The Pakistan Credit Rating Agency Limited

Rating Report

Sadiq Oil Extraction (Pvt.) Ltd

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
06-Aug-2021	BBB-	A3	Stable	Maintain	-
11-Feb-2021	BBB-	A3	Stable	Downgrade	Yes
07-Aug-2020	BBB	A2	Negative	Maintain	Yes
10-Aug-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 ratings reflect Sadiq Oil’s ('Sadiq Oil' or 'the Company') association with an established and integrated poultry group, Sadiq Group. The Group has a significant presence along the poultry supply chain and Sadiq Oil supports its vertical integration strategy. Initially, venturing into the branded oil segment (SB Gold) benefitted the Company. However, the Company's topline contracted and stems from the refining segment only. As their solvent extraction plant is non-operational since Aug-20, the Company is relying on external sources, for semi-refined oil, to manage the operations of its refining segment. On the industry front, demand for edible oil was impacted minimally due to the closure of marriage halls and restaurants during most FY21. Being a staple food item, edible oil demand from households did not drop. Players had sufficient inventories to fulfill demand. Lately, demand from all avenues has picked up. However, the high dependence on imported raw material, oilseed, exposes players to volatility in international oilseed prices and the inherent risk of currency fluctuations. Since Jul-20, soybean oilseed prices have surged by ~59%, however, were passed on to the end consumers. Currently, Sadiq Oil's revenue, and in turn margins are squeezed. Until the extraction plant becomes fully operational, sales and recovery of soy meal are expected to remain under pressure. Going forward, players in the refining segment may benefit from an increase in refined edible oil and meal prices. However, branded and packaged oil segment is expected to remain competitive. The Company's financial risk profile is characterized by high borrowings used to finance working capital requirements. Lately, the Company has off-loaded significant debt on its balance sheet providing the requisite respite. However, coverages remain stressed due to low profitability. The working capital cycle remains stretched but drives comfort from Groups integrated presence in the poultry sector. This along with debt relief measures of SBP through deferment/restructuring of loans and the low-interest rates has benefited the Company's borrowing cushion. This creates room to begin crushing in near future.

The ratings are dependent on the management's ability to manage business risk while improving 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. Resumption of solvent extraction is crucial for the ratings.

Disclosure

Name of Rated Entity	Sadiq Oil Extraction (Pvt.) Ltd
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 | Edible Oil(Feb-21)
Rating Analysts	Shayan Farooq | shayan.farooq@pacra.com | +92-42-35869504

Profile

Legal Structure Sadiq Oil Extraction (Pvt.) Ltd. ('Sadiq Oil' or 'the Company') was incorporated in 2013 as a private limited company.

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

Operations Sadiq Oil primarily extracts and produces two different products in three variants. These include: Semi-refined Soybean oil and Soya Meal, Semi refined Canola Oil and Canola Meal and Semi-refined Sunflower Oil and Sunflower Meal. Company imports 90-95% seeds from the USA, Brazil and Malaysia. Along with this, they have set up a Physical Refinery, Soap and Ghee plant. The Company successfully completed the trial run for Physical Refinery and started commercial operations from Feb-19. Ghee Plant also became commercially operational during Apr-19.

Ownership

Ownership Structure Post Dr. Sadiq's demise, shareholding resides with Dr. Sadiq's wife Mrs. Saadia Sadiq (22%) and her sons; M. Arsal (25%), M. Sanan (27%) and M. Saad (27%). Previously, major shareholding vested with Dr. M. Sadiq (90.58%), and his two sons, Mr. Asif Zubair (3.88%) and Mr. Salman Sadiq (5.54%).

Stability Ownership of the business has changed during FY21 and currently resides with Dr. M. Sadiq's wife, Mrs. Saadia Sadiq and her sons. As the current owners have been recently inducted, thus, would require time to develop a keen know-how of the business.

Business Acumen Sadiq Group has experienced multiple business cycles and have maintained their position since 1975. 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 chain.

Financial Strength As at FY20, Sadiq Group has a consolidated equity of PKR 11bln, while, manages an asset base of above PKR 40bln. Through its diverse set of businesses, it is generating a turnover of almost PKR 43bln.

Governance

Board Structure Sadiq Oil's 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. Mrs. 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 Oil's 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, while the operations are headed by her son, Mr. Muhammad Arsal. They are assisted by Mr. Naeem Haider, the Group CFO. He possess more than 25 years of overall experience and has 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 up by Sidat Hyder, are used at the Group level. However, for internal dissemination, information is documented when required.

Control Environment Internal audit department has been established at group level to ensure controls. Entire extraction and refining facilities are fully automated.

Business Risk

Industry Dynamics Pakistan's edible oil industry is heavily reliant on imports since oilseeds account for ~80% of the cost of production. Additionally, low local oil seed production and lower yields have pushed farmers away from oilseed, further increasing dependence on imports. Demand for edible oil along with sales and recovery of soy meal was impacted minimally due to the closure of marriage halls and restaurants during the most part of FY21. Being a staple food item, edible oil demand from households did not drop. Players had sufficient inventories to fulfill demand. Lately, demand from all avenues has picked up. However, the high dependence on imported raw material, oilseed, exposes players to volatility in international oilseed prices and the inherent risk of currency fluctuations. Since Jul-20 to date, Soybean oilseed prices have surged by ~59%, coupled with rupee fluctuation. Going forward, players in the refining segment may benefit from an increase in refined edible oil and meal prices. However, branded and packaged oil segment is expected to remain competitive.

Relative Position As per the All Pakistan Solvent Extractions’ Association, there are 103 solvent extraction companies out of which only 30 are extracting edible oil. Among these 30 companies, Sadiq Oil Extraction (Pvt.) Limited holds a share of 3%.

Revenues Sadiq Oil generates revenue by selling edible oil in semi-refined and refined form, meal and soap sludge. Semi-refined oil is sold to the brokers on cash basis and directly in bulk quantities to customers. Most of the meal produced during the oil extraction process is consumed by Sadiq Feeds (forwardly integrated venture). During 3QFY21, major chunk of revenue (78%) was generated by selling meal to poultry/cattle feed industry; followed by Soybean semi-refined oil sale (12%). Revenue during 3QFY