



The Pakistan Credit Rating Agency Limited

## Rating Report

### Engro Eximp Agriproducts (Pvt.) Limited

#### Report Contents

1. Rating Analysis
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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
14-Oct-2021	A-	A2	Stable	Maintain	-
16-Oct-2020	A-	A2	Stable	Maintain	-
19-Nov-2019	A-	A2	Stable	Maintain	-
27-Jun-2019	A-	A2	Stable	Maintain	-
27-Dec-2018	A-	A2	Stable	Maintain	-
28-Jun-2018	A-	A2	Stable	Maintain	-
29-Dec-2017	A-	A2	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

Rice is among the five major crops of Pakistan and is the second main staple food, after wheat. The segment contributes about 3.5% in agriculture value addition and 0.7% in GDP. Pakistan cultivates both basmati and non-basmati rice, most of which is exported. In Pakistan, rice is grown in most of the Sindh and Punjab Province. Sindh specializes in producing the long grains white rice IRRI-6 and IRRI-9, while Punjab produces world-class Basmati rice. Pakistan locally consumes Basmati Rice, which is a long, thin aromatic type of rice, considered premium and luxury category across the globe. Local consumption includes ~95% of basmati rice and ~5% non-basmati. The major players in rice exports include Pakistan, India, Thailand, and Vietnam. Pakistan is in direct competition with India, while Thailand and Vietnamese rice are considered premium. Thailand's 'Jasmine' rice has emerged lately as high-price premium rice. During FY21, the rice cropped area increased to ~3.33MH (FY20: ~3.03MH), reflecting an increase of ~10%. Consequently, the production of rice witnessed an increase of ~13% and stood at ~8.4MT (FY20: ~7.4MT). Out of this, around 3.5mln MT of rice is consumed locally. While ~3.7mln MT is exported (Closing stock: 1.2mln MT) to generate ~ PKR 325bln of export revenue. The maximum contribution is from non-basmati rice (72%) exports, as basmati rice is locally consumed and minimal quantity (28%) is exported. During FY21, rice exports deteriorated to ~USD 2,041mln (FY20: ~USD 2,175mln) owing to the Indian strategy of dumping the commodity in the international market at cheaper rates.

The ratings reflect the strength of ownership structure of Engro Eximp Agriproducts (Pvt.) Ltd. ('Engro Eximp' or 'the Company'), a wholly owned subsidiary of Engro Corp Ltd., one of the largest conglomerate in Pakistan (rated AA+ by PACRA). The CEO of Engro Corp Ltd. is also the Chairman of Engro Eximp. Ratings take comfort from the strong corporate governance framework of the parent company. The Company's revenue continue to hold its position after successfully achieving its break even in CY18. Profits have sustained since then, after suffering from huge losses in the past. The Company faces stiff competition in the international markets in the basmati segment. However, the Company managed to sustain its profitability in CY20; Margins have witnessed slight improvement and continued profitability will bode well for the Company. Rupee devaluation came in favorable, as dealing in a product – basmati - a high priced commodity assisted the Company in sustaining its revenues. Engro Eximp's financial risk profile has also recovered adequately, while, slightly dwindling due to high end debt profile.

The ratings are dependent upon growth in business volume and redemption of profits. Adherence to sound financial discipline while strengthening debt servicing capacity through improved cash position is vital for the ratings. Positive outcome of the future projects and sustainability of profits remain a catalyst for the business.

#### Disclosure

<b>Name of Rated Entity</b>	Engro Eximp Agriproducts (Pvt.) Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Corporate 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   Rice(Nov-20)
<b>Rating Analysts</b>	Faiqa Qamar   faiqa.qamar@pacra.com   +92-42-35869504

## Profile

**Legal Structure** Engro Eximp Agriproducts (Pvt.) Ltd. (herein referred to as "Engro Eximp" or "the Company") is a Private Limited Company.

**Background** The Company was incorporated on November 3, 2009. It entered into the rice processing business in 2010 with a view to bring value addition to the agriculture sector of the country.

