



The Pakistan Credit Rating Agency Limited

Rating Report

Sadiq Feeds (Pvt.) Limited

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Rating History					
Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
22-Jul-2020	BBB+	A2	Negative	Maintain	YES
21-Jan-2020	BBB+	A2	Stable	Maintain	-
22-Jul-2019	BBB+	A2	Stable	Maintain	-
20-Mar-2019	BBB+	A2	Stable	Maintain	-
18-Sep-2018	BBB+	A2	Stable	Maintain	-
22-Mar-2018	BBB+	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The global feed industry can be valued at around ~\$460bln, with poultry (~\$166bln) constituting ~36% of the total industry. Pakistan has installed poultry feed production capacity of ~ 8mln MT/year with a total of ~150 registered feed mills and ~200 unregistered feed mills catering to it. The industry generates an estimated annual revenue of ~ PKR 100bln from local sales to poultry farms. Lately, due to Covid-19 outbreak, restaurants, marriage halls and other public places have been closed. This, along with no exports of poultry products, have led to supply glut in local market. Prices of poultry products posted a dip, despite being an essential food item, due to lower demand with many poultry farms becoming non-operational. Subsequently, sale of feed and recovery from farms is expected to remain under pressure. Although feed producers have sufficient inventory and oversupply has reduced slightly, lower sales and liquidity crunch are expected to significantly impact the industry. Recent SBP measures will provide some respite in the short-time. However, prolonged closure of key revenue generating channels will affect sales in the entire poultry chain.

The ratings reflect Sadiq Feeds (Pvt.) Ltd.'s ('Sadiq Feeds' or "the Company") association with an established poultry group, Sadiq Group. The Company is part of the Group's integrated poultry chain – oil/meal, feed and poultry. Topline is concentrated towards broiler feed with sales to group companies as a major source. The Company remains exposed to inherent risks in the feed industry emanating from raw material price changes and lately low demand due to COVID-19 outbreak. Although the Company enjoyed good margins and profitability in 9MFY20, sales have slowed down considerably in the 4QFY20 subsequent to lockdown leading to lower capacity utilization and off take. This trend has eased to an extent but demand is expected to remain low until lockdown eases and demand centers (restaurants, banquet halls etc.) reopen. The Company procures raw material in bulk due to seasonal constraints. This highlights inherent price risk along with storage issues and high holding period. Financial risk profile of the Company is characterized by modest coverages. However, leveraging remains high, mainly on account of working capital requirements. The loan mix is skewed towards short term borrowings. The Company intends to avail debt relief measures announced by SBP through deferment and restructuring of certain loans. This is expected to provide relief in terms of debt servicing and ease pressure on cashflow. Further, lower interest cost due to cumulative policy rate cuts of 626bps will lessen debt servicing burden materially. The ratings incorporate potential support from sponsors and/or group companies. The Negative Outlook and 'Rating Watch' signify adverse impact of COVID-19 outbreak, economic slowdown and prevailing uncertainty. PACRA will monitor the situation closely and update the ratings accordingly.

The ratings are dependent on the management's ability to sustain its operations and improve capacity utilization. Maintaining strict working capital discipline through prudent inventory management and strict adherence to new loan profiling remain critical. Any significant deterioration in Sadiq Feeds Pvt. Ltd. and its prolonged low sales cycle will have negative impact on the ratings.

Disclosure	
Narrative of Rating Rationale	Solicited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Ratings(Jun-20),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-20),Criteria Rating Modifier(Jun-20)
Related Research	Sector Study Poultry Feed(Jan-20)
Rating Analysts	Faiqa Qamar faiqa.qamar@pacra.com +92-42-35869504

Profile

Legal Structure Sadiq Feeds (Pvt.) Ltd. (Sadiq Feed or 'the Company') was incorporated on July 07, 2005, as a Private Limited Company.

Background Sadiq Group came into existence as a small scale family business and became formally operational in April, 1975. Today, the Group is known as one of the leaders in poultry industry with presence throughout the poultry chain operating under the brand name of Sadiq.

