



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
14-Sep-2021	BBB+	A2	Stable	Maintain	-
19-Jul-2021	BBB+	A2	Stable	Maintain	-
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

Globally, the poultry feed production stood at 1.2bln MT in 2020, up by 1% from 2019. Pakistan's annual poultry feed production is around ~3.5mln MT, with ~150 registered feed mills and ~200 unregistered feed mills catering to it. The industry generates an annual turnover of ~PKR 396bln (Jun-20). At the beginning of the COVID-19 pandemic, the closure of restaurants/marriage halls and export avenues led to a supply glut of poultry products in the local market. However, as business avenues became operational, demand for poultry products improved. Lately, a visible surge was also observed in feed and poultry product prices. This, along with SBP's interest rate cut along with deferment and/or restructuring option provided sufficient respite to the industry players. An uptick in prices and demand dynamics are expected if the hospitality segment remains operational.

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 fluctuating demand due to the COVID-19 outbreak. The Company enjoyed good margins and profitability, however, the slow down in sales during 3QFY21 led to lower off-take. Lately, this trend has eased as demand centers (restaurants, banquet halls, etc.) became operational. The Company procures raw material in bulk due to seasonal constraints. This highlights inherent price risk along with storage issues and a high holding period. The financial risk profile of the Company is characterized by improved working capital cycle. However, coverages remain stressed. Leveraging remains high, mainly on account of working capital requirements. However, the Company has availed debt relief measures (deferment and restructuring of loans) announced by SBP. This along with the interest rate cut has eased the pressure on the Company's cash flow. The ratings incorporate potential support from sponsors and/or group companies. Post Dr. Sadiq's demise, the ownership transition of Sadiq Feeds has been achieved.

The ratings are dependent on the management's ability to manage business risk while sustaining business margins in prevailing challenges. Moreover, the governance framework needs attention. Going forward, generating sustainable operational cashflows is important. Meanwhile, a prudent financial strategy to meet financial obligations remains critical.

#### Disclosure

<b>Name of Rated Entity</b>	Sadiq Feeds (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   Poultry Feed(Jan-21)
<b>Rating Analysts</b>	Shayan Farooq   shayan.farooq@pacra.com   +92-42-35869504

## Profile

**Legal Structure** Sadiq Feeds (Pvt.) Ltd. (Sadiq Feeds 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 the poultry industry with a presence throughout the poultry chain operating under the brand name of Sadiq.

**Operations** Sadiq Feeds produces three different types 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 production capacities of 65 MT per hour and 130 MT per hour, respectively. In 3QFY21, the utilization level improved to 42% on the back of increased demand from group companies.

## Ownership

**Ownership Structure** Post Dr. Sadiq's demise in Oct'20, the Company's shareholding stands with Ms. Saadia Sadiq (22%) and her sons M. Aarsal Sadiq (25%), M. Sanan Sadiq (27%), and M. Saad Sadiq (27%).

**Stability** Ownership of the business is seen as stable as the ownership has been successfully transferred to Ms. Saadia Sadiq and her sons.

**Business Acumen** Sadiq Group has experienced multiple business cycles, showing the 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 the poultry and oil industries.

**Financial Strength** Sadiq Group has a consolidated asset base of ~ PKR 40bln supported by equity of ~ PKR 11bln as of Jun'20. Through its diverse set of businesses, it has a turnover of ~PKR 43bln during FY20.

## Governance

**Board Structure** Sadiq Feeds Board, comprising of two 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 are new and lack relevant expertise. Ms. Saadia Sadiq, Board's Chairman, holds experience in textile designing businesses.

**Board Effectiveness** The Company has a small-sized board with no sub-committees. During FY21, four 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 of FY20. The firm has been QCR rated by ICAP and is in Category 'A' of the 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** Post Dr. Sadiq's demise, Ms. Saadia Sadiq has been appointed as the CEO of the Company. She is assisted by Mr. Gulraiz Ahmed, the GM Production, and Mr. Naeem Haider, the Group CFO. Both possess more than 25 years of overall experience in their respective fields and have been associated with the Group for more than 2 decades.

**Effectiveness** Management ensures 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, an internal audit department has been established at the group level to ensure internal controls. The Company's feed mills are fully automated.

