



The Pakistan Credit Rating Agency Limited

## Rating Report

### AGP Limited | Sukuk | Jun-17

#### Report Contents

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
07-Nov-2019	A+	-	Stable	Maintain	-
08-May-2019	A+	-	Stable	Upgrade	-
27-Dec-2018	A	-	Stable	Maintain	-
31-May-2018	A	-	Stable	Maintain	-
07-Nov-2017	A	-	Stable	Maintain	-
26-Jul-2017	A	-	Stable	Initial	-
24-May-2017	A	-	Stable	Preliminary	-

#### Rating Rationale and Key Rating Drivers

The ratings reflect AGP's established market position and long track record in the pharmaceutical industry. The pharmaceutical industry has witnessed a high rate of sustained growth over the years. Cost-efficiencies as well as demand inelasticity benefits the industry players. The latest price revision, and CPI-linked pricing criteria recently implemented, has indicated a positive sign for the sector. AGP's core profitability is strong in comparison with most of the peers; any downward revision must remain range-bound. Ratings incorporate AGP's strong and sizeable cash flows and their adequacy to service the debt. Consequently, debt servicing ratios has improved. Interest coverage increased with an improvement in EBITDA and leverage reduced on account of debt repayments on its Sukuk. Debt metrics need to be upheld. Benefits from the expansion initiatives to develop new products should lead to healthy demand and strategic alliance with Mylan, to promote their product portfolio in Pakistan enables volumetric growth as well as growth in locally manufactured goods. AGP's 82% business is through sole distributor Muller & Phipps Pakistan (Pvt) Limited (M&P); going forward this concentration risk may pose challenge. However, the comfort can be taken from the presence of M&P's shareholding in AGP. Presence of OBS Group in the pharmaceutical sector provides strength, in the form of group synergies, to AGP's positioning within the industry.

The ratings are dependent on continued sustainability of profits and market share. Adequacy of cash flows and availability of alternative resources to make debt-related payment remains critical. Meanwhile, compliance with internally-defined leveraging metrics is a prerequisite. Moreover, the instrument rating is dependent upon upholding of all major covenants.

#### Disclosure

<b>Name of Rated Entity</b>	AGP Limited   Sukuk   Jun-17
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Debt Instrument Rating
<b>Applicable Criteria</b>	Methodology   Corporate Ratings(Jun-19),Methodology   Sukuk(Jun-19)
<b>Related Research</b>	Sector Study   Pharmaceutical(Apr-19)
<b>Rating Analysts</b>	Muhammad Noor ul Haq   muhammad.noorulhaq@pacra .com   +92-42-35869504



## Profile

**Legal Structure** AGP Limited (AGP) is a Pharmaceutical company operating in Pakistan since 1989 and listed on the Pakistan Stock Exchange.

**Background** AGP Limited is an outcome of a merger, in Dec15, of three companies; Apollo Pharma Ltd, AGP (Pvt) Ltd. and AGP Healthcare (Pvt) Ltd. AGPP has been renamed as AGP Limited as it had size-able operations, constituting 82% of the assets, Intangibles of PKR 5.4bln recognized at the time of acquisition.

**Operations** The company manufactures medicines branded in eight segments. Also engaged in marketing and sales of licensed products with international affiliation. AGP's product portfolio comprises over 111 variants of 59 products. The Company's manufacturing facilities comprise two plants located at S.I.T.E. area Karachi.

## Ownership

**Ownership Structure** AGP is majority owned by OBS Group (OBS) through Aitken Stuart Pakistan (Pvt) Ltd. (~50.74%); although the sponsor remains the same, while other strategic partners include M&P (13.54%), Baltoro Growth Fund (BGF) (9.57%), High-Q Pharmaceuticals (Pvt.) Ltd (4.35%), Aspin Pharma Limited (4.79%), Bank AL-Falah Ltd (3.68%) and the rest is owned by the general public.

**Stability** The sponsoring company, OBS Group is well entrenched in the pharmaceutical industry and operates in the country via its five sister companies. OBS has a strategic business attachment with reputed international firms like: MERCK & Co USA, providing international expertise and exposure to operate efficiently as a leading pharmaceutical company.

**Business Acumen** OBS Group, established in 1963, is one of Pakistan's leading name of the healthcare segment. OBS specializes in international partnership and fostering strategic alliances with reputed international firms. OBS has a strong presence all over Pakistan with over 250 professionally trained medical representatives covering more than 20,000 healthcare professionals across the country.

**Financial Strength** Mr. Tariq, the sponsor of AGP and the sole brain behind OBS Group, started his career in the pharmaceutical industry of Pakistan as an employee at Organon Pakistan – part of AkzoNobel – a Dutch Chemical giant. He took the lead and executed management buyout of Organon in 2006. Also, he entered into many strategic alliances and acquisitions.