Operations Sadiq Feeds produces three different type of feeds namely: i) poultry feed, ii) strain specific layer feed and iii) cattle feed for birds and livestock of different types and age groups. The Company has two feed mills situated in Mandra and Sahiwal, with a production capacities of 70 MT per hour and 130 MT per hour, respectively. In 3QFY20, utilization level improved to 41% on the back of increased demand from Group's companies.

Ownership

Ownership Structure Sadiq Feeds major shareholding vests with Dr. Muhammad Sadiq (70%); followed by his two sons, Mr. Asif Zubair (15%) and Mr. Salman Sadiq (15%). While ownership is not expected to change, the sponsors have re-structured assets in it's Group among associated entities in FY19.

Stability Ownership of the business is seen as stable as the major ownership vests with Dr. M. Sadiq. Group assets have been distributed among two sons of Dr. Sadiq.

Business Acumen Sadiq Group has experienced multiple business cycles, showing strong business acumen of sponsors. The Group's broiler farms are among the highest chick producers in Pakistan. Currently, there are seven companies, one AoP and one trust working under Sadiq Group. All are operating in various segments of poultry and oil industries.

Financial Strength Sadiq Group has consolidated asset base of ~ PKR 43bln supported by an equity of ~ PKR 12bln as at end Jun'19. Through its diverse set of businesses, it has generating a turnover of ~PKR 50bln in FY19.

Governance

Board Structure Sadiq Feeds Board, comprising three members, is dominated by the sponsoring family. The Company's Board lacks independence, indicating room for improvement in the governance framework.

Members' Profile All BoD members have relevant expertise. Dr. Muhammad Sadiq, Board's Chairman, holds a DVM degree and has four decades of experience in poultry and integrated businesses. The Company's Directors, Mr. Asif Zubair and Mr. Salman Sadiq, are US graduates and have experience of more than 10 years.

Board Effectiveness The Company has a small sized board with no sub-committees. During FY20, three Board meetings, with full attendance, were held to discuss pertinent matters and make strategic decisions.

Financial Transparency Sadiq Feeds external auditors, Muniff Ziauddin and Co Chartered Accountants, have expressed an unqualified opinion on the financial reports for FY19. The firm has been QCR rated by ICAP and is in Category 'A' of SBP panel.

Management

Organizational Structure The Company's sales and production are monitored by GM Production. Whereas, support departments work as shared services for the Group. All departments eventually report to the CEO.

Management Team Sadiq Feeds management comprise experienced professionals. Dr. Muhammad Sadiq, Group's CEO, has headed several national and international forums and is also recognized as a leading authority on poultry sciences and avian welfare. Dr. Sadiq is the decision maker and looks after the Company and group affairs. Reliance on him remains high leading to key person risk.

Effectiveness Management ensure effectiveness through Technical, Interview and Operational committees, established at the Group level. Each comprises 4 members.

MIS Two financial software, set by Sidat Hyder, are used at the Group level. However, for internal dissemination, information is documented as and when required.

Control Environment At Sadiq Feeds, internal audit department has been established at group level to ensure internal controls. The Company's feed mills are fully automated.

Business Risk

Industry Dynamics The global feed industry can be valued at around ~\$460bln, with poultry (~\$166bln) constituting ~36% of the total industry. Pakistan has installed poultry feed production capacity of ~ 8mln MT/year with a total of ~150 registered feed mills and ~200 unregistered feed mills catering to it. The industry generates an estimated annual revenue of ~ PKR 100bln from local sales to poultry farms. Lately, due to Covid-19 outbreak, restaurants, marriage halls and other public places have been closed. This, along with no exports of poultry products, have led to supply glut in local market. Prices of poultry products posted a dip despite being an essential food item due to lower demand with many poultry farms becoming non-operational. Subsequently, sale of feed and recovery from farms is expected to remain under pressure. Although feed producers have sufficient inventory and oversupply has reduced slightly, lower sales and liquidity crunch are expected to significantly impact industry players. Recent SBP measures will provide some respite in the short-time. However, prolonged closure of key revenue generating channels will affect sales in the entire poultry chain.

