



The Pakistan Credit Rating Agency Limited

Rating Report

Pak Arab Fertilizers 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
30-Jul-2021	A-	A2	Developing	Maintain	Yes
21-Aug-2020	A-	A2	Developing	Maintain	Yes
21-Aug-2019	A-	A2	Developing	Maintain	Yes
19-Feb-2019	A-	A2	Stable	Maintain	Yes
30-Oct-2018	A-	A2	Stable	Maintain	Yes
20-Apr-2018	A-	A2	Stable	Maintain	-
12-Oct-2017	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Pakistan has an agrarian economy, thus fulfills around ~ 84% of its fertilizer requirement through local production while the remaining is met through imports. The Country's total fertilizer production capacity sails around ~ 7.1mln MT of Urea and CAN and ~ 1.7mln MT of DAP, NP, and NPK. In 5MCY21, Urea's offtake stood at 2.2mln MT. Meanwhile, DAP's offtake stood at 423,000MT. The overall margins of the industry registered a healthy growth on the gross and net levels due to unchanged gas rates and effective cost controls despite inflationary pressures. In the local market, Urea's price has slightly decreased. Earlier, the GIDC charge was reduced on feed and fuel stock. Subsequently, the GIDC was made payable in full by all manufacturers in 48 installments, as per the ruling of the Supreme Court in Aug-20. In the international market, prices of Urea and DAP witnessed an upward trend supported by increased demand after due to high input cost. However, the expected Government subsidy scheme would reduce DAP prices. Going forward, industry's outlook is expected to remain satisfactory.

The ratings reflect Pak Arab Fertilizers Limited's ('Pak Arab' or 'the Company') association with strong business Groups namely, Fatima Group and Arif Habib Group. As per the Group level strategic plan, the production and operating plants of Pak Arab, including Urea, Ammonia, Nitric Acid, NP, and CAN, have been completely transferred to Fatima Fertilizer Company Limited ('Fatima Fertilizer') on Sep-20. The Company has received ~ 87% of the consideration, in this regard, from Fatima Fertilizer till Jun-21. The remaining installments are expected to complete by CY21. Currently, the Company's topline comprises DAP trading and sale of Liquid Carbon dioxide (LCO2), along with other non-core services. Pak Arab's margins are squeezed and are expected to remain low. The Company's financial risk profile is characterized by stressed coverage ratios. While the working capital cycle remains stable. Pak Arab has a highly leveraged capital structure with considerable borrowings on its balance sheet. However, to elevate the stress on the Company's cashflow, the loan is fully guaranteed by Fatima Fertilizer. The ratings draw comfort from the sponsor's financial strength, guidance on managing interest rate fluctuation, and demonstrated ability to provide support if needed. The Company has been assigned 'Rating Watch' with a 'Developing' outlook as the profitability and cashflows are expected to remain under stress. Developing a sizeable and sustainable revenue stream after asset sale to Fatima Fertilizer remains critical for ratings. PACRA will monitor the situation closely and update the ratings accordingly.

The ratings are dependent on the management's ability to manage business risk while improving business margins in prevailing challenges. Going forward, generating sustainable operational cashflows is important. Meanwhile, a prudent financial strategy to meet financial obligations remains imperative. Continued support from Fatima Fertilizer, technically and financially, is critical for ratings.

Disclosure

Name of Rated Entity	Pak Arab Fertilizers Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Rating(Jun-21),Criteria Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria Rating Modifiers(Jun-21)
Related Research	Sector Study Fertilizer(Jan-21)
Rating Analysts	Shayan Farooq shayan.farooq@pacra.com +92-42-35869504



Profile

Legal Structure Pak Arab Fertilizers Limited ('Pak Arab' or 'the Company') was incorporated in 1973 as a Public Unlisted Company.

