



The Pakistan Credit Rating Agency Limited

## Rating Report

### Engro PowerGen Thar (Pvt.) 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
23-Sep-2021	AA-	A1	Stable	Maintain	-
25-Sep-2020	AA-	A1	Stable	Upgrade	-
29-Oct-2019	A	A1	Stable	Maintain	-
29-Apr-2019	A	A1	Stable	Maintain	-
27-Dec-2018	A	A1	Stable	Maintain	-
27-Jun-2018	A	A1	Stable	Maintain	-
22-Dec-2017	A	A1	Stable	Maintain	-
21-Jun-2017	A	A1	Stable	Maintain	-
30-Dec-2016	A	A1	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

Engro Energy Limited (EEL) along with China Machinery & Engineering Corporation (CMEC) has set up first Thar coal based (2 x 330 MW) power plant (Complex) - Engro Powergen Thar (Pvt.) Limited (EPTL). Since its COD in July'19, EPTL is running its operations smoothly and sustainably and achieving operational benchmarks. The primary fuel is Thar Coal; however, the plant can accommodate imported coal. A 30-year coal supply agreement is signed with Sindh Engro Coal Mining Company (SECMC), which is operating a coal mine in Thar Block-II. The coal mine's COD was July-19. Company's both units were successfully connected to and are providing electricity to the grid. During the period from Jan'21 to June'21 company provided ~2,052GWh of electricity to the national grid and recorded sales revenue of PKR ~37,866mln along with Net Profit (N.P) of PKR 7,004mln in 1HCY21 (1HCY20: N.P ~PKR 6,651mln). The financial strength and experience in the energy chain of the sponsoring companies – EEL and CMEC – is positive to the ratings. EPTL has built its own financial strengths in a short span of time by adding to its equity base, consistent profitability and improved FCFOs support the timely repayment of debt and its leveraging as at end June'21: 70.5% (End Dec'20: 74.5%). Curtailed policy rates support the bottom line of the company and help to improve the coverage to stand at 3.8x in 1HCY21 (CY20: 3.1x). Company reported FCFO of PKR ~12,877mln as at end June'21 and have strong cash base of PKR ~16,323mln. Strong cash position and un-utilized short term borrowing lines depicts healthy financial position of the company. The onshore EPC contract is with CERIECO and offshore EPC contract is with CMEC. Comfort is drawn from the experience of these contractors and the involvement of Pakistan and Chinese governments, as this project comes under CPEC. Going forward, the Company's main focus would be to keep the plant operational. Power purchase agreement is with CPPA-G, which will, upon plant's availability as per contract, provide capacity payments even if no off take by power purchaser. The Government of Pakistan has given payment guarantee against dues from CPPA-G. The business risk of the company is mitigated as the company has successfully produced electricity on the specifications of Thar coal, which is being used for the first time. Furthermore, the use of CFB Boiler by the Company largely covers the risk of varying lignite quality.

The management's ability to effectively manage EPC risks and COD provides comfort. Trend in operational profitability would bode well for rating. The availability of Thar Coal is critical. External factors such as any changes in the regulatory framework may impact the ratings.

#### Disclosure

<b>Name of Rated Entity</b>	Engro PowerGen Thar (Pvt.) Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Independent Power Producer Rating(Jun-21),Criteria   Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria   Rating Modifiers(Jun-21)
<b>Related Research</b>	Sector Study   Power(Jan-21)
<b>Rating Analysts</b>	Saadat Mirza   saadat.mirza@pacra.com   +92-42-35869504

## Profile

**Plant** Engro PowerGen Thar (Pvt.) Limited is operating 2 x 330 MW Coal-based Power Plant. The Company is a special purpose vehicle under Engro Energy Limited (EEL). The project, which comes under the CPEC corridor is the first indigenous coal based Power Plant of Pakistan in Thar Block-II, Sindh.

**Tariff** EPTL has been provided a levelized tariff of 8.5015 US¢ per KWh. The tariff is indexed to the Pakistan Rupee-US Dollar exchange rate, Pakistan CPI inflation, LIBOR, KIBOR and US CPI inflation. Principal and interest repayments, ROE, Insurance, Fixed and Variable O&M costs are part of the escalable (adjustable) component.

**Return On Project** EPTL's key source of earnings would be the revenue generated through sale of electricity to the Power Purchaser, CPPA-G. The IRR of the project, as agreed with NEPRA, is 20%. The ROE of the project is at 30.65%.

## Ownership

**Ownership Structure** EPTL's majority ordinary shares are owned by Engro Energy Limited (EEL) (50.1%) and China Machinery Engineering Company (CMEC) (35%). The remaining stake is owned by Habib Bank Limited (HBL) (9.5%) and Liberty Mills Limited (LML) (5.4%). Additionally, Preference shares equivalent to USD 85mln all are subscribed by CMEC.

**Stability** Stability in the IPPs is drawn from the agreements signed between the company and power purchaser. However, Company's association with Engro group, China Manufacturing & Engineering Company and Habib Bank Limited will continue to provide comfort.

