The Pakistan Credit Rating Agency Limited

ATTOCK REFINERY LIMITED (ARL)

	NEW [JUN-17]	PREVIOUS [OCT-16]
Entity		
Long Term	AA	AA
Short Term	A1+	A1+
Outlook	Stable	Stable

REPORT CONTENTS

1. RATING ANALYSES
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JUNE 2017

Profile

- ARL's refining capacity after the completion of expansion project (pre-flash) has reached to 53,400 bpd (previous: 43,000 bpd). ARL is part of the country's only integrated oil sector group – Attock Group (AG). AG, through AOC (62%) and its group company Attock Petroleum Limited (APL) [1.6%] retains the majority stake (63%), and management control in ARL.
- **Governance & Management**
- ARL's Board of Directors comprises seven members. Out of these, six are representatives of AG - family - while the remaining one is independent director. During the year, Wael G. Pharon has been replaced by Mr. Mofarrih Saeed H. Alghamdi. The Chairman of the BoD, Mr. Shuaib A. Malik, is also CEO of Attock Oil Group.
- Mr. Adil Khattak, the CEO, has extensive experience in the petroleum sector. He is supported by an experienced management team which has demonstrated stability over time.

Performance

- During 9MFY17, the company witnessed a significant increase in its revenue by 49% on a YoY basis. This was primarily on account of low production last year due to the tie in connectivity of the new units.
- The favorable trend of the international oil prices alongwith the increased volume of the high margin products helped in improving the margins during the period resulting in an improvement in the refinery's operating performance. .
- The company's expenses slightly increased on a YoY basis. The interest income observed an upsurge in comparison to previous year due to sizeable cash placements.
- The company's finance cost increased on a YoY basis in-line with the incremental borrowing related to up-gradation projects. The sizeable dividend income continued to support the overall performance. ARL reported healthy increase in its profitability on a YoY basis PKR 3,389 mln (Mar-16: PKR 1,278 mln).

Projects

- ARL, has successfully completed its up-gradation and expansion projects: a) Pre-Flash Unit - enhance refining capacity by 10,400bpd. b) Isomerization Unit – enhance production of PMG; its share in the overall product slate have enhanced from 18% to 26%. Meanwhile, the share of Naphtha, have reduced from 23% to 14% c) Diesel Hydrosulphurization Project - achieve desulphurization of High Speed Diesel (HSD) to meet EURO II emission standards, and d) Power Generation - addition of 18 MW to power generation capacity.

Working Capital & Cash Flow

ARL enjoys favorable credit terms with its suppliers. This enables the company to effectively manage its working capital needs. During the period, ARL's cash cycle largely remained at the same level in comparison to previous year.

- ARL's cash flow generation ability remains a function of its profitability and working capital requirements. During the period, improved performance resulted in healthy cash flows for the company on a YoY basis. The increased quantum of debt repayments owing to the long-term debt has exerted pressure on coverage's. However, the comfort can be drawn from a sizeable cash balance (Mar17: PKR 23,322mln) available to the company.

Capital Structure

- The company's equity base stand at PKR 36bln at end Mar-17. After procuring the debt for the expansion projects, the debt/ (debt + equity) ratio of the company stood at 35% as at end 9MFY17.

  Debt procured from the consortium of banks would be repaid in 13 years – 40 equal quarterly payments – with 03 years of grace period. After the delay in the commissioning of the projects the revised timeline for the commencing of the principal repayments is 2HFY17. The price is 3M K plus 1.7%. The company has procured ~PKR 20bln as at end-March17.
- The repayment of the long term loan acquired for the up gradation has started with the effect from April 14, 2017. The company has, made a prepayment of PKR 1 bln.

RATING RATIONALE

The ratings reflect ARL's very strong risk absorption capacity emanating from sizable equity base. ARL's core business remains exposed to the vicissitude of international crude oil and refined product margins. Herein, ARL's product slate with large contribution of high margin products provides comfort. At the same time, ARL's strategic investments and sizable bank placements continue to provide risk absorption capacity and a stable source of income. The ratings encapsulate ARL's sizable debt for ongoing projects. The company has completed its up gradation (Isomerization and DHDS) and expansion (Pre Flash) projects. Moreover, as a result of up gradation and in-house Research & Development (R&D), the company has started producing RON 90 PMG. Subsequently the company has started benefiting from incremental cash flows. The improved performance translating into incremental cash flows provides the room for accelerated debt repayments, supplementing the company's financial profile. The company's association with the country's only integrated oil group - Attock Group (AG), low leveraged - remains a source of comfort for the ratings.

