The Pakistan Credit Rating Agency Limited

# Rating Report

## Etimaad Engineering (Pvt.) Limited

**Report Contents**



**Rating History**

| Dissemination Date | Long Term Rating | Short Term Rating | Outlook | Action | Rating Watch |
|---|---|---|---|---|---|
| 19-Aug-2024 | A- | A2 | Stable | Maintain | - |
| 24-Aug-2023 | A- | A2 | Stable | Maintain | - |
| 26-Aug-2022 | A- | A2 | Stable | Upgrade | - |
| 26-Aug-2021 | BBB+ | A2 | Stable | Upgrade | - |
| 03-Mar-2021 | BBB | A2 | Stable | Maintain | - |
| 03-Mar-2020 | BBB | A2 | Stable | Upgrade | - |
| 15-Nov-2019 | BBB- | A3 | Stable | Maintain | - |
| 16-May-2019 | BBB- | A3 | Stable | Maintain | - |
| 28-Dec-2018 | BBB- | A3 | Stable | Maintain | - |

### Rating Rationale and Key Rating Drivers

The ratings demonstrate Etimaad Engineering (Pvt.) Limited (“the Company” or “Etimaad”) strength, emanating mainly from its sustained operational history. Etimaad has delivered multiple, private infrastructure projects specifically in Oil and Power sector, on standalone basis as well as in collaboration with different JV partners with completion spanned over several years. The pipeline is good; therein for the sake of sustainable long-term growth, management follows a balanced approach aiming to gain more share in different lines of businesses. The strength of the business is evident in its esteemed clientele, which includes some of the prominent names in the industry. The entity is following a pyramid strategy; the top being mega projects (EPC), followed by construction and lastly maintenance related projects. Overhead cost being successfully covered with the re-occurring nature of O&M Contracts. The construction industry’s business risk profile in general, and specifically development in oil and power sector, is considered high due to its cyclical nature, volatile economic environment, low investments, along with exit of few blue-chip companies (multinational and local) from Pakistan. Resultantly, leading to capsizing of industry wide revenues. The sector also faces a significant cost overrun risk due to the inflationary pressure. However, the Company follows a conservative approach towards procurement of material while being involved in construction services. Hence hedging the fluctuation in raw material prices. Consequently, posting a limited topline. The margins of the Company showed resilience against the challenging environment and remain consistent with previous periods. The equity base of the Company is decent reported to PKR 1,763mln as of 9MFY24 with a moderately leverage financial profile - 26% in 9MFY24 (FY23: Approx. 25%), of which a major portion consist of short-term borrowings. Being an integral part of the business model, the Company also availed non-funded lines from banks in the form of guarantees. To capitalize geographical opportunities, Etimaad is strategically expanding into the Middle East and has established its first subsidiary in the KSA. To navigate the complexities of this new market and ensure a successful entry, the Company has collaborated with established local partners. Once fully operational, the subsidiary is expected to significantly boost the Company's future revenue. This strategic move will, along with regional diversification, hedge the local uncertainties posed by the challenging economic environment, including currency devaluation, import restrictions and others. Further Etimaad is also shifting its focus towards oil-based government lead projects. This will enable the Company to maintain a sound project pipeline and drive sustained long-term growth.

The ratings are dependent on the sustainability of the business and its financial structure; sustaining a steady revenue stream and financial risk profile. Financial risk metrics need to be upheld along with successful award of projects under bidding stage, specifically the execution of geographical expansion, are crucial for growth.

**Disclosure**

| | |
|---|---|
| **Name of Rated Entity** | Etimaad Engineering (Pvt.) Limited |
| **Type of Relationship** | Solicited |
| **Purpose of the Rating** | Entity Rating |
| **Applicable Criteria** | Methodology \| Rating Modifiers(Apr-24),Methodology \| Corporate Rating(Jul-24),Methodology \| Correlation Between Long-term & Short-term Rating Scales(Jul-24) |
| **Related Research** | Sector Study \| Construction(Apr-24) |
| **Rating Analysts** | Ali Arslan Malik \| Ali.Arslan@pacra.com \| +92-42-35869504 |

## Profile

**Legal Structure** Etimaad Engineering Private Limited (Etimaad), was incorporated in Pakistan under the repealed Companies Ordinance, 1984 as a private limited company on May 11, 2007.