## Business Risk

**Industry Dynamics** The global feed industry is valued at ~\$460bln, with poultry (~\$166bln) constituting ~36% of the total industry. Pakistan produces ~3.5mln MT annually, with ~150 registered feed mills and ~200 unregistered feed mills catering to it. The feed and Poultry industry generates an annual turnover of ~PKR 396bln from local sales and ~ PKR 1bln from export sales. Amidst the COVID-19 pandemic, the closure of restaurants/marriage halls and export avenues led to a supply glut of poultry products in the local market. This led to the prices of poultry products decreasing. The sale of feed and recovery from farms remained under pressure. Lately, as business avenues became operational, demand for poultry products has improved. A visible surge is also observed in feed and poultry product prices. SBP's interest rate cut and deferment/restructuring option have provided sufficient respite to the industry players.

**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, 45-50% of revenue comes from Group Companies (Sadiq Poultry, Sadiq Poultry Farms, Salman Poultry, Zubair Feeds) providing a captive market. During 3QFY21, the Company's revenue posted a decrease of 10% to PKR 24bln (3QFY20: PKR 27bln). The dip in revenue was due to a drop in volumes, whereas the prices remained stagnant. The sales slowed considerably as the country was in a lockdown for the most part of FY21.

**Margins** The Company's ability to pass on the increased raw material cost to poultry farms led to stable gross margins (3QFY21: 9%, 3QFY20: 9%). Operating margins improved (3QFY21: 8%, 3QFY20: 7%) marginally due to lower selling expenses (3QFY21: PKR 94mln, 3QFY20: PKR 216mln). This, along with lower finance cost (3QFY21: PKR 841mln, 3QFY20: PKR 1,266mln) from a drop in interest rates resulted in better profitability, as net margins showed significant improvement (3QFY21: 4%, 3QFY20: 2.6%). The Company posted a net income of PKR 1,029mln during 3QFY21 (3QFY20: PKR 691mln).

**Sustainability** The uncertainty due to the COVID-19 outbreak created challenges for the industry and the Company. Sustaining operations and generating adequate revenues will be tough if the lockdown is enforced again, as demand may come under pressure.

## Financial Risk

**Working Capital** Sadiq Feeds has high net working capital days emanating predominantly from high raw material inventory days (maize) procured on a seasonal basis (3QFY21: 115 days, 3QFY20: 105 days). Sales are mostly on a credit basis, with higher average debtor days of 79 days as of 3QFY21 (3QFY20: 58 days). This led the networking capital days to 154 days as of 3QFY21 (3QFY20: 129 days). Majority of the sales are to Group companies, which provide comfort to an extent.

**Coverages** As of 3QFY21, interest coverage improved significantly (3QFY21: 2.7x, 3QFY20: 1.7x). This was as a result of lower finance costs (3QFY21: PKR 841mln, 3QFY20: 1,266mln) due to decline in policy rate. Total and core coverage decreased to 1x as at 3QFY21 from 1.4x in 3QFY20 due to higher current maturity of longterm debt (3QFY21: PKR 1,682mln, 3QFY20: PKR 298mln). 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 (3QFY21: 70%, 3QFY20: 70%). Total debt comprises 69% of short-term borrowings and 31% of longterm borrowings as of 3QFY21. The Company has availed SBP provided measures to defer and restructure its debt obligations but overall leveraging remains high.