**Business Acumen** Sponsor groups have significant experience in the power, coal mining, textile, banking and engineering contracting solutions and services.

**Financial Strength** Company's sponsors have the ability and showed the willingness to support the entity both on a continuing basis, and support in times of crisis. Additionally, the financial strength of the sponsors is considered strong as the sponsors have well diversified profitable businesses.

## Governance

**Board Structure** EPTL's Board of Directors (BoD) comprises nine members, including the CEO. Five members represent EEL including CEO, three CMEC and one HBL. The board members have diverse experience from different industries.

**Members' Profile** The board members have diversified experience with CEO having experience of the company. Mr. Ahsan Zafar Syed is the Chairman of BoD with over 22 years of professional experience in different functions and designations.

**Board Effectiveness** The BOD has two sub-committees called Audit committee and Board Compensation Committee.

**Financial Transparency** A.F Ferguson & Co. is the external auditor of the company. The auditor has given an unqualified opinion on the financial statements year ending as at 31st December 2020.

## Management

**Organizational Structure** IPPs are generally featured by a flat organizational structure, mainly comprising finance and technical staff, while the engineering, construction and operations of the plant are outsourced.

**Management Team** The management team is headed by Mr. Syed Manzoor Hussain Zaidi appointed as CEO on 1st August 2019. Mr. Manzoor is associated with Engro group since 2014. He has over ten years of experience as an Investment Banker before joining Engro Powergen Thar (Pvt) Limited as General Manager in 2014. He played a vital role in achieving the Financial Close of EPTL in 2016. The CFO and the GM-Technical report to the CEO.

**Effectiveness** The management of EPTL is mostly engaged in the finance related activities. The operations and maintenance of the plant have been outsourced to O&M contractor, Engro Energy Services Limited, which is a 100% owned subsidiary of Engro Energy Limited for a period of 5 years.

**Control Environment** The company maintains an adequate MIS which helps management to keep track of all operations and liaison with O&M operator.

## Operational Risk

**Power Purchase Agreement** The electricity generated will be sold to Central Power Purchasing Agency - (CPPA-G) under a 30 year Power Purchase Agreement (PPA). Further, the obligations of the power purchaser are guaranteed by the Government of Pakistan. Moreover, a stable revenue stream is also ensured through the minimum guaranteed capacity charge (the component of the tariff received irrespective of electricity production).

**Operation And Maintenance** EPTL has an O&M contract with Engro Energy Services Limited which is a 100% owned subsidiary of Engro Energy Limited for a period of 5 years. The O&M operator ensures adherence of the plant to meet minimum performance benchmarks.

**Resource Risk** The Coal Supply Agreement of EPTL is with Sindh Engro Coal Mining Company for 30 years where SECMC will provide 320,000 tonnes coal per month. The Agreement is an exclusive contract by which EPTL will be allowed to use the substitute coal (Imported coal) only in case of non-availability of coal by the Supplier.

**Insurance Cover** The Company has attained reasonable insurance cover for operational period for Property, Plant & Equipment physical damage, third party liability, and business interruption affecting the profits. Additionally, Marine, Terrorism/Political Violence, and Excess Third Party Liability Insurances are also held.

## Performance Risk

**Industry Dynamics** Owing to newly installed plants, Pakistan's energy mix is shifting towards Solar/Gas/and coal from Furnace Oil and other expensive sources. As on June-21, installed capacity of electricity reached 37,183 MW, which was 38,619 MW at end June-20. There was an increase of 508MW new power projects including CPEC from coal and renewable sources and this will increase further in coming years. Government is devising Indicative Generation Capacity Expansion Plan for 2021-2030. Which encapsulates the power generation additions required to meet the future energy and power demand of NTDC. In order to meet the demand of energy by the year 2030, a generation capacity of 53,315MW is proposed through a mix of thermal power plants, indigenous resource based power plant and renewable energy power plants. Further, during FY21, the Government has been successful in revising the power purchase agreements with the consultation of IPPs operating under different policies, in the larger interest of the country.

**Generation** The plant generated a total of 2,052 GWH of electricity during 1HCY21 (1HCY20: 2,176 GWH).

**Performance Benchmark** The required availability for Engro Powergen under the PPA is 82.5% during first five years and 85.5% for next 25 years. Meanwhile, the required efficiency of the plant is 37%. The company's actual availability and efficiency remained above than the benchmarks.

## Financial Risk

**Financing Structure Analysis** Debt financing constitutes 75% of the project cost i.e. USD 831mln. The USD facility between the China Development Bank and Engro Powergen Thar is for USD 621mln with a tenure of 14 years with semiannual payments. The local debt facility is between a consortium of multiple local banks, with HBL as the lead arranger, and Engro Powergen Thar for USD 210mln with a tenure is of 14 years with semiannual payments. Ratio of foreign to local financing is 75:25.