Background Pak Arab was formed as a result of an agreement between the Government of Pakistan (GoP) and the State of Abu Dhabi holding 52% and 48% shares, respectively. GoP assigned its shares to the National Fertiliser Company (NFC) through Pakistan Industrial Development Corporation (PIDC). While the State of Abu Dhabi assigned its shares to the International Petroleum Investment Company through Abu Dhabi National Oil Company (ADNOC). In 2005, the Company was privatized and was acquired by a consortium led by Fatima Group and Arif Habib Group at a cost of PKR 14bln. Initially, the Company was manufacturing various fertilizer products -Urea, Calcium Ammonium Nitrate (CAN), Nitro Phosphate (NP). However, it transferred its production facilities to Fatima Fertilizer Company Limited ('Fatima Fertilizer') under a Sale Purchase Agreement at a consideration of PKR 9bln during Sep-20.

Operations The Company's plants are located at Khanewal Road, Multan. Currently, the Company is importing and trading DAP, manufacturing Liquid Carbon Dioxide (LCO2), along with providing Operations & Maintenance services. The LCO2 plant has a capacity of 192MT/per day.

Ownership

Ownership Structure Pak Arab is majorly owned by Arif Habib Group (50%), followed by Fatima Group (41%). The remaining shareholding resides with the Fazal Group (9%).

Stability Ownership of the Company draws stability from major stakes being held by Arif Habib Group and Fatima Group.

Business Acumen The business acumen of the sponsoring groups is considered strong. Arif Habib Group holds interests in a diversified portfolio including brokerage, investment, financial advisory, investment management, banking, commodities & private equity, cement, and fertilizer sectors. While, Fatima Group holds interest in commodity trading, fertilizers, textiles, sugar, mining, and the energy sector.

Financial Strength Robust sponsorship continues to add strength to the financial muscle of the Company.

Governance

Board Structure The Board comprises eight members; equally represented through the Arif Habib and the Fatima Group. Out of eight, six are non-executive directors including the Chairman, while two are executive directors, including the CEO.

Members' Profile Mr Arif Habib, Chairs the Company's Board. He is also the Chairman of Fatima Fertilizer Company Limited, Aisha Steel Mills Limited, and Javedan Corporation Limited. He has been associated with the Company's BoD since 2005.

Board Effectiveness The Board convened four Board meetings during the period under review, with an adequate level of attendance. The Board ensures effectiveness through two committees i) Human Resource & Remuneration Committee and ii) Audit Committee.

Financial Transparency The auditors of the Company, A.F Fergusons & Company, have expressed an unqualified opinion on the Financial Statements of CY19.

Management

Organizational Structure The Company operates through six departments, namely: (i) Operations, (ii) Finance, (iii) Administration, (iv) Procurement (v) Human Resource, and (vi) IT. However, the Internal Audit and Marketing functions are shared at the Group level. All departmental Heads report to the CEO. However, the Head of Internal Audit and Human Resource functions reports administratively to the CEO and functionally to the BoD.

Management Team Mr. Fawad Ahmed Mukhtar is the Chief Executive Officer of the Company. He has an overall experience of around three decades. During Jan'21, Mr. Asad Murad was replaced by Mr. Rizwan Qamar as the CFO of the Company.

Effectiveness The Company does not have any management committees in place.

MIS Pak Arab has deployed an ERP system that integrates system processing and reporting. Moreover, a Share Point Portal (SPP) server enables information from all Group companies to be viewed on a single page, on a real-time basis.

Control Environment To ensure operational efficiency, the Company has set up an Internal Audit Function at the Group level, that identifies and reports risks.

Business Risk

Industry Dynamics Pakistan has an agrarian economy, thus fulfills around ~ 84% of its fertilizer requirement through local production while the remaining is met through imports. The Country's total fertilizer production capacity sails around ~ 7.1mln MT of Urea and CAN and ~ 1.7mln MT of DAP, NP, and NPK. In 5MCY21, Urea's offtake stood at 2.2mln MT. Meanwhile, DAP's offtake stood at 423,000MT. The overall margins of the industry registered a healthy growth on the gross and net levels due to unchanged gas rates and effective cost controls despite inflationary pressures. In the local market, Urea's price has slightly decreased. Earlier, the GIDC charge was reduced on feed and fuel stock. Subsequently, the GIDC was made payable in full by all manufacturers in 48 installments, as per the ruling of the Supreme Court in Aug-20. In the international market, prices of Urea and DAP witnessed an upward trend supported by increased demand after due to high input cost. However, the expected Government subsidy scheme would reduce DAP prices. Going forward, industry's outlook is expected to remain satisfactory.