## Governance

**Board Structure** The seven-member BoD of AGP comprises three OBS representatives, one each of M&P & BGF and two independent directors. The board comprises experienced professionals from pharmaceutical and financial services backgrounds.

**Members' Profile** The Chairman, Mr. Tariq Moinuddin Khan, CPA from Canada, carries over three decades of domestic & international professional experience and has been engaged with the pharmaceutical industry from the past 19 years. Previously, he has also worked as Group CFO for Mawarid Trading Company.

**Board Effectiveness** AGP established two board committees 1) Audit and 2) Human Resource & Remuneration. The inclusion of independent director as a chairman of the both Committees indicates better corporate governance. The minutes of the board meetings are prepared with detailed deliberation and action points.

**Financial Transparency** The auditors of the company, EY Ford Rhodes Chartered Accountants, expressed an unqualified opinion on the financial statements for the year ended Dec-18. There is an established Internal Audit function outsourced to PWC, reporting directly to the Board.

## Management

**Organizational Structure** The organizational structure of the company is divided into nine functional departments headed by able professionals (Directors or Controllers): 1) Quality Assurance/Quality Control (QA/QC), 2) Operations, 3) Supply chain, 4) Marketing & Sales (M&S) – A, 5) Marketing & Sales (M&S) – B, 6) Finance, 7), Information Systems (IS), 8) Human Resources & Administration (HR & Admin), and 9) Internal Audit.

**Management Team** Ms. Nusrat Munshi, the MD & CEO of AGP, joined the company in 2007 as Director Finance. She has up to three decades of experience, half of which is in the pharmaceutical industry. She is supported by an experienced core management team having a long association with AGP.

**Effectiveness** The company has in place a management committee – Executive Committee (ECM) – of which the members are all directors and heads of department. Basic functions of the Committee include oversight of operations, developing the budget plan, as well as formulating, reviewing, communicating and managing the delivery of company strategy.

**MIS** AGP has implemented and is using all key modules of SAP (ERP suite); SAP ECC 6.0 was implemented in 2006 through Siemens Pakistan and was upgraded to EHP 6 Level. The suite is providing a real-time end-to-end integrated solution for all operations including financial, sales and marketing, human capital management.

**Control Environment** A detailed MIS comprising details is submitted to the Chairman Board, passing through the CFO and MD & CEO, on a monthly basis. A quarterly presentation is also sent by the MD & CEO to the Directors, detailing the company's financial performance for the quarter. The business intelligence module, provides a bird's-eye view of the company's data at a glance, aiding the top management in strategic decision-making.

## Business Risk

**Industry Dynamics** The current size of Pakistan's pharmaceutical industry is PKR 423 bln, presently growing at 13% p.a. (previously 10%-12% p.a.). There are total 733 registered Pharma companies in Pakistan including 16 MNCs. The share of local manufacturers in the industry is 69%. During the period under reviewed the impact of PKR depreciation was the major cost escalation for the pharmaceutical industry where about 95% of the active pharmaceutical ingredients used in manufacturing of the drug were imported and this impact may be mitigated to a certain extent by the one off 15% price increase allowed by the DRAP.

**Relative Position** AGP has a blend of own range of branded generics as well as products licensed from principals of international repute. The company stands at 23rd position with revenue of PKR 5.3bln (excluding institutional sales and exports).

**Revenues** During 1HCY19, the sales of the company increased by 10.2% as compared to the corresponding period last year primarily driven by both value and volumetric growth on the back of strong performance of the overall portfolio of the Company, particularly the overall exposure in terms of G.P margins remained concentrated towards top brands; Rigix (~22%), Ceclor (~15%), Osnate D (~15%) and Anafortan (~9%). So, the product concentration risk is observe on the higher side.

**Margins** During 1HCY19, the gross margin of AGP slightly improved to 58% (CY18: 57%), mainly due to change in product mix and better utilization of production resources. Despite the significant inflationary impact and increase in operating expenses, operating margin clocked at (1HCY19: 35%; CY18: 33%). AGP has maintained its net margin (1HCY19: 24%; CY18: 22%), even in this challenging environment where PKR devalued and finance cost increased due to the increase in policy rate.

**Sustainability** AGP is poised to derive benefits from group synergies in the form of (i) bulk discounts from suppliers of raw material – APIs and excipients, (ii) better bank-relationships (iii) strength-wise parking of products, (iv) group-training for HR and career growth opportunities within the group. AGP's 82% business is through sole distributor Muller & Phipps Pakistan (Pvt) Limited (M&P); going forward this concentration risk may pose challenge. However, the comfort can be taken from the presence of M&P's shareholding in AGP.