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Financial Summary

	Mar-21	Dec-20	Sep-20	Jun-20	Mar-20	Dec-19	Sep-19	Jun-19	Jun-18
	9M	6M	3M	12M	9M	6M	3M	12M	12M
<b>A BALANCE SHEET</b>									
1 Non-Current Assets	1,710	1,793	1,635	1,700	1,580	1,604	1,628	1,650	1,583
2 Investments	5	5	5	5	5	5	5	5	-
3 Related Party Exposure	-	-	-	-	-	-	-	-	-
4 Current Assets	19,036	18,287	20,989	18,618	17,143	17,714	16,864	17,191	14,231
<i>a Inventories</i>	9,907	10,760	10,762	10,353	10,039	10,575	10,540	10,576	8,754
<i>b Trade Receivables</i>	7,225	5,969	8,103	6,679	5,856	5,737	5,204	5,514	3,587
5 Total Assets	20,752	20,084	22,630	20,323	18,727	19,323	18,497	18,846	15,814
6 Current Liabilities	4,513	4,279	6,980	5,180	4,262	4,238	4,341	4,194	1,950
<i>a Trade Payables</i>	3,329	3,446	5,425	3,516	3,647	3,692	3,036	2,903	469
7 Borrowings	11,388	11,482	11,607	11,348	10,130	10,929	10,407	11,009	10,391
8 Related Party Exposure	37	37	24	11	9	9	-	9	-
9 Non-Current Liabilities	-	-	-	-	-	-	-	-	-
10 Net Assets	4,814	4,286	4,020	3,784	4,325	4,146	3,749	3,634	3,473
11 Shareholders' Equity	4,814	4,286	4,020	3,784	4,325	4,146	3,749	3,634	3,473
<b>B INCOME STATEMENT</b>									
1 Sales	24,215	16,193	7,583	28,154	26,899	18,022	6,994	24,796	21,404
<i>a Cost of Good Sold</i>	(22,061)	(14,756)	(6,912)	(25,671)	(24,495)	(16,366)	(6,362)	(22,861)	(19,942)
2 Gross Profit	2,154	1,437	671	2,483	2,405	1,655	631	1,935	1,462
<i>a Operating Expenses</i>	(297)	(260)	(96)	(483)	(457)	(314)	(125)	(468)	(356)
3 Operating Profit	1,857	1,178	576	2,000	1,948	1,342	506	1,467	1,106
<i>a Non Operating Income or (Expense)</i>	14	9	4	(15)	9	5	(6)	(12)	(17)
4 Profit or (Loss) before Interest and Tax	1,871	1,186	580	1,985	1,957	1,347	499	1,455	1,088
<i>a Total Finance Cost</i>	(841)	(685)	(344)	(1,636)	(1,266)	(835)	(385)	(1,190)	(855)
<i>b Taxation</i>	-	-	-	(199)	-	-	-	(103)	(132)
6 Net Income Or (Loss)	1,029	501	235	150	691	512	115	162	102
<b>C CASH FLOW STATEMENT</b>									
<i>a Free Cash Flows from Operations (FCFO)</i>	2,091	1,318	106	2,081	2,049	1,469	533	1,419	1,169
<i>b Net Cash from Operating Activities before Working Capital</i>	1,101	480	(297)	548	933	710	197	390	316
<i>c Changes in Working Capital</i>	(747)	(275)	155	(639)	(65)	(548)	429	(716)	(406)
1 Net Cash provided by Operating Activities	354	205	(141)	(91)	868	162	626	(326)	(90)
2 Net Cash (Used in) or Available From Investing Activities	(299)	(268)	(38)	(251)	(85)	(45)	(32)	(264)	(69)
3 Net Cash (Used in) or Available From Financing Activities	66	160	271	335	(879)	(80)	(602)	611	220
4 Net Cash generated or (Used) during the period	121	97	91	(7)	(96)	37	(8)	21	61
<b>D RATIO ANALYSIS</b>									
<b>1 Performance</b>									
<i>a Sales Growth (for the period)</i>	14.7%	15.0%	7.7%	13.5%	44.6%	45.4%	12.8%	15.8%	19.5%
<i>b Gross Profit Margin</i>	8.9%	8.9%	8.9%	8.8%	8.9%	9.2%	9.0%	7.8%	6.8%
<i>c Net Profit Margin</i>	4.3%	3.1%	3.1%	0.5%	2.6%	2.8%	1.6%	0.7%	0.5%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working C</i>	5.6%	6.4%	3.4%	5.1%	7.4%	5.1%	13.8%	2.8%	3.6%
<i>e Return on Equity [ Net Profit Margin * Asset Turnover * (T</i>	28.8%	23.3%	24.7%	4.1%	21.2%	25.0%	12.1%	4.8%	3.0%
<b>2 Working Capital Management</b>									
<i>a Gross Working Capital (Average Days)</i>	193	190	216	215	163	164	208	209	210
<i>b Net Working Capital (Average Days)</i>	154	151	162	173	129	131	169	184	195
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	4.2	4.3	3.0	3.6	4.0	4.2	3.9	4.1	7.3
<b>3 Coverages</b>									
<i>a EBITDA / Finance Cost</i>	2.7	2.1	2.1	1.4	1.8	1.9	1.5	1.4	1.7
<i>b FCFO / Finance Cost+ CMLTB+Excess STB</i>	1.0	1.1	0.2	1.1	1.4	1.5	1.2	1.0	1.1
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Fin</i>	2.1	2.1	-2.5	1.1	0.4	0.4	0.9	2.3	2.3
<b>4 Capital Structure</b>									
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equi</i>	70.4%	72.9%	74.3%	75.0%	70.1%	72.5%	73.5%	75.2%	75.0%
<i>b Interest or Markup Payable (Days)</i>	97.1	76.5	103.6	99.4	105.5	88.7	89.6	103.6	78.9
<i>c Entity Average Borrowing Rate</i>	9.3%	11.7%	11.9%	14.5%	15.3%	15.2%	14.1%	10.6%	7.2%

**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.
- (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)

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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)
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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)

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- (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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