



The Pakistan Credit Rating Agency Limited

## Rating Report

### Pioneer Cement 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
25-Jun-2021	A	A2	Negative	Maintain	-
29-Jun-2020	A	A2	Negative	Downgrade	-
27-Sep-2019	A	A1	Negative	Maintain	-
29-Mar-2019	A	A1	Stable	Maintain	-
18-Dec-2018	A	A1	Stable	Maintain	-
07-May-2018	A	A1	Stable	Maintain	-
28-Dec-2017	A	A1	Stable	Maintain	-
21-Jun-2017	A	A1	Stable	Maintain	-
02-Nov-2016	A	A1	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

Pioneer Cement operates with three manufacturing lines, in north region. In 2HFY21, the Company picked up pace and recover its losses to report profits that also in line with the cement industry trend. With induction of line III having a capacity of 10,000 tpd, the total capacity has enhanced to 17,300 tpd. 12MW WHRPP and 24MW coal power plant as a part of the expansion plan have become operational since Nov2020. Cement sector announced third phase of expansion which is expected to increase with more players joining the lane. Furthermore, remarkable growth in local demand, curtailed policy rates and better cement prices giving the required supporting environment to flourish. Growth in local capacity utilization depicts the sector's resilience to the impacts amid country wide lock down observed due to COVID-19 outbreak. Though construction sector began operations and high demand from private sector has been seen. Significant increase in sales has been observed along with Company's margins. During 9MFY21 Pioneer Cement recorded Gross profit of PKR 2.6bln against a gross loss of PKR 103mln in FY20. The ratings reflect the squeezed financial profile of the company. This emanates from the high leveraging scale, as a result of the expansion related debt. Coverages have been improved as the FCFO's showed a significant improvement in 3QFY21. Going further as the debt repayment has started, an installment of PKR 1.8bln is due in June21 will further ease out the stressed leveraged structure the The Company's business performance with local demand remains vital with focus on sustaining margins. Optimal capacity utilization and adequate channeling of volumes from new line are necessary to support financial risk profile.

The ratings captures the strains in the financial profile. It is important to (i) improve equity base in line with the enhanced leveraging, ii) cash flows generation iii) margins, and (ii) optimal utilization of existing and new lines. Timely repayment of mark up and principal is essential for the ratings.

#### Disclosure

<b>Name of Rated Entity</b>	Pioneer Cement Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Corporate Ratings(Jun-20),Methodology   Correlation Between Long-Term And Short-Term Rating Scale(Jun-20),Criteria   Rating Modifier(Jun-20)
<b>Related Research</b>	Sector Study   Cement(Mar-21)
<b>Rating Analysts</b>	Bazah Tul Qamar   bazahtul.qamar@pacra.com   +92-42-35869504

## Profile

**Legal Structure** Pioneer Cement is a listed Company with its shares traded on Pakistan Stock Exchange Limited (PSX). The Company's shares are quoted under the Cement Sector.

**Background** Pioneer Cement was incorporated in 1986. It is headquartered in Lahore, Pakistan and the manufacturing facility is located at Chenki-District Khushab. Its location in central Punjab allows easy and fast approach to market. The main markets of the company are adjoining areas of Punjab and Khyber-Pakhtunkhwa. Pioneer operates with three production lines having a combined capacity of 17,300 tpd (CoD: Line I - 1994, Line II - 2006, Line III - 2021).

**Operations** Pioneer Cement is engaged in the manufacturing and sale of Ordinary Portland Cement. The company has a limited product slate and currently it is selling Ordinary Portland Cement (OPC).

## Ownership

**Ownership Structure** Vision Holding Middle East Limited (VHME) is an offshore SPV of Vision Holding Trust (VHT). VHME holds majority stake (47%) in Pioneer Cement and remaining shares of the company are held by various financial institutions and general public.

**Stability** Ownership structure of the Company is seen as stable as no ownership changes are expected in near future. Majority stake will rest with the Vision Holding Middle East Limited (VHME).