## Financial Risk

**Working Capital** All working capital requirements are largely met through internal generation of cash 1HCY19: PKR 745mln (CY18: PKR 972mln; CY17: PKR 934mln). This provides a sizable cushion for future borrowings. AGP's net cash cycle has remained alike since last 2/3 years 1HCY19: 55days (CY18: 56days, CY17: 46days). M&P keeps an inventory of ~45 days in its own warehouse before it is moved to the stores. Payment to AGP, against sales, is made within 30 days from M&P's dispatches.

**Coverages** AGP has sizeable FCFO 1HCY19: PKR 974mln (CY18: PKR 1,462mln, CY17: PKR 1,439mln). During CY17, the company replaced its entire long-term debt with Sukuk; PKR 1,469mln outstanding at end-Jun19. Large cash flows, lower semi-annual debt principal repayments, started from Jun17 (PKR 490mln) topped up with reduced interest payments 1HCY19: PKR 107mln (CY18: PKR 200mln, CY17: PKR 277mln), resulted in improved company's debt servicing ability 1HCY19: 0.8x (CY18: 1.3x; CY17: 1.9x,).

**Capitalization** The debt on the books of AGP comprises the long-term loans (initially PKR 4.5bln) raised by Apollo to finance the acquisition of the two companies. With the recent debt refinancing exercise, the outstanding long-term principal has been wholly replaced with a Sukuk issue; its maturity is scheduled in 2022. Resultantly, at 1HCY19, debt to debt plus equity ratio stood at 17% (CY18: 22%; CY17: 28%).



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

AGP Limited Pharmaceutical	Jun-19 6M	Dec-18 12M	Dec-17 12M	Dec-16 12M
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#### A BALANCE SHEET

1 Non-Current Assets	7,324	7,095	6,875	6,804
2 Investments	-	-	-	0
3 Related Party Exposure	-	-	-	-
4 Current Assets	2,018	1,868	1,652	1,709
<i>a Inventories</i>	804	797	670	513
<i>b Trade Receivables</i>	516	483	467	345
5 Total Assets	9,342	8,963	8,527	8,513
6 Current Liabilities	705	710	812	781
<i>a Trade Payables</i>	359	346	420	377
7 Borrowings	1,488	1,827	2,162	3,391
8 Related Party Exposure	-	-	-	38
9 Non-Current Liabilities	48	59	41	26
10 Net Assets	7,102	6,368	5,511	4,277
11 Shareholders' Equity	7,102	6,368	5,511	4,277

#### B INCOME STATEMENT

1 Sales	3,159	5,382	4,725	4,206
<i>a Cost of Good Sold</i>	(1,323)	(2,341)	(1,851)	(1,746)
2 Gross Profit	1,837	3,041	2,874	2,460
<i>a Operating Expenses</i>	(719)	(1,281)	(1,184)	(872)
3 Operating Profit	1,118	1,760	1,690	1,588
<i>a Non Operating Income or (Expense)</i>	(96)	(135)	(80)	(60)
4 Profit or (Loss) before Interest and Tax	1,022	1,626	1,610	1,529
<i>a Total Finance Cost</i>	(107)	(200)	(277)	(361)
<i>b Taxation</i>	(172)	(219)	(100)	(81)
6 Net Income Or (Loss)	743	1,207	1,234	1,087

#### C CASH FLOW STATEMENT

<i>a Free Cash Flows from Operations (FCFO)</i>	974	1,462	1,439	1,418
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	861	1,293	1,066	1,000
<i>c Changes in Working Capital</i>	(116)	(322)	(132)	43
1 Net Cash provided by Operating Activities	745	972	934	1,043
2 Net Cash (Used in) or Available From Investing Activities	(292)	(323)	(178)	(106)
3 Net Cash (Used in) or Available From Financing Activities	(237)	(654)	(1,228)	(1,094)
4 Net Cash generated or (Used) during the period	217	(6)	(472)	(157)

#### D RATIO ANALYSIS

1 Performance				
<i>a Sales Growth (for the period)</i>	17.4%	13.9%	12.3%	12.2%
<i>b Gross Profit Margin</i>	58.1%	56.5%	60.8%	58.5%
<i>c Net Profit Margin</i>	23.5%	22.4%	26.1%	25.8%
<i>d Cash Conversion Efficiency (EBITDA/Sales)</i>	36.6%	33.7%	37.8%	40.5%
<i>e Return on Equity (ROE)</i>	22.1%	20.3%	25.2%	29.1%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	75	82	77	67
<i>b Net Working Capital (Average Days)</i>	55	56	46	45
<i>c Current Ratio (Total Current Assets/Total Current Liabilities)</i>	2.9	2.6	2.0	2.2
3 Coverages				
<i>a EBITDA / Finance Cost</i>	11.0	9.3	6.5	4.8
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	2.7	2.1	1.9	0.9
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	0.8	1.3	1.9	3.2
4 Capital Structure (Total Debt/Total Debt+Equity)				
<i>a Total Borrowings / Total Borrowings+Equity</i>	17.3%	22.3%	28.2%	44.5%
<i>b Interest or Markup Payable (Days)</i>	33.4	34.9	15.7	128.8
<i>c Average Borrowing Rate</i>	12.7%	9.7%	9.8%	9.0%