Relative Position Out of 2.4mln MT DAP offtake in Pakistan during CY20, Pak Arab has a nominal market share.

Revenues Currently, the Company generates revenue by importing and selling DAP, manufacturing and selling LCO2, and Operations & Maintenance services. Revenue of the Company consists of DAP sales (46%), LCO2 (13%), and Operations & Maintenance services (39%). Revenue posted a dip of ~52% during CY20, standing at PKR 2.8bln (CY19: PKR 5.9bln). Going forward, the revenue stream is expected to remain moderate.

Margins During CY20, the Company posted a gross profit of PKR 276mln (CY19: PKR -786mln) post asset transfer to Fatima Fertilizer, translating into a gross margin of 10% during CY20 (CY19: -13%). Finance cost decreased to PKR 2.2bln (CY19: PKR 3bln) supported by low-interest rates and comparatively reduced borrowings. The Company's bottom line was supported by rental income from Fatima Fertilizer, and profit from discontinued operations post asset transfer. Net income stood at PKR 1.1bln against a loss of PKR 4.1bln in CY19. This translated into a net margin of 39% (CY19: -70%). Going forward, margins are expected to remain thin.

Sustainability Sustaining Group synergy and generating cash flows remain crucial. However, the Company aims to identify new avenues to diversify its revenue stream along with keeping costs under control. Materialization of the same remains critical.

Financial Risk

Working Capital In CY20, the inventory days remained high at 185 days (CY19: 188 days). However, receivable days dropped to 73 days (CY19: 113 days) as the respective receivables were transferred to Fatima Fertilizers. Trade payable days also declined to 230 days (CY19: 440 days) post asset transfer. Resultantly, the net working capital days stood at 29 days (CY19: -139 days). The Company's borrowing cushion remains stretched. Going forward, the working capital cycle is expected to remain moderate.

Coverages Interest coverage stood at 1.8x in CY20 (CY19: -0.5x) due to sharp surge in FCFO to PKR 3.9bln during CY20 (CY19: PKR -1.3bln). Core and total coverage also turned positive to 0.5x in CY20 (CY19: -0.2x) on the back of lower finance cost (CY20: PKR 2.2bln, CY19: PKR 3bln) due to low Kibor and lower utilization of short-term borrowings. Going forward, coverage ratios will deteriorate due to stressed cash flows.

Capitalization Pak Arab has a sizeable debt load, comprising long-term and short-term borrowings of PKR 10bln, as compared to PKR 11bln in CY19. This led to a significantly leveraged capital structure with a debt to debt plus equity ratio of 62% (CY19: 77%). Post asset transfer and operational transitioning, debt has been fully guaranteed by Fatima Fertilizer. Going forward, leverage is expected to remain high.



Pak Arab Fertilizers Limited Fertilizer	Dec-20 12M	Dec-19 12M	Dec-18 12M	Dec-17 12M
--	---------------	---------------	---------------	---------------

A BALANCE SHEET

1 Non-Current Assets	21,543	19,129	19,606	44,018
2 Investments	1,348	-	-	-
3 Related Party Exposure	2,927	4,948	586	547
4 Current Assets	10,834	18,974	29,789	16,919
<i>a Inventories</i>	1,812	1,042	5,036	4,129
<i>b Trade Receivables</i>	390	743	2,925	2,069
5 Total Assets	36,651	43,051	49,981	61,484
6 Current Liabilities	8,092	9,348	16,973	9,116
<i>a Trade Payables</i>	2,557	988	13,269	6,074
7 Borrowings	9,970	11,009	18,245	18,179
8 Related Party Exposure	4,999	15,655	7,873	6,873
9 Non-Current Liabilities	4,267	2,142	1,761	7,614
10 Net Assets	9,323	4,897	5,129	19,702
11 Shareholders' Equity	9,323	4,897	5,129	19,702