**Business Acumen** Vision holding trust is 100% owned by Mr. Habibullah Khan – a renowned foreign entrepreneur. Apart from Cement, trust maintains interest in several sectors. The sponsors having a diversifiable universe of investments is considered to be a positive sign.

**Financial Strength** Given that Pioneer is a flagship entity of the sponsor, willingness to support the company in case the needs arises is considered high; also supplemented by access to capital markets.

## Governance

**Board Structure** The overall control of the company vests in eight member board of directors (BoD), including the CEO and three independent directors. Syed Mazher Iqbal is appointed as Chief Executive Officer of the Company by the Board of Director in place of Mr. Sajid Feroze w.e.f June 01, 2021.

**Members' Profile** Board members carry requisite technical skills which is abetted by diversified professional background of board members. Board meeting minutes are formally maintained and the attendance is considered good which bodes well for overall governance framework of the company.

**Board Effectiveness** The board has two committees to oversee the company's financial matters. These committees include: 1) Audit, and 2) Human Resource & Remuneration (HR&R). This is in compliance with the Code of Corporate Governance.

**Financial Transparency** M/s EY Ford Rhodes Chartered Accountants conducted the external audit services for Pioneer. They're in a 'A' category of SBP list of external auditors and has a QCR rating. They have expressed unqualified opinion on the half yearly financial statements for the year ended December 31, 2021

## Management

**Organizational Structure** Pioneer Cement has a lean organization structure with the company's operations grouped under nine key functions. These include i) Administration, ii) Corporate Affairs, iii) Finance, iv) Human Resource, v) Information Technology, vi) Marketing, vii) Operations, viii) Supply Chain and ix) Internal Audit. All functional heads report to the CEO except for internal audit, which reports directly to the Audit committee of the board (in compliance with the requirement of law for listed companies).

**Management Team** Syed Mazher Iqbal is appointed as Chief Executive Officer of the Company by the Board of Director in place of Mr. Sajid Feroze w.e.f June 01, 2021.

**Effectiveness** The CEO is supported by experienced professionals at key management positions having a long-term association with the company.

**MIS** Pioneer has deployed an oracle based ERP solution. The company's current operational modules include i) Inventory, ii) Purchasing, iii) Payables, iv) Receivables, v) Cash Management, vi) Fixed Assets, vii) General Ledger, and viii) Order Management

**Control Environment** Pioneer's plant comprises of three lines wherein, Line I is a European technology (FLSmidth), and Line II is a mix of European and Chinese technology. Accredited with ISO 9001: 2008 and ISO 14001:2004 certification, Pioneer deploys advance technology to ensure production of quality cement.

## Business Risk

**Industry Dynamics** As per prime bifurcation of Cement industry into North & South, majority concentration lies in North region. Currently, cement industry is on revival path after the downward tendency in reported dispatches' during FY20. First half of FY20 witnessed high general inflation, rising utility prices and tight fiscal consolidation affecting the purchasing power of people and second half was effected due to outbreak of Covid-19 pandemic. However, it is worth mentioning that Cement Industry managed to survive this bumpy ride and induced growth in reported dispatches' by 1.98% for FY20. Cement industry is entering into new phase of capacity expansion. Industry's leveraging has however increased on the back of new expansions. Going forward - with full capacity utilization - supply glut and pressurized cement prices would remain challenging for cement players. Cement demand is expected to accelerate on the account of various PSDP funded projects including dams, civil construction projects and public developmental projects, as Govt. has finally laid down the action plan to its announced pursuit for infrastructure.

**Relative Position** Pioneer Cement is a mid-tier cement player, operating in north region. The company has operational cement capacity of 4.5mln tons per annum with existing market share of 6.5% in the north region.

