecting sales in advance. At end 6MCY23 the Company’s net inventory days decreased to ~71 days from ~82 days in CY22 The inventory days are high because PABC has imported raw materials in huge quantities due to the rise in raw material prices and currency rate fluctuations. Meanwhile, trade receivable days also decreased to ~19 days from ~20 days during the same period. During 6MCY23 the trade payable days increased to ~26 days from ~25 days during CY22. Consequently, the Company’s net working capital days decreased to ~64 days during 6MCY23 from ~76 days at the end of CY22.

**Coverages** In 6MCY23, the Company’s FCFOs stood at ~PKR 3,098mln increasing from ~PKR 2,086mln in 6MCY22 (CY22: ~PKR 4,050mln, CY21: ~PKR 2,240mln). But during 6MCY23, FCFO/Finance cost stood at ~ 10.8x decreased from ~ 12.0x of coverage during 6MCY22 (CY22: ~11.3x, CY21: ~9.4x) due to a significant increase in the finance cost. The finance cost stood at ~PKR 328mln increased from ~PKR 198mln (CY22: ~PKR 409mln, CY21: ~PKR 277mln); however, this is still a healthy coverage level for the Company.

**Capitalization** At the end of 6MCY23 the long-term borrowing has decreased to ~PKR 1,644mln from ~PKR 2,891mln end-CY22 (end-CY21: ~PKR 2,639mln) and the fixed assets increased to ~PKR 7,604mln from ~PKR 6,964mln end-CY22 because the CAPEX being financed from internal cashflows currently. While the short-term borrowing has increased to ~PKR 2,890mln from ~PKR 1,490mln during the same period (end-CY21: ~PKR 2,251mln). Consequently, at the end of 6MCY23, the total borrowing has decreased to ~PKR 4,883mln from ~PKR 4,951mln at the end of CY22 (end-CY21: ~PKR 5,458mln). The long-term liabilities are ~17% of equity at the end of 6MCY23 (CY22: ~42%, CY21: ~56%). Its gearing ratio has decreased from ~41.8% at the end of CY22 to ~33.7% at the end of 6MCY23 due to a decrease in total borrowings, while it has remained at ~53.6% in CY21.