Key Rating Drivers

The ratings remain dependent on ARL's ability to effectively shield its business profile from volatility in international oil prices. ARL's financial profile, in turn, its ratings, could be negatively impacted from persistent downturn in refining margins, or un-expected drop in dividend stream. The continuity of deemed duty on Diesel is crucial.

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Attock Refinery Limited
BALANCE SHEET - CUMULATIVE

	31-Mar-17	30-Jun-16	31-Mar-16	30-Jun-15
	Cumulative 9MFY17	*Cumulative* Annual	*Cumulative* 9MFY16	*Cumulative* Annual
A NON-CURRENT ASSETS				
Operating Fixed Assets - Owned and Leasehold	34,424	34,882	34,012	31,485
Intangible Assets	-	-	-	-
Other Non-Current Assets	1,843	759	815	583
Non-Current Assets	**36,267**	**35,641**	**34,828**	**32,068**
B INVESTMENTS				
Associates / Subsidiaries				
a. Equity	13,265	13,265	13,265	13,265
b. Debt Securities / Loans	-	-	-	-
	13,265	13,265	13,265	13,265
Investment Property	-	-	-	-
Other Investments				
a. Equity Securities	-	-	-	-
b. Debt Securities	-	-	-	-
	-	-	-	-
Investments	**13,265**	**13,265**	**13,265**	**13,265**
C CURRENT ASSETS				
Stores and Spares	1,916	1,815	1,363	2,009
Inventories				
Raw Material	2,290	2,201	1,792	2,430
Work in Process	595	572	564	765
Finished Goods	4,095	3,935	2,492	3,378
	6,981	6,708	4,849	6,574
Trade Receivables	11,266	6,889	11,108	15,654
Other Current Assets	1,647	1,617	175	239
Cash and Bank Balances	23,322	9,683	8,645	10,695
Current Assets	**45,132**	**26,713**	**26,139**	**35,170**
D TOTAL ASSETS (A+B+C)	**94,664**	**75,618**	**74,231**	**80,503**
E CURRENT LIABILITIES				
Current Maturity of Long Term Debt	2,200	550	-	550
Short Term Borrowings	-	-	-	-
Trade Payables	20,432	14,405	14,148	23,144
Other Current Liabilities	12,810	8,905	7,484	9,001
Provision for Taxation	3,893	3,955	4,144	3,866
Dividend Payable	9	-	8	6
Current Liabilities	**39,344**	**27,815**	**25,784**	**36,568**
F NON-CURRENT LIABILITIES				
Borrowings	19,168	14,613	14,770	11,109
Due to Associates	-	-	-	-
Other Non-Current Liabilities	-	-	-	-
Non-Current Liabilities	**19,168**	**14,613**	**14,770**	**11,109**
G NET ASSETS (D-E-F)	**36,152**	**33,190**	**33,678**	**32,826**
H SHAREHOLDERS' EQUITY				
Ordinary Share Capital	853	853	853	853
Preference Share Capital	-	-	-	-
Share Premium Account	-	-	-	-
Revaluation Reserve				
a. Fixed Assets	10,812	10,812	10,812	10,812
b. Investments	3,763	3,763	3,763	3,763
	14,575	14,575	14,575	14,575
Revenue Reserves	11,027	9,462	9,461	9,461
Unappropriated Profit	9,698	8,301	8,789	7,937
Shareholders' Equity	**36,152**	**33,190**	**33,678**	**32,826**

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Attock Refinery Limited
PROFIT & LOSS ACCOUNT- CUMULATIVE
For the period ending