**Revenues** During 9MFY21, the company recorded revenue of PKR 15.6bln (9MFY20: PKR 5.9bln), showing a huge increase Yoy. Sales mix remained tilted towards local market due to low demand from export avenues and secured margins in local market. Cost of sales for the period under review has increased in line with revenues. This increase is directly attributable to the hike in fuel & power and paper prices in international market. Other income surged upto PKR 239mln (9MFY20: PKR 47mln). During the nine months of the FY 2021, local sale volumes surged to 2,500,276 tons, registering growth of 120.6% whereas 12,222 tons cement was sold overseas cumulating to total dispatches of 2,512,498 tons; growth of 119.3%.

**Margins** On account of the above, gross margins for the current period under review witnessed a tremendous growth to arrive at Rs. 1,139.2 million (12.2% of net sales) in comparison to corresponding period trivial amount of Rs. 45 million (1.1% of net sales). The surge in production and sales volumes after commissioning of brownfield capacity expansion project has yielded economies of scale by reducing the Company's overall fixed cost per ton. During the period PAT stood at PKR 1.3bln against a loss of PKR 679mln in 9MFY20.

**Sustainability** The Company is also exploring new profitable export markets to augment more margins to the bottom line. After signs of recovery of hung-up industrial activity around the globe due to COVID-19, fuel prices are on an upward trend. The production line with an annual clinker capacity of 2.4mln tons has become operational since Jan21 with a capacity utilization of 78% till date. In addition to this, coal based power plant (24MW) and WHRP has also become operational from Nov20.

## Financial Risk

**Working Capital** Working capital requirements represented by net cash cycle (net working capital days) – a function of inventory, receivables and payables – increased to negative 16days (FY20: -42days). Cash cycle decreased on account of increase in payable days (9MFY21: 51days; FY20: 124days). The requirements were met through a mix of internal cash generation and short term borrowings. As at end-Mar21, STBs stood at PKR 4.3bln (FY20: PKR 5.8bln) following decreasing trend attributable to stretched payable days.

**Coverages** In 9MFY21, pioneer's profitability has elevated. FCFO stood at PKR 2.8bln (FY20: PKR -113mln). On account of acquisition of long term finance for projects (capacity expansion, coal fired power plant and WHRPP); finance cost has increased.

**Capitalization** Pioneer, after acquiring debt financing for its plant up gradation, (9MFY21: PKR 21.1bln 'syndicated line of credit') has become a highly leveraged company (9MFY19: 65.3%, FY20: 67.3%). Hence, timely repayment of debt will remain vital for the ratings.



Pioneer Cement Ltd Infrastructure	Mar-21 9M	Jun-20 12M	Jun-19 12M	Jun-18 12M
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**A BALANCE SHEET**

1 Non-Current Assets	43,063	41,623	36,164	22,962
2 Investments	1,024	827	812	1,086
3 Related Party Exposure	-	-	-	-
4 Current Assets	6,793	6,584	5,302	5,064
a Inventories	515	418	326	470
b Trade Receivables	1,261	974	483	434
<b>5 Total Assets</b>	<b>50,879</b>	<b>49,035</b>	<b>42,277</b>	<b>29,111</b>
6 Current Liabilities	6,866	6,249	3,092	1,636
a Trade Payables	3,207	2,657	1,601	868
7 Borrowings	26,939	26,514	21,452	10,705
8 Related Party Exposure	200	500	-	-
9 Non-Current Liabilities	2,453	2,643	4,412	3,141
<b>10 Net Assets</b>	<b>14,421</b>	<b>13,128</b>	<b>13,321</b>	<b>13,629</b>
<b>11 Shareholders' Equity</b>	<b>14,421</b>	<b>13,128</b>	<b>13,321</b>	<b>13,629</b>