Relative Position Sadiq Feeds is among the market leaders in Pakistan's poultry feed industry, with a market share of ~21%.

Revenues Sadiq Feeds sales mix comprises broiler feed, breeder feed and layer feed. Moreover, 20 – 25% revenue comes from Group Companies (Sadiq Poultry, Sadiq Poultry Farms, Salman Poultry, Zubair Feeds) providing a captive market. During 3QFY20, the Company's revenue posted an increase of 36% to PKR 26bln (3QFY19: PKR 19 bln) The growth in revenue was supported by increase in feed prices as volumes remained stagnant. The sales have slowed considerably lately as the lockdown prolongs and demand remains low.

Margins The Company's ability to pass on the increased raw material cost to poultry farms led to stable gross margins (3QFY20: 7.4%, 3QFY19: 7.3%). Operating margins decreased marginally due to higher marketing expenses (3QFY20: 5.6%, 3QFY19: 5.7%). Despite higher finance cost, higher quantum of sales resulted in better profitability as net profit margins showed significant improvement (3QFY20: 2.6%, 3QFY19: 0.5%). The Company posted net income of PKR 691mln in 3QFY20 (3QFY19: PKR 182mln). The sales have dropped amidst COVID-19 outbreak and margins are expected to come under pressure.

Sustainability The prevailing lockdown and uncertainty due to COVID-19 outbreak has created challenges for the industry and the Company. Sustaining operations and generating adequate revenues will be tough in current environment as demand remains low. The situation may worsen if lockdown prolongs for a significant time.

Financial Risk

Working Capital Sadiq Feeds has high net working capital days emanating predominantly from high raw material inventory days (maize) procured on seasonal basis (3QFY20: 107days, 3QFY19: 127days). Sales are mostly on credit basis, with an average debtor days of 59 days during 3QFY20 (3QFY19: 53days). This led the net working capital days to 132 days during 3QFY20 (3QFY19: 173days). Owing to high reliance on external finance for working capital needs, the Company has little cushion at trade level. The rising trade receivables exposes the Company to default risk by customers. However, sales to group companies provide comfort to an extent.

Coverages During 3QFY20, interest coverage improved (3QFY20: 1.7x, 3QFY19: 1.3x). This was as a result of significantly higher cashflows (3QFY20: PKR 2,049mln, 3QFY19: 987mln). Total and core coverage also increased to 1.4x during 3QFY20 from 1.1x in 3QFY19. The Company's coverage ratios remain modest. The Company has deferred/restructured its debt to create room in cashflows and coverages, which were otherwise getting strained.

Capitalization Sadiq Feeds has a highly leveraged capital structure (3QFY20: 70%, 3QFY19: 75%). Total debt comprises 96% short term borrowings and 4% long term borrowings during 3QFY20. The Company has availed SBP provided measures to defer and restructure its debt obligations but overall leveraging remains the same.