**Liquidity Profile** At end June'21, total receivables of the company stood at PKR 39,889mln (CY20: PKR 37,104mln). As circular debt continues to be an issue for companies operating in power sector. Consequently, IPPs have to manage their liquidity requirements from short-term borrowings. EPTL, in its power purchase agreement with CPPA-G will receive capacity payments, given the plant meets contract availability, even if no off take by the power purchaser.

**Working Capital Financing** Along with increase in receivables company manages to stretch its trade payable days and its net cash cycle surged to 67days (End Dec'20: 44 days). EPTL has successfully issued a Sukuk of PKR 3bln in August-2019 to meet its working capital financing from a consortium of investors, led by Meezan Bank Limited. Additionally, the company has arranged working capital lines of PKR 5,000mln of which PKR 3,500mln remain unutilized.

**Cash Flow Analysis** The company's debt service coverage [FCFO / Gross Interest +CMLTD] stood at 1.6x at end 1HCY21. During 1HCY21, free cash flows from operations (FCFO) stood at PKR 12,877mln (CY20: PKR 27,410mln, 1HCY20: PKR 14,014mln).

**Capitalization** The Company has a moderately leveraged capital structure. The debt to equity ratio is 70.5%.



The Pakistan Credit Rating Agency Limited

Financial Summary  
PKR mln

Engro Powergen Thar Pvt Ltd Power	Jun-21 6M	Dec-20 12M	Dec-19 12M	Dec-18 12M
<b>A BALANCE SHEET</b>				
1 Non-Current Assets	134,564	137,319	140,293	104,221
2 Investments	-	-	-	-
3 Related Party Exposure	92	224	2,550	-
4 Current Assets	68,491	58,938	39,613	4,718
<i>a Inventories</i>	666	430	246	-
<i>b Trade Receivables</i>	39,889	37,104	24,952	-
5 Total Assets	203,147	196,482	182,456	108,939
6 Current Liabilities	38,430	33,119	37,892	2,514
<i>a Trade Payables</i>	27,161	23,324	20,407	-
7 Borrowings	116,081	121,731	116,733	89,801
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	48,635	41,632	27,832	16,624
11 Shareholders' Equity	48,635	41,632	27,832	16,624
<b>B INCOME STATEMENT</b>				
1 Sales	37,866	80,053	36,436	-
<i>a Cost of Good Sold</i>	(26,958)	(56,158)	(24,796)	-
2 Gross Profit	10,908	23,895	11,639	-
<i>a Operating Expenses</i>	(325)	(559)	(276)	(38)
3 Operating Profit	10,583	23,337	11,363	(38)
<i>a Non Operating Income or (Expense)</i>	286	784	270	-
4 Profit or (Loss) before Interest and Tax	10,869	24,121	11,633	(38)
<i>a Total Finance Cost</i>	(3,862)	(10,311)	(5,505)	-
<i>b Taxation</i>	(4)	(10)	(5)	(1)
6 Net Income Or (Loss)	7,004	13,800	6,124	(39)
<b>C CASH FLOW STATEMENT</b>				
<i>a Free Cash Flows from Operations (FCFO)</i>	12,877	27,410	13,472	(74)
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	9,915	18,002	4,973	(3,922)
<i>c Changes in Working Capital</i>	1,419	(17,757)	894	334
1 Net Cash provided by Operating Activities	11,333	245	5,867	(3,588)
2 Net Cash (Used in) or Available From Investing Activities	(1,042)	97	(26,301)	(34,395)
3 Net Cash (Used in) or Available From Financing Activities	(4,809)	3,023	24,631	37,516
4 Net Cash generated or (Used) during the period	5,482	3,365	4,197	(467)
<b>D RATIO ANALYSIS</b>				
<b>1 Performance</b>				
<i>a Sales Growth (for the period)</i>	-5.4%	119.7%	--	N/A
<i>b Gross Profit Margin</i>	28.8%	29.8%	31.9%	N/A
<i>c Net Profit Margin</i>	18.5%	17.2%	16.8%	N/A
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	37.8%	12.1%	39.4%	N/A
<i>e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/Sh</i>	29.3%	34.4%	27.6%	N/A
<b>2 Working Capital Management</b>				
<i>a Gross Working Capital (Average Days)</i>	188	143	252	N/A
<i>b Net Working Capital (Average Days)</i>	67	43	48	N/A
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	1.8	1.8	1.0	1.9
<b>3 Coverages</b>				
<i>a EBITDA / Finance Cost</i>	3.8	3.1	2.8	N/A
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	1.6	1.5	0.8	N/A
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	5.9	6.4	13.3	-1215.3
<b>4 Capital Structure</b>				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	70.5%	74.5%	80.7%	84.4%
<i>b Interest or Markup Payable (Days)</i>	28.5	23.1	165.7	N/A
<i>c Entity Average Borrowing Rate</i>	5.5%	7.3%	4.5%	0.0%

**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	<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.
CC	
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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- 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

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- (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
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- (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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