B INCOME STATEMENT

1 Sales	2,818	5,915	12,281	16,531
<i>a Cost of Good Sold</i>	(2,542)	(6,701)	(13,945)	(16,160)
2 Gross Profit	276	(786)	(1,664)	372
<i>a Operating Expenses</i>	(534)	(765)	(1,324)	(1,819)
3 Operating Profit	(258)	(1,552)	(2,988)	(1,448)
<i>a Non Operating Income or (Expense)</i>	3,637	855	(5,080)	96
4 Profit or (Loss) before Interest and Tax	3,379	(697)	(8,068)	(1,352)
<i>a Total Finance Cost</i>	(2,234)	(2,986)	(2,888)	(2,164)
<i>b Taxation</i>	(38)	(442)	2,743	(426)
6 Net Income Or (Loss)	1,107	(4,125)	(8,212)	(3,942)

C CASH FLOW STATEMENT

<i>a Free Cash Flows from Operations (FCFO)</i>	3,938	(1,350)	(3,413)	(1,056)
<i>b Net Cash from Operating Activities before Working Capital</i>	2,113	(1,237)	(5,608)	(2,993)
<i>c Changes in Working Capital</i>	(684)	4,666	2,281	(11)
1 Net Cash provided by Operating Activities	1,429	3,429	(3,327)	(3,004)
2 Net Cash (Used in) or Available From Investing Activities	1,059	2,528	1,782	(471)
3 Net Cash (Used in) or Available From Financing Activities	(1,353)	(6,313)	1,483	12,358
4 Net Cash generated or (Used) during the period	1,135	(356)	(62)	8,882

D RATIO ANALYSIS

1 Performance				
<i>a Sales Growth (for the period)</i>	-52.4%	-51.8%	-25.7%	2.2%
<i>b Gross Profit Margin</i>	9.8%	-13.3%	-13.5%	2.2%
<i>c Net Profit Margin</i>	39.3%	-69.7%	-66.9%	-23.8%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital / Net Profit Margin)</i>	115.5%	56.1%	-9.2%	-6.5%
<i>e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets / Total Equity)]</i>	10.9%	-78.0%	-143.6%	-20.2%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	258	301	265	188
<i>b Net Working Capital (Average Days)</i>	29	-139	-22	44
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	1.3	2.0	1.8	1.9
3 Coverages				
<i>a EBITDA / Finance Cost</i>	1.4	-0.5	-0.9	-0.5
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	0.5	-0.2	-0.5	-0.2
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Financing Cost)</i>	7.2	-2.1	-2.3	-8.7
4 Capital Structure				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	61.6%	76.6%	83.6%	56.0%
<i>b Interest or Markup Payable (Days)</i>	246.8	113.5	190.3	0.0
<i>c Entity Average Borrowing Rate</i>	14.8%	14.5%	11.1%	3.9%

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	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	Very high credit quality. Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
AA-	
A+	
A	High credit quality. Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
A-	
BBB+	
BBB	Good credit quality. Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BBB-	
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.
BB	
BB-	
B+	
B	High credit risk. A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
B-	
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.
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>Entities</p> <ul style="list-style-type: none"> a) Broker Entity Rating b) Corporate Rating c) Financial Institution Rating d) Holding Company Rating e) Independent Power Producer Rating f) Microfinance Institution Rating g) Non-Banking Finance Companies (NBFCs) Rating 	<p>Instruments</p> <ul style="list-style-type: none"> a) Basel III Compliant Debt Instrument Rating b) Debt Instrument Rating c) Sukuk Rating
--	---

Disclaimer: PACRA has used due care in preparation of this document. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA shall owe no liability whatsoever to any loss or damage caused by or resulting from any error in such information. Contents of PACRA documents may be used, with due care and in the right context, with credit to PACRA. Our reports and ratings constitute opinions, not recommendations to buy or to sell.

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)
- (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)

Proprietary Information

(23) All information contained herein is considered proprietary by PACRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA's prior written consent