The Pakistan Credit Rating Agency Limited

PKR mln

Sadiq Feeds Private Limited Food and Allied	Mar-20 9M	Dec-19 6M	Sep-19 3M	Jun-19 12M	Mar-19 9M	Dec-18 6M	Sep-18 3M
A BALANCE SHEET							
1 Non-Current Assets	1,580	1,604	1,628	1,650	1,588	1,546	1,571
2 Investments	5	5	5	5	-	-	-
3 Related Party Exposure	-	-	-	-	13	13	15
4 Current Assets	17,143	17,714	16,864	17,191	15,245	14,695	14,415
<i>a Inventories</i>	10,039	10,575	10,540	10,576	9,226	9,985	9,409
<i>b Trade Receivables</i>	5,856	5,737	5,204	5,514	3,892	2,800	3,177
5 Total Assets	18,727	19,323	18,497	18,846	16,846	16,254	16,001
6 Current Liabilities	4,262	4,238	4,341	4,194	2,007	2,071	2,028
<i>a Trade Payables</i>	3,647	3,692	3,036	2,903	478	491	487
7 Borrowings	10,130	10,929	10,407	11,009	11,073	10,594	10,450
8 Related Party Exposure	9	9	-	9	112	-	-
9 Non-Current Liabilities	-	-	-	-	-	-	-
10 Net Assets	4,325	4,146	3,749	3,634	3,654	3,589	3,523
11 Shareholders' Equity	4,325	4,146	3,749	3,634	3,654	3,589	3,523
B INCOME STATEMENT							
1 Sales	26,440	17,706	6,876	24,674	19,388	12,704	5,976
<i>a Cost of Good Sold</i>	(24,495)	(16,366)	(6,362)	(22,861)	(17,967)	(11,847)	(5,574)
2 Gross Profit	1,945	1,339	514	1,812	1,421	856	402
<i>a Operating Expenses</i>	(457)	(314)	(125)	(468)	(320)	(212)	(101)
3 Operating Profit	1,488	1,026	388	1,345	1,100	644	300
<i>a Non Operating Income or (Expense)</i>	469	321	111	110	(13)	(11)	(5)
4 Profit or (Loss) before Interest and Tax	1,957	1,347	499	1,455	1,087	633	296
<i>a Total Finance Cost</i>	(1,266)	(835)	(385)	(1,190)	(817)	(473)	(229)
<i>b Taxation</i>	-	-	-	(103)	(88)	(46)	(20)
6 Net Income Or (Loss)	691	512	115	162	182	114	48
C CASH FLOW STATEMENT							
<i>a Free Cash Flows from Operations (FCFO)</i>	2,049	1,469	533	1,419	987	728	287
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	933	710	197	390	253	302	113
<i>c Changes in Working Capital</i>	(65)	(548)	429	(716)	(769)	(399)	(270)
1 Net Cash provided by Operating Activities	868	162	626	(326)	(516)	(97)	(157)
2 Net Cash (Used in) or Available From Investing Activities	(85)	(45)	(32)	(264)	(169)	(52)	(53)
3 Net Cash (Used in) or Available From Financing Activities	(879)	(80)	(602)	611	794	204	59
4 Net Cash generated or (Used) during the period	(96)	37	(8)	21	108	54	(151)
D RATIO ANALYSIS							
1 Performance							
<i>a Sales Growth (for the period)</i>	42.9%	43.5%	11.5%	15.3%	20.8%	18.7%	11.7%
<i>b Gross Profit Margin</i>	7.4%	7.6%	7.5%	7.3%	7.3%	6.7%	6.7%
<i>c Net Profit Margin</i>	2.6%	2.9%	1.7%	0.7%	0.9%	0.9%	0.8%
<i>d Cash Conversion Efficiency (EBITDA/Sales)</i>	8.3%	8.7%	8.2%	6.4%	6.5%	6.1%	6.1%
<i>e Return on Equity (ROE)</i>	23.1%	26.3%	12.4%	4.6%	6.8%	6.4%	5.5%
2 Working Capital Management							
<i>a Gross Working Capital (Average Days)</i>	166	167	211	210	180	180	190
<i>b Net Working Capital (Average Days)</i>	132	133	172	185	173	174	183
<i>c Current Ratio (Total Current Assets/Total Current Liabilities)</i>	4.0	4.2	3.9	4.1	7.6	7.1	7.1
3 Coverages							
<i>a EBITDA / Finance Cost</i>	1.8	1.9	1.5	1.4	1.7	1.8	1.8
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	1.4	1.5	1.2	1.0	1.1	1.3	1.0
<i>c Debt Payback (Total Borrowings+Excess STB)/(FCFO-Finance Cost)</i>	0.4	0.4	0.9	2.3	2.5	1.3	2.7
4 Capital Structure (Total Debt/Total Debt+Equity)							
<i>a Total Borrowings / Total Borrowings+Equity</i>	70.1%	72.5%	73.5%	75.2%	75.4%	74.7%	74.8%
<i>b Interest or Markup Payable (Days)</i>	105.5	88.7	89.6	103.6	90.3	0.0	0.0
<i>c Average Borrowing Rate</i>	15.5%	15.0%	14.2%	10.7%	9.2%	8.2%	7.9%

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
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Rating Team Statements

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

2) Conflict of Interest

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

Restrictions

- (3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
- (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)

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