**Operations** The Company procures high standard of paddy from the farmer and after processing those, exports the prepared rice to business to business customers across the globe. The principal activity of the Company is processing, export and trade of rice. With a primary focus on buying rice paddy from farmers rather than middlemen, the Company's inclusive business model concentrates on improving the competitiveness of Basmati rice for farmers to ensure enhanced yield/acre and reduction in cost of production/ton to benefit the farmers. The Company operates with an advanced integrated processing plant having a design capacity of 144,000 tons for milling and 3 months design capacity of 270,000 tons for drying.

## Ownership

**Ownership Structure** Engro Eximp is a wholly owned subsidiary of Engro Corporation.

**Stability** Being a subsidiary of a renowned Multinational Corporation of Pakistan - Engro Corp, is the key driving force of stability for the Company.

**Business Acumen** Engro Corporation, the parent company, is one of the largest conglomerates of Pakistan, having diversified businesses in fertilizer, food, chemical storage & handling, trading, digital technologies, mining, energy and petrochemicals sector.

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

## Governance

**Board Structure** Engro Eximp has a two member Board of Directors. Governance reflects status of a private limited entity which is necessitated to evolve as the business size grows.

**Members' Profile** Mr. Ghias Khan - Chairman of the Board, is also the CEO of Engro Corp. Other members on the board is Khawaja Bilal Hassan. He has a graduate degree from LUMS. He also holds a position of vice president in Engro Corp. and has a diversified experience in various well reputed organizations.

**Board Effectiveness** The Board is currently aligned with the private status of the Company. Board meetings are conducted on a quarterly basis where company's financial performance and other pertinent matters are reviewed.

**Financial Transparency** A.F. Ferguson & Co. Chartered Accountants - one of the big four firms, are the Auditors for Engro Eximp. They gave an unqualified opinion on the financial statements for the year ended December 31, 2020.

## Management

**Organizational Structure** Engro Eximp has a regime of clear reporting lines. The board's reporting line terminates into the CEO while the departmental heads report to the Director Consumer Agri-business.

**Management Team** The CEO - Mr. Khusrau Nadir Gilani, is an engineer and MBA. Before being appointed as the CEO of Engro Eximp Agriproducts (pvt), held several roles across the group, most recently being the head of Consumer Business. Mr. Daniah Ali holds the position of GM Finance. He is a graduate from a reputed institute and has been deploying valuable services in various roles within the Engro group, as well as in Engro Eximp for more than 12 years.

**Effectiveness** In pursuance of effective business management, Engro Eximp has a culture of weekly management committee meetings, which comprises all heads of the department and the CEO. A Corporate planning meeting is also held every year for ensuring performance management.

**MIS** The Company has an ERP software implemented for their safety management, financial management and inventory management.

**Control Environment** Engro Eximp being a subsidiary of Engro Corp, follows the best practices and has the highest number of quality certifications among rice players in Pakistan.

## Business Risk

**Industry Dynamics** Rice is among the five major crops of Pakistan and is the second main staple food, after wheat. The segment contributes about 3.5% in agriculture value addition and 0.7% in GDP. Pakistan cultivates both basmati and non-basmati rice, most of which is exported. Local consumption includes ~95% of basmati rice and ~5% non-basmati. The major players in rice exports include Pakistan, India, Thailand, and Vietnam. Pakistan is in direct competition with India, while Thailand and Vietnamese rice are considered premium. Thailand's 'Jasmine' rice has emerged lately as high-price premium rice. During FY21, the rice cropped area increased to ~3.33MH (FY20: ~3.03MH), reflecting an increase of ~10%. Consequently, the production of rice witnessed an increase of ~13% and stood at ~8.4MT (FY20: ~7.4MT). Out of this, around 3.5mln MT of rice is consumed locally. While ~3.7mln MT is exported (Closing stock: 1.2mln MT) to generate ~PKR 325bln of export revenue. The maximum contribution is from non-basmati rice (72%) exports, as basmati rice is locally consumed and minimal quantity (28%) is exported. During FY21, rice exports deteriorated to ~USD 2,041mln (FY20: ~USD 2,175mln) owing to the Indian strategy of dumping the commodity in the international market at cheaper rates.