*Financial Summary*
*PKR mln*

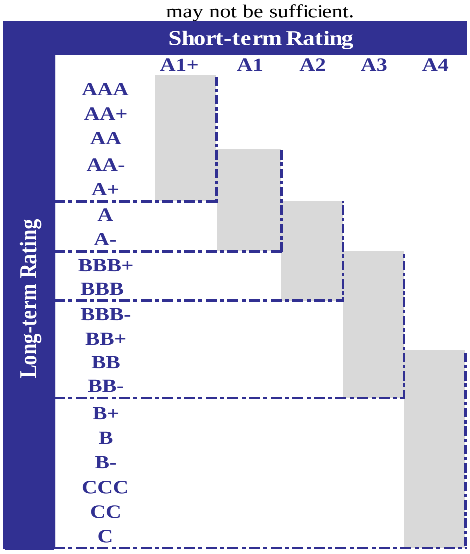
| Pakistan Aluminium Beverage Cans Limited | Jun-23 | Dec-22 | Jun-22 | Dec-21 | Dec-20 |
|---|---|---|---|---|---|
| Paper and Packaging | 6M | 12M | 6M | 12M | 12M |
| **BALANCE SHEET** | | | | | |
| 1 Non-Current Assets | 7,604 | 6,964 | 7,142 | 6,677 | 6,092 |
| 2 Investments | 100 | 100 | - | - | - |
| 3 Related Party Exposure | - | - | 12 | 1 | 7 |
| 4 Current Assets | 10,925 | 8,293 | 7,405 | 5,489 | 2,705 |
| *a Inventories* | *4,542* | *4,098* | *1,656* | *2,253* | *1,594* |
| *b Trade Receivables* | *1,385* | *957* | *1,336* | *561* | *442* |
| **5 Total Assets** | 18,629 | 15,358 | 14,560 | 12,167 | 8,805 |
| 6 Current Liabilities | 3,289 | 2,743 | 2,915 | 1,442 | 604 |
| *a Trade Payables* | *1,755* | *1,429* | *1,167* | *539* | *334* |
| 7 Borrowings | 4,883 | 4,951 | 5,290 | 5,458 | 4,550 |
| 8 Related Party Exposure | - | - | - | - | - |
| 9 Non-Current Liabilities | 861 | 781 | 599 | 547 | 507 |
| **10 Net Assets** | 9,596 | 6,882 | 5,756 | 4,721 | 3,144 |
| **11 Shareholders' Equity** | 9,596 | 6,882 | 5,756 | 4,721 | 3,144 |
| **INCOME STATEMENT** | | | | | |
| **1 Sales** | 11,120 | 14,153 | 6,510 | 7,230 | 5,084 |
| *a Cost of Good Sold* | *(6,714)* | *(9,425)* | *(4,191)* | *(4,665)* | *(3,542)* |
| **2 Gross Profit** | 4,406 | 4,728 | 2,319 | 2,565 | 1,542 |
| *a Operating Expenses* | (997) | (874) | (275) | (324) | (246) |
| **3 Operating Profit** | 3,410 | 3,854 | 2,043 | 2,241 | 1,296 |
| *a Non Operating Income or (Expense)* | *(150)* | *(314)* | *(161)* | *(392)* | *(174)* |
| **4 Profit or (Loss) before Interest and Tax** | 3,260 | 3,540 | 1,883 | 1,849 | 1,121 |
| *a Total Finance Cost* | *(328)* | *(409)* | *(198)* | *(277)* | *(423)* |
| *b Taxation* | *(219)* | *(429)* | *(108)* | *5* | *(87)* |
| **6 Net Income Or (Loss)** | 2,714 | 2,703 | 1,577 | 1,577 | 611 |
| **CASH FLOW STATEMENT** | | | | | |
| *a Free Cash Flows from Operations (FCFO)* | *3,098* | *4,050* | *2,086* | *2,240* | *1,501* |
| *b Net Cash from Operating Activities before Working Capital Changes* | *2,786* | *3,602* | *1,821* | *1,887* | *1,058* |
| *c Changes in Working Capital* | *848* | *(2,961)* | *(659)* | *(79)* | *(353)* |
| **1 Net Cash provided by Operating Activities** | 3,634 | 641 | 1,162 | 1,808 | 705 |
| **2 Net Cash (Used in) or Available From Investing Activities** | (1,970) | (794) | (715) | (865) | (39) |
| **3 Net Cash (Used in) or Available From Financing Activities** | (1,468) | (288) | 48 | (113) | 14 |
| **4 Net Cash generated or (Used) during the period** | 196 | (442) | 495 | 830 | 681 |
| **RATIO ANALYSIS** | | | | | |
| **1 Performance** | | | | | |
| *a Sales Growth (for the period)* | 57.1% | 95.8% | 80.1% | 42.2% | 5.7% |
| *b Gross Profit Margin* | 39.6% | 33.4% | 35.6% | 35.5% | 30.3% |
| *c Net Profit Margin* | 24.4% | 19.1% | 24.2% | 21.8% | 12.0% |
| *d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)* | 35.5% | 7.7% | 21.9% | 29.9% | 22.6% |
| *e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/Sh* | 65.9% | 46.6% | 60.2% | 40.1% | 21.5% |
| **2 Working Capital Management** | | | | | |
| *a Gross Working Capital (Average Days)* | 90 | 101 | 81 | 122 | 131 |
| *b Net Working Capital (Average Days)* | 64 | 76 | 57 | 100 | 113 |
| *c Current Ratio (Current Assets / Current Liabilities)* | 3.3 | 3.0 | 2.5 | 3.8 | 4.5 |
| **3 Coverages** | | | | | |
| *a EBITDA / Finance Cost* | 12.0 | 10.9 | 12.1 | 9.4 | 4.0 |
| *b FCFO / Finance Cost+CMLTB+Excess STB* | 6.7 | 4.4 | 4.6 | 2.8 | 1.8 |
| *c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)* | 0.4 | 0.9 | 1.0 | 1.6 | 3.0 |
| **4 Capital Structure** | | | | | |
| *a Total Borrowings / (Total Borrowings+Shareholders' Equity)* | 33.7% | 41.8% | 47.9% | 53.6% | 59.1% |
| *b Interest or Markup Payable (Days)* | 71.2 | 98.2 | 68.8 | 57.4 | 35.8 |
| *c Entity Average Borrowing Rate* | 11.1% | 6.8% | 6.6% | 4.8% | 7.6% |

## 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 | 17-(a)
(19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(b)
(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 17-(c)
(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument;| Chapter III | 17-(d)
**Probability of Default**
(22) PACRA´s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e., probability). PACRA´s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA´s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past; | Chapter III | 14-3(f)(vii)
**Proprietary Information**