**Background** Etimaad was established by a team of professionals from Descon Engineering Limited who are also the shareholders of the Company. Over the years, the sponsors have established similar businesses mainly in Saudi Arabia (subsidiary) and Qatar (associate). In 2014, Etimaad had to divest its share in Arabian Etimaad Industrial Company, for an amount of SAR 5mln (PKR 133mln), due to geopolitical tensions at Yemen border and turmoil in oil prices. The Company has completed various projects in Pakistan and overseas.

**Operations** The Company is principally engaged in engineering, procurement, manufacturing, construction and project management activities.

## Ownership

**Ownership Structure** Mr. Mazharuddin Ansari's family directly own 37.4%, Mr. Farooq Hussain Mughal 26.9%, Mr. Mohammad Sohail Shafique 25.6% and others 10.1% stake in Etimaad.

**Stability** The experienced professionals of the company providing expertise and exposure to operate efficiently as one of the leading company in Pakistan.

**Business Acumen** The sponsors have rich industry experience and have worthy knowledge of various aspects of engineering industry.

**Financial Strength** The sponsors have an adequate financial profile. Although there is no explicit commitment, but key sponsor's support to Etimaad is demonstrated as they have provided personal guarantees to secure loans and guarantees from FIs.

## Governance

**Board Structure** The Company's board comprises only two members including the Chairman – Mr. Mohammad Sohail Shafique, and President & CEO – Mr. Farooq Hussain Mughal.

**Members' Profile** Mr. Mohammad Sohail Shafique, the Chairman, has more than two decades of experience in renowned organizations. He is an Engineer by profession and alumni of UET Lahore.

**Board Effectiveness** The Company being a private company does not comply with code of corporate governance. Both of the board members carry executive roles in the management of the Company. To provide desired challenge to the management's decisions and strengthen overall governance framework, representation of independent director is important.

**Financial Transparency** Grant Thortan Anjum Rehman, Chartered Accountants, is the external auditor of the Company. The auditor gave an unqualified opinion on the Company's financial statements for the year ended June 30, 2023, audit of FY24 is in process.

## Management

**Organizational Structure** There are a large number of reporting lines reporting in to CEO. Although this may limit strategic focus, support from senior executive members and Chairman, provides comfort.

**Management Team** Mr. Farooq Hussain Mughal, the President & CEO, is finance professional and associated with Etimaad since its inception. Previously he worked as CFO in Etimaad before he elevated to the position of President & CEO in FY15. He is supported by an able and competent team of professionals.

**Effectiveness** Majority of senior management has long ties with Descon Engineering Limited in the past. Project related hiring occurs as per the project's need; therefore Etimaad tries to recruit suitable technicians and proletariat. Syed Abrar Ali Khan, the Vice President of Etimaad, is appointed to strengthen the business development. Previously, Mr. Khan served as GM Descon-UAE Business Area.

**MIS** The Company has an integrated financial, cost control and project management system to smooth sail the business processes from initiation to close and feedback phases. The ERP system includes modules on (i) ETest – Bid preparation, (ii) Primavera P6- Scheduling, monitoring the project and generation of reports, (iii) Tanseeb – Mtrix software linked to ETest to execute project activities and monitors the actual progress, (iv) ETFin- Financial management system integrated with ETest and Primavera, (v) EOffice - facilitates company-wide information sharing.

**Control Environment** The EPC industry is always prone to Quality, Health, Safety and Environmental (QHSE) issues. Therefore, Etimaad complies with applicable laws and relevant industry standards.

## Business Risk

**Industry Dynamics** The Construction sector is classified under the Industrial Activities segment of the economy. In 2QFY24, the sector experienced a negative growth of ~17.6% (2QFY23: ~-5.0%; 1QFY24: ~0.7%). In 1QFY24, the sector contributed ~11.5% in Industrial Activities (1QFY23: ~12.1%) and ~2.7% to GDP (at current prices) (1QFY23: ~2.7%). This decline was attributed to factors like increases in input prices and wages, higher borrowing cost, and slower growth in development spending. Hike in material prices are influenced by high energy prices (both cement and steel manufacturing are energy-intensive processes). Massive PKR devaluation (~39.0% YoY) and SBP-imposed import restrictions also affect the sector.