		31-Mar-17	30-Jun-16	31-Mar-16	30-Jun-15
		Cumulative	*Cumulative*	*Cumulative*	*Cumulative*
A	**Turnover**	**73,853**	**66,565**	**49,566**	**128,905**
	Local	-	-	-	-
	Export	-	-	-	-
	Sales Excise Duty & Commissions	-	-	-	-
B	**Operating Costs**	(72,650)	(67,467)	(49,827)	(128,352)
C	**Gross Profit**	**1,203**	**(902)**	**(261)**	**553**
D	**Operating Expenses**				
	Administrative and General Expenses	(433)	(521)	(372)	(493)
	Selling and Marketing Expenses	(34)	(51)	(36)	(46)
		(467)	(571)	(408)	(539)
E	**Operating Profit / (Loss)**	**736**	**(1,473)**	**(669)**	**14**
F	**Other Income / Expenses**				
	Recurring Non-Core				
	Dividend from Associates	1,714	1,520	1,481	1,409
	Share of Profit/ (Loss) from Associates	-	-	-	-
	Dividend Income from Investments	-	-	-	-
	Rental Income	-	-	-	-
	Interest Income	785	710	534	1,142
		2,499	2,230	2,015	2,551
G	**Profit / (Loss) before Non-Recurring Impact**	**3,235**	**757**	**1,346**	**2,565**
	Non-Recurring Non-Core				
	Profit/(Loss) on Sale of Assets	-	(6)	-	4
	Profit/(Loss) on Sale of Investments	-	-	-	-
	Surplus / (Deficit) on revaluation	-	-	-	-
	Exchange Gain (Loss)	18	92	52	98
	Other Income/(Expense)	118	125	161	122
	Extraordinary Items	-	-	-	-
		136	211	213	224
H	**Profit / (Loss) before Financial Charges**	**3,371**	**968**	**1,559**	**2,789**
I	**Financial Charges**				
	Interest Expense				
	Gross Interest	(815)	(157)	(226)	(413)
	Interest Capitalized	-	-	-	-
		(815)	(157)	(226)	(413)
J	**Profit / (Loss) before Taxation**	2,556	811	1,333	2,376
K	**Taxation**	834	5	55	(562)
L	**Net Income / (Loss)**	3,389	816	1,388	1,814
M	**Unappropriated Profit/(Loss) Brought Forward**	8,301	7,937	7,937	6,528
		11,690	8,754	9,325	8,342
N	**Adjustments (+/-)**	-	(26)	(536)	(146)
O	**Available for Appropriation**	11,690	8,727	8,789	8,196
P	**Appropriations**				
	Reserves	(1,992)	(426)	-	(259)
	Dividends				
	a. Stock	-	-	-	-
	b. Cash	-	-	-	-
	c. Preference	-	-	-	-
		-	-	-	-
Q	**Effect of change in Accounting Policy (+/-)**				
R	**Unappropriated Profit Carried Forward**	**9,698**	**8,301**	**8,789**	**7,937**