**B INCOME STATEMENT**

1 Sales	15,641	6,287	9,734	10,121
a Cost of Good Sold	(12,952)	(6,390)	(7,599)	(7,311)
<b>2 Gross Profit</b>	<b>2,689</b>	<b>(103)</b>	<b>2,135</b>	<b>2,811</b>
a Operating Expenses	(196)	(361)	(325)	(264)
<b>3 Operating Profit</b>	<b>2,493</b>	<b>(464)</b>	<b>1,809</b>	<b>2,546</b>
a Non Operating Income or (Expense)	142	102	(215)	(239)
<b>4 Profit or (Loss) before Interest and Tax</b>	<b>2,635</b>	<b>(363)</b>	<b>1,594</b>	<b>2,308</b>
a Total Finance Cost	(1,328)	(393)	(271)	(95)
b Taxation	(14)	546	(533)	(569)
<b>6 Net Income Or (Loss)</b>	<b>1,293</b>	<b>(210)</b>	<b>790</b>	<b>1,644</b>

**C CASH FLOW STATEMENT**

a Free Cash Flows from Operations (FCFO)	2,862	(113)	1,863	1,521
b Net Cash from Operating Activities before Working Capital Changes	1,119	(194)	2,068	1,325
c Changes in Working Capital	1,045	638	1,422	254
<b>1 Net Cash provided by Operating Activities</b>	<b>2,164</b>	<b>444</b>	<b>3,490</b>	<b>1,579</b>
<b>2 Net Cash (Used in) or Available From Investing Activities</b>	<b>(2,142)</b>	<b>(5,854)</b>	<b>(13,591)</b>	<b>(9,051)</b>
<b>3 Net Cash (Used in) or Available From Financing Activities</b>	<b>122</b>	<b>5,566</b>	<b>9,819</b>	<b>7,656</b>
<b>4 Net Cash generated or (Used) during the period</b>	<b>145</b>	<b>155</b>	<b>(282)</b>	<b>184</b>

**D RATIO ANALYSIS**

<b>1 Performance</b>				
a Sales Growth (for the period)	231.7%	-35.4%	-3.8%	-4.8%
b Gross Profit Margin	17.2%	-1.6%	21.9%	27.8%
c Net Profit Margin	8.3%	-3.3%	8.1%	16.2%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sale)	25.0%	8.3%	33.7%	17.5%
e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets	12.2%	-1.7%	7.0%	15.0%
<b>2 Working Capital Management</b>				
a Gross Working Capital (Average Days)	35	81	45	35
b Net Working Capital (Average Days)	-16	-42	-2	16
c Current Ratio (Current Assets / Current Liabilities)	1.0	1.1	1.7	3.1
<b>3 Coverages</b>				
a EBITDA / Finance Cost	2.5	0.2	9.4	34.9
b FCFO / Finance Cost+CMLTB+Excess STB	0.4	0.0	0.5	3.3
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	12.7	-51.8	11.5	5.8
<b>4 Capital Structure</b>				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	65.3%	67.3%	61.7%	44.0%
b Interest or Markup Payable (Days)	116.2	915.7	0.0	0.0
c Entity Average Borrowing Rate	6.5%	1.6%	1.5%	1.7%

**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.

Scale	Long-term Rating Definition
AAA	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	<b>Very high credit quality.</b> 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.
AA-	
A+	
A	<b>High credit quality.</b> 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.
A-	
BBB+	
BBB	<b>Good credit quality.</b> 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-	
BB+	<b>Moderate risk.</b> 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+	
B	<b>High credit risk.</b> 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-	
CCC	
CC	<b>Very high credit risk.</b> 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.
C	
D	Obligations are currently in default.

Scale	Short-term Rating 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 conditions.
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 surveil 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):

<p><b>Entities</b></p> <ul style="list-style-type: none"> <li>a) Broker Entity Rating</li> <li>b) Corporate Rating</li> <li>c) Financial Institution Rating</li> <li>d) Holding Company Rating</li> <li>e) Independent Power Producer Rating</li> <li>f) Microfinance Institution Rating</li> <li>g) Non-Banking Finance Companies (NBFCs) Rating</li> </ul>	<p><b>Instruments</b></p> <ul style="list-style-type: none"> <li>a) Basel III Compliant Debt Instrument Rating</li> <li>b) Debt Instrument Rating</li> <li>c) Sukuk Rating</li> </ul>
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### **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)
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- (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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