**Relative Position** Etimaad's target market comprises of projects related to thermal and renewable power, fertilizer, oil & gas, chemical and petrochemical, cement, steel and other large-scale industrial units. Etimaad continue it's focused approach through generating business from private sector and multinational corporations. In this domain, Etimaad is a preferred contractor for executing projects involving civil, mechanical, electrical & instrumentation works, long term operations, maintenance, shutdown and retrofit services. However, the market share of the Company remains minimal.

**Revenues** During 9MFY24, the revenue of the Company reported a growth of ~7% (on annualized basis) owing to the projects awarded and executed during said period and also with the sharp increase in the cost of raw material which translates significantly into the revenues. This shows the strength of Etimaad that despite adverse business and economic indicators the Company has managed to continued the growth pattern.

**Margins** Given the challenging economic environment and highly competitive nature of the industry, the Company was able to improved gross margins at 23.7% during 9MFY24 (FY23: 22.2%) due to higher revenue contribution. PBIT margins also improved as compare to FY23 and stood at 16% from 13.6%. However, net margins of the Company decrease to 2.4% (FY23: 3.0%) was because of an increase in finance cost to PKR 125mln (FY23: PKR 108mln). In 9MFY24, increased topline translated into a bottom line of PKR 34mln (FY23: PKR 53mln).

**Sustainability** Etimaad's management envisage sustainable footing in the market by planning to move to capital market instead of money market for financing needs in near future. The performance of the Company rests with projects in hand and timely completion. The healthy pipeline; therein for the sake of sustainable long term growth, management follows a balanced approach aiming to gain more share in different lines of businesses.

## Financial Risk

**Working Capital** The working capital of the Etimaad's is mainly supported by short term borrowings and internal cash. During 9MFY23, Etimaad's net working capital cycle days slightly increased and stoods at 225days (FY23: 212days) owing to increase in inventories days. To fulfill the needs of working capital, Company has availed short term borrowings from various financial institutions worth PKR 427mln in 9MFY24 (FY23: PKR 386mln; FY22: PKR 232mln).

**Coverages** During 9MFY24, Etimaad's free cash flows (FCFO) denotes performance stability, and improved with a growth of ~14% to PKR 221mln (FY23: PKR 259mln; FY22: PKR 215mln). Despite the increase in cash flows Company's core debt coverage deteriorated as compared to FY23 (2.5x) and stands at 1.9x on account of increase in short-term borrowings.

**Capitalization** Etimaad has adequately managed its leveraged capital structure. During 9MFY24, debt was PKR 612mln (FY23: PKR 577mln) increased mainly due to short-term borrowings. Short-term borrowings stood ~70% of the total debt. Debt to debt plus equity ratio stands at 25.8% at end-Mar'24 and effectively managed since FY20 (33%). However, due to limited cash flows, the loans are jointly secured by sponsors' guarantees.