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Attock Refinery Limited

CASH FLOW STATEMENT- CUMULATIVE

For the period ending

	31-Mar-17	30-Jun-16	31-Mar-16	30-Jun-15
	Cumulative	*Cumulative*	*Cumulative*	*Cumulative*
A CASH FLOWS FROM OPERATING ACTIVITIES				
Profit Before Tax	2,556	811	1,333	2,376
Adjustments for:				
a. Depreciation/Amortization	1,424	152	107	142
b. Adjustments for other Non-Cash Charges/Items	(18)	(530)	4,973	(536)
c. Recurring non core (income)/expense	-	(1,520)	(1,413)	(1,409)
Add back:				
a. Interest Expense/(Income)	30	(553)	(308)	(728)
EBITDA	**3,993**	**(1,639)**	**4,692**	**(156)**
Subtract:				
a. Taxes paid	(408)	(445)	(190)	(2,667)
b. Others (+/-)	(886)	-	-	-
Free Cash Flows from Operations (FCFO)	2,698	(2,084)	4,502	(2,822)
Recurring non core income/(expense) from Subsidiaries/Associates	2,024	1,769	2,196	1,669
Recurring non core income/(expense) from Other Investments	573	546	-	1,052
Total Operating Cash Flows (TCF)	5,295	231	6,698	(102)
Interest paid	(989)	(1,319)	(1,088)	(600)
Net Cash from Operating Activities before Working Capital Changes (WCC)	4,306	(1,088)	5,610	(702)
Changes in Working Capital				
a. (Increase)/Decrease in Current Assets	(509)	482	7,537	1,380
b. Increase/(Decrease) in Current Liabilities (Excl. Debt)	5,110	(363)	(11,123)	1,941
	4,601	119	(3,586)	3,321
Net Cash provided by Operating Activities	**8,906**	**(969)**	**2,024**	**2,619**
B CASH FLOWS FROM INVESTING ACTIVITIES				
Capital Expenditure	(896)	(2,492)	(1,887)	(14,559)
Proceeds from sale of Fixed Assets	6	6	5	6
(Purchase)/Sale of Investments	-	-	-	-
Investment/Loan in Subsidiary/Associated Companies	-	-	-	-
Others	(3)	(2)	(1)	(1)
Net Cash (Used in)/Available From Investing Activities	**(893)**	**(2,488)**	**(1,882)**	**(14,553)**
C CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from Issue of Ordinary Shares	-	-	-	-
Dividends Paid	(382)	(426)	(425)	(0)
Net increase (decrease) in short term borrowings	-	-	-	-
Net increase (decrease) in long term borrowings	6,240	3,650	3,250	11,375
Net increase (decrease) in preference share capital	-	-	-	-
Rentals against finance lease	-	-	-	-
Others (+/-)	(995)	(17)	(14)	(14)
Net Cash (Used in)/Available From Financing Activities	**4,862**	**3,207**	**2,811**	**11,361**
D Non recurring/unusual and non core (expense) income	-	1	-	1
E NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALEN	**12,876**	**(249)**	**2,953**	**(572)**
F OPENING BALANCE OF CASH AND CASH EQUIVALENTS	10,446	10,695	10,695	11,267
G CLOSING BALANCE OF CASH AND CASH EQUIVALENTS	**23,322**	**10,446**	**13,648**	**10,695**

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Attock Refinery Limited

RATIO ANALYSIS- CUMULATIVE

For the period ending	31-Mar-17	30-Jun-16	31-Mar-16	30-Jun-15
	Cumulative	*Cumulative Annual*	*Cumulative*	*Cumulative Annual*
A EARNINGS/PROFITABILITY				
Turnover (PKR mln)	*73,853*	*66,565*	*49,566*	*128,905*
Turnover Growth (same period last year)	49.0%	-48.4%	-51.6%	-26.4%
Turnover Growth (for the period)	n.a		n.a	
Gross Margin	1.6%	-1.4%	-0.5%	0.4%
Operating Margin	1.0%	-2.2%	-1.4%	0.0%
Pre-Tax Profit Margin	3.5%	1.2%	2.7%	1.8%
Effective Tax Rate	-32.6%	-0.6%	-4.1%	23.6%
Pre-Tax Return on Equity	9.5%	2.5%	5.3%	7.3%
Return on Assets (ROA)	4.9%	1.1%	2.3%	2.3%
Net Non-core Income (Expenses) / Net Income	77.7%	299.1%	160.6%	153.0%
Non-core non-recurring Income (Expenses) / Net Income	4.0%	25.9%	15.3%	12.4%
Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	9.9%	-3.0%	1.8%	0.4%
Cash Conversion Efficiency (FCFO/Sales)	3.7%	-3.1%	9.1%	-2.2%
Dividend Cover (X)	0.0	0.0	0.0	0.0
DuPont Analysis				
Return on Equity (ROE)	12.9%	2.5%	5.8%	5.7%
Net Profit Margin	4.6%	1.2%	2.8%	1.4%
Leverage (Total Assets / Equity)	2.6	2.3	2.2	2.5
Asset Turnover (Sales / Average Total Average Assets)	1.1	0.9	1.5	1.7
B WORKING CAPITAL MANAGEMENT				
Average Inventory Held (Days)	33	33	16	22
a) Average Raw Material Held (Days)	11	12	6	7
b) Average WIP (Days)	4	4	2	2
c) Average Finished Goods Held (Days)	18	17	8	12
Average Trade Debtors (Days)	76	78	40	45
Average Trade Creditors (Days)	110	111	57	66
Net Working Capital Days	(1)	0.05	(1)	0.31
Short-term Trade Leverage (1- (STB)/ Net Trade Assets OR (Liabilities))	100%	100%	100%	100%
Short-term Total Leverage (Net Current Assets - STB) / Current Assets	52%	64%	52%	55%
Current Ratio (Total Current Assets/Total Current Liabilities excluding CMLTD)	2.5	2.8	2.9	2.2
C COVERAGES				
EBITDA/Gross Interest	4.9	(10.4)	20.7	(0.4)
FCFO/Gross Interest	3.3	(13.3)	19.9	(6.8)
FCFO/Gross Interest+CMLTD	1.1	(2.9)	19.9	(2.9)
D CAPITAL STRUCTURE				
Total Debt/Total Debt+Equity	35.3%	31.4%	0.0%	26.2%
Total Debt/Total Debt+Equity(net of rev. surplus)	86.3%	43.2%	0.0%	39.0%
Current Debt/Total Debt	0.0%	0.0%	0.2%	4.7%
Average Borrowing Rate	0.5%	-1.7%	0.0%	5.3%
Average 6MKIBOR	6.2%	6.7%	6.2%	10.2%
Spread over KIBOR	-5.7%	-8.4%	-6.2%	-4.9%