**Relative Position** The past couple of years have been difficult for Engro Eximp as it was recovering from the after effects of over trading. CY18 brought fortune for the business as it returned to stability. The business is still in the initial growth phase, therefore market share is relatively very small (less than ~5%) with a capacity of 24tons/hour.

**Revenues** In CY20, the topline of the Company observed a prominent improvement and stood at ~PKR 4,703mln (CY19: ~PKR 3,659mln), depicting a growth of ~29%. The increase was primarily driven by the increase in exports (CY20: ~PKR 3,914mln, CY19: ~PKR 3,090mln). The growth in exports is attributable to surge in volumetric export sales and rupee depreciation. During 1HCY21, the Company's revenue witnessed decline of 5% and stood at ~PKR 2,392 (1HCY20: ~PKR 2,526mln) due to decline in exports.

**Margins** The Company managed to regain its profitability margins, at gross level, in CY18 and continue to sustain it in CY20 at ~12% (CY19: ~13%), after enduring losses for three consecutive years. Despite cost-push inflation, the Company managed to sustain its operating expenses and the operating margin stood at ~6% (CY19: ~7%). Moreover, the net margin observed a slight jump to ~0.7% in CY20 (CY19: ~0.4%) on the back of lower finance cost (CY20: ~PKR 201mln, CY19: ~PKR 251mln). During 1HCY21, gross margin stood at 14.8% (1HCY20: 11.0%). At operational and net level, the margins stood at 8.4% and 0.9%, (1HCY20: 6.1%, 1.8%), respectively.

**Sustainability** As the business turned around to stable financial results in CY18, it is now expected to explore new business attributes. The Company plans on exporting non-basmati rice as part of its pilot project. With an idea of diversification, the Company also plans to test export trade of fruits.

## Financial Risk

**Working Capital** Working capital needs are derived from receivables and inventory days. Cash conversion cycle is linked to the rice seasonality element. In CY20, the net working capital days of the Company deteriorated to 247 days (CY19: 210 days). The increase is because of elevated inventory (CY20: 225 days, CY19: 209 days) and receivable cycle (CY20: 27 days, CY19: 8 days). The short-term trade leverage stood at ~8% (CY19: ~8%), reflecting little room to borrow against working capital. During 1HCY21, the Company's net working capital cycle remained elongated at 288 days (1HCY20: 193 days).

**Coverages** The return of profits enabled the Company to produce positive FCFO of ~PKR 311mln in CY20 (CY19: ~PKR 365mln). The finance cost of the Company observed an improvement and stood at ~PKR 201mln (CY19: ~PKR 251mln). As a result, the interest coverage ratio witnessed a minor rise to 1.6x in CY20 (CY19: 1.5x). On the other hand, the core and total operating coverage ratio remained stagnant at 1.4x (CY19: 1.4x) and 1.4x (CY19: 1.4x), respectively. During 1HCY21, interest cover stood 1.5x, with core and total interest cover standing at 1.4x each.

**Capitalization** Engro Eximp's capital structure is dominated by short term borrowing and equity. The Company obtained a long-term loan of ~PKR 106mln to finance the installation of solar plant. Henceforth, the Company's debt to equity ratio remained on a relatively higher end: CY20 ~75% (CY19: ~67%). The Company's equity is undermined due to previous years loss adjustments. As of 1HCY21, the leveraging ratio stood at ~74%.