## Regulatory and Supplementary Disclosure

Nature of Instrument	Size of Issue (PKR)	Tenor	Security	Quantum of Security	Nature of Assets	Trustee	Book Value of Assets
Term Finance Certificate (TFC)	2,448 mln	05 Years	1st mortgage/ charge over (i) Plot No. D-109; (ii) Plot No. B-23-C; and (iii) movable fixed assets, in favor of the Trustee (for the benefit of the Certificate Holders).	Rs. 2411 million	All the present and future fixed assets of the Issuer including but not limited to plant, machinery, equipment, furniture, fixtures, fittings and all other fixed assets of the Issuer now belonging to or at any time in the future belonging to the Issuer and any documents of title pertaining to the same, such as, arehouse receipts, truck receipts, invoices and receipts, and all of the Issuer's beneficial and legal interest thereto and all those fixed assets that are acquired in the future by the Issuer from time to time.	Bank Islamic Pakistan Limited	3,427mln

### AGP Limited | TFC | Jun' 17

Name of Issuer	AGP Limited
Issue size	PKR 2,448 mln
Issue Date	09-Jun-17
Tenor	05 Years
Maturity	09-Jun-22
Profit Rate	3 MK + 1.30%
Principal Repayment	5% or 20 Equal Installments of Sukuk Issue
Security	1st mortgage/ charge over (i) Plot No. D-109; (ii) Plot No. B-23-C; and (iii) movable fixed assets, in favor of the Trustee (for the benefit of the Certificate Holders).

### AGP Limited | TFC | Jun' 17 | Redemption Schedule

Due Date Principle	Opening Principal PKR in mln	Principal Repayment PKR in mln	Date of KIBOR	Markup/ Profit Rate	3M KIBOR	Markup/Profit Payment		Principal Outstanding
						PKR in mln		
09-Jun-17	2,448	-						2,448
09-Sep-17		122	08-Jun-17	3 MK + 1.30%	6.14%	45.91	168	2,326
09-Dec-17		122	08-Sep-17	3 MK + 1.30%	6.14%	43.14	166	2,203
09-Mar-18		122	08-Dec-17	3 MK + 1.30%	6.16%	40.53	163	2,081
10-Jun-18		122	08-Mar-18	3 MK + 1.30%	6.41%	40.88	163	1,958
09-Sep-18		122	08-Jun-18	3 MK + 1.30%	6.85%	39.79	162	1,836
09-Dec-18		122	08-Sep-18	3 MK + 1.30%	7.97%	42.43	165	1,714
09-Mar-19		122	07-Dec-18	3 MK + 1.30%	10.46%	49.69	172	1,591
09-Jun-19		122	07-Mar-19	3 MK + 1.30%	10.71%	48.17	171	1,469
09-Sep-19		122	07-Jun-19	3 MK + 1.30%	10.71%	44.46	167	1,346
09-Dec-19		122	07-Sep-19	3 MK + 1.30%	10.71%	40.31	163	1,224
09-Mar-20		122		3 MK + 1.30%	10.71%	36.65	159	1,102
09-Jun-20		122		3 MK + 1.30%	10.71%	33.35	156	979
09-Sep-20		122		3 MK + 1.30%	10.71%	29.64	152	857
09-Dec-20		122		3 MK + 1.30%	10.71%	25.65	148	734
09-Mar-21		122		3 MK + 1.30%	10.71%	21.75	144	612
09-Jun-21		122		3 MK + 1.30%	10.71%	18.53	141	490
09-Sep-21		122		3 MK + 1.30%	10.71%	14.82	137	367
09-Dec-21		122		3 MK + 1.30%	10.71%	10.99	133	245
09-Mar-22		122		3 MK + 1.30%	10.71%	7.25	130	122
09-Jun-22		122		3 MK + 1.30%	10.71%	3.71	126	(0)
<b>2,448</b>						<b>638</b>		<b>3,086</b>

## Debt Instrument Rating Scale & Definitions

Credit rating reflects forward-looking opinion on credit worthiness of underlying 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+** **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+** **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+** **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+** **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+** **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** **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 surveil the opinion due to lack of requisite information.

**Harmonization** A change in rating due to revision in applicable methodology or underlying scale.

**Disclaimer:** PACRA's ratings are an assessment of the credit standing of entities/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

### **Rating Team Statements**

(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

### **2) Conflict of Interest**

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

### **Restrictions**

- (3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
- (4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
- (5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

### **Conduct of Business**

- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
- (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)
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- (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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