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

AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments.
AA+ AA 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+ A 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+ BBB 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+ BB 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+ B 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 CC 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 RATINGS

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 conditions.

B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.

C: An inadequate capacity to ensure timely repayment.

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 surveill the opinion due to lack of requisite information

Regulatory and Supplementary Disclosure

Rated Entity

Name of Rated Entity Attock Refinery Limited (ARL)
Sector Refining
Type of Relationship Solicited

Purpose of the Rating Independent Risk Assessment
Regulatory Requirement

Rating History

Dissemination Date	Long Term	Short Term	Outlook	Action
23-Jun-17	AA	A1+	Stable	Maintain
13-Oct-16	AA	A1+	Stable	Maintain
13-Oct-15	AA	A1+	Stable	Maintain
20-Nov-14	AA	A1+	Stable	Maintain
07-Oct-13	AA	A1+	Stable	Maintain
19-Oct-12	AA	A1+	Stable	Maintain
7-Sep-11	AA	A1+	Stable	Maintain
6-Oct-09	AA	A1+	Stable	Maintain

Related Criteria and Research

Rating Methodology Corporate Rating Methodology
Research Refining Sector Review - 2017

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Rating Team Statement

Rating Procedure
Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.

Disclaimer

Rating Shopping
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The analysts and members of the rating committees including the external member members have disclosed all the conflict of interest, including those of their family members, if any, to the Compliance Officer PACRA
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PACRA ensures that the credit rating assigned to an entity or instrument should 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

Surveillance
PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the rated entity/ issuer, the security arrangement, the industry etc, is disseminated to the market, in a timely and effective manner, after appropriate consultation with the entity/issuer
PACRA reviews all the outstanding ratings on annual basis or as and when required by any stakeholder (including creditor) or upon the occurrence of such an event which requires to do so
PACRA initiates immediate review of the outstanding rating(s) upon becoming aware of any information that may be reasonable be expected to result in any change (including downgrade) in the rating

Reporting of Misconduct
PACRA has framed and implemented whistle-blower policy encouraging all employees to intimate the compliance officer any unethical practice or misconduct relating to the credit rating by another employees of the company that came to his/her knowledge. The Compliance Officer reports to the BoD and SECP

Confidentiality
PACRA has framed a confidentiality policy to prevent abuse of the non-public information by its employees and other persons involved in the rating process, sharing and dissemination of the non-public information by such persons to outside parties
Where feasible and appropriate, prior to issuing or revising a rating, PACRA informs the issuer of the critical information and principal considerations upon which a rating will be based and provide the opportunity to clarify any likely factual misperception or other matter that PACRA would wish to be made aware of in order to produce a fair rating. PACRA duly evaluates the response. Where in a particular circumstance PACRA has not informed the entity/issuer prior to issuing or revising a rating, it informs the entity/issuer as soon as practical thereafter

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Probability of Default (PD)

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