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

Engro Eximp Agriproducts (Pvt.) Limited Rice	Jun-21 6M	Dec-20 12M	Jun-20 6M	Dec-19 12M	Jun-19 6M	Dec-18 12M
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#### A BALANCE SHEET

1 Non-Current Assets	1,106	1,121	1,129	1,166	1,205	1,226
2 Investments	-	-	-	-	-	-
3 Related Party Exposure	10	10	34	30	3	3
4 Current Assets	4,485	4,492	3,486	3,061	2,324	2,151
a Inventories	3,522	3,352	2,498	2,457	1,493	1,729
b Trade Receivables	345	546	419	145	349	10
5 Total Assets	5,601	5,623	4,649	4,256	3,532	3,380
6 Current Liabilities	217	208	246	178	207	176
a Trade Payables	142	81	99	64	150	61
7 Borrowings	3,985	4,038	3,012	2,734	1,984	1,873
8 Related Party Exposure	-	-	-	-	-	-
9 Non-Current Liabilities	-	-	-	-	-	-
10 Net Assets	1,400	1,378	1,391	1,345	1,341	1,331
11 Shareholders' Equity	1,400	1,378	1,391	1,345	1,342	1,331

#### B INCOME STATEMENT

1 Sales	2,392	4,703	2,526	3,659	1,747	2,538
a Cost of Good Sold	(2,037)	(4,152)	(2,250)	(3,185)	(1,582)	(2,268)
2 Gross Profit	355	551	277	474	165	270
a Operating Expenses	(155)	(262)	(123)	(216)	(80)	(155)
3 Operating Profit	200	289	154	258	85	115
a Non Operating Income or (Expense)	(23)	(11)	12	40	55	358
4 Profit or (Loss) before Interest and Tax	177	278	165	298	140	473
a Total Finance Cost	(133)	(201)	(99)	(251)	(115)	(116)
b Taxation	(21)	(44)	(20)	(34)	(14)	(23)
6 Net Income Or (Loss)	23	33	46	14	11	333

#### C CASH FLOW STATEMENT

a Free Cash Flows from Operations (FCFO)	195	311	182	365	148	250
b Net Cash from Operating Activities before Working Capital Changes	70	91	68	140	57	151
c Changes in Working Capital	22	(1,279)	(299)	(967)	(115)	(329)
1 Net Cash provided by Operating Activities	92	(1,189)	(231)	(827)	(57)	(178)
2 Net Cash (Used in) or Available From Investing Activities	(30)	(99)	(9)	(36)	(23)	(112)
3 Net Cash (Used in) or Available From Financing Activities	(53)	1,304	2,922	2,734	1,984	1,873
4 Net Cash generated or (Used) during the period	9	16	2,683	1,871	1,904	1,582

#### D RATIO ANALYSIS

1 Performance						
a Sales Growth (for the period)	1.7%	28.5%	38.1%	44.2%	37.7%	45.1%
b Gross Profit Margin	14.8%	11.7%	11.0%	12.9%	9.5%	10.6%
c Net Profit Margin	0.9%	0.7%	1.8%	0.4%	0.6%	13.1%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	9.1%	-20.6%	-4.6%	-16.4%	1.9%	-3.1%
e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/Sha	3.2%	2.7%	6.9%	1.1%	1.7%	27.2%
2 Working Capital Management						
a Gross Working Capital (Average Days)	296	252	199	217	187	332
b Net Working Capital (Average Days)	288	247	193	210	176	324
c Current Ratio (Current Assets / Current Liabilities)	20.7	21.6	14.2	17.2	11.2	12.2
3 Coverages						
a EBITDA / Finance Cost	1.7	1.8	2.1	1.6	1.5	2.0
b FCFO / Finance Cost+CMLTB+Excess STB	1.4	1.4	1.7	1.4	1.3	2.3
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	1.1	1.1	0.5	0.7	1.2	0.0
4 Capital Structure						
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	74.0%	74.6%	68.4%	67.0%	59.7%	58.5%
b Interest or Markup Payable (Days)	65.5	71.8	81.3	86.8	0.0	0.0
c Entity Average Borrowing Rate	7.0%	6.2%	7.4%	11.6%	14.4%	7.8%

**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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(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

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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.
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- (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)

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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
- (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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