*PKR mln*

| Etimaad Engineering (Pvt.) Limited | Mar-24 | Jun-23 | Jun-22 | Jun-21 |
|---|---|---|---|---|
| Construction | 9M | 12M | 12M | 12M |
| **A BALANCE SHEET** | | | | |
| 1 Non-Current Assets | 1,054 | 1,155 | 1,270 | 846 |
| 2 Investments | - | - | - | - |
| 3 Related Party Exposure | 3 | 7 | 7 | 7 |
| 4 Current Assets | 1,990 | 2,004 | 1,725 | 1,362 |
| *a Inventories* | *887* | *967* | *601* | *556* |
| *b Trade Receivables* | *384* | *520* | *374* | *281* |
| **5 Total Assets** | 3,047 | 3,166 | 3,002 | 2,215 |
| 6 Current Liabilities | 637 | 793 | 627 | 485 |
| *a Trade Payables* | *201* | *242* | *176* | *161* |
| 7 Borrowings | 612 | 577 | 629 | 543 |
| 8 Related Party Exposure | - | - | - | - |
| 9 Non-Current Liabilities | 36 | 32 | 27 | 30 |
| **10 Net Assets** | 1,763 | 1,763 | 1,718 | 1,156 |
| **11 Shareholders' Equity** | 1,763 | 1,763 | 1,718 | 1,156 |
| **B INCOME STATEMENT** | | | | |
| **1 Sales** | 1,410 | 1,757 | 1,660 | 1,301 |
| *a Cost of Good Sold* | *(1,075)* | *(1,367)* | *(1,302)* | *(1,014)* |
| **2 Gross Profit** | 334 | 390 | 358 | 288 |
| *a Operating Expenses* | (117) | (107) | (130) | (103) |
| **3 Operating Profit** | 218 | 283 | 228 | 185 |
| *a Non Operating Income or (Expense)* | *8* | *(44)* | *12* | *14* |
| **4 Profit or (Loss) before Interest and Tax** | 225 | 238 | 240 | 199 |
| *a Total Finance Cost* | *(125)* | *(108)* | *(70)* | *(60)* |
| *b Taxation* | *(66)* | *(77)* | *(71)* | *(73)* |
| **6 Net Income Or (Loss)** | 34 | 53 | 99 | 66 |
| **C CASH FLOW STATEMENT** | | | | |
| *a Free Cash Flows from Operations (FCFO)* | *221* | *259* | *215* | *188* |
| *b Net Cash from Operating Activities before Working Capital Changes* | *112* | *170* | *146* | *143* |
| *c Changes in Working Capital* | *(92)* | *(149)* | *(82)* | *(232)* |
| **1 Net Cash provided by Operating Activities** | 20 | 22 | 64 | (88) |
| **2 Net Cash (Used in) or Available From Investing Activities** | 33 | 20 | (26) | (15) |
| **3 Net Cash (Used in) or Available From Financing Activities** | (0) | (65) | 8 | 47 |
| **4 Net Cash generated or (Used) during the period** | 52 | (24) | 46 | (57) |
| **D RATIO ANALYSIS** | | | | |
| **1 Performance** | | | | |
| *a Sales Growth (for the period)* | 7.0% | 5.9% | 27.5% | 4.3% |
| *b Gross Profit Margin* | 23.7% | 22.2% | 21.5% | 22.1% |
| *c Net Profit Margin* | 2.4% | 3.0% | 6.0% | 5.1% |
| *d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)* | 9.2% | 6.3% | 8.0% | -3.4% |
| *e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/Sh* | 2.6% | 3.1% | 6.9% | 5.9% |
| **2 Working Capital Management** | | | | |
| *a Gross Working Capital (Average Days)* | 268 | 256 | 199 | 228 |
| *b Net Working Capital (Average Days)* | 225 | 212 | 162 | 160 |
| *c Current Ratio (Current Assets / Current Liabilities)* | 3.1 | 2.5 | 2.8 | 2.8 |
| **3 Coverages** | | | | |
| *a EBITDA / Finance Cost* | 2.6 | 3.3 | 6.1 | 4.7 |
| *b FCFO / Finance Cost+CMLTB+Excess STB* | 1.3 | 1.3 | 0.8 | 0.7 |
| *c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)* | 1.4 | 1.2 | 2.4 | 3.9 |
| **4 Capital Structure** | | | | |
| *a Total Borrowings / (Total Borrowings+Shareholders' Equity)* | 25.8% | 24.7% | 26.8% | 32.0% |
| *b Interest or Markup Payable (Days)* | 96.9 | 94.7 | 54.1 | 39.7 |
| *c Entity Average Borrowing Rate* | 27.3% | 17.0% | 8.7% | 9.6% |

**Credit Rating**

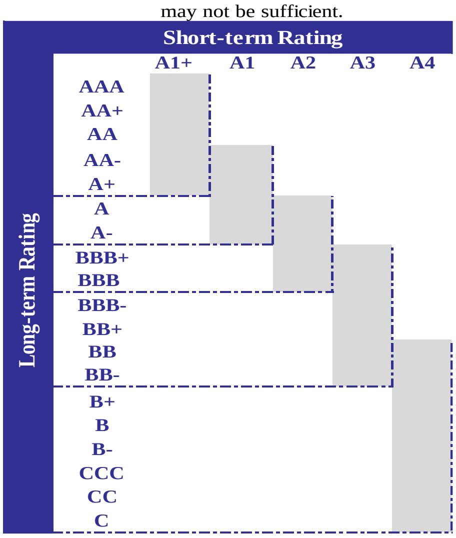
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

**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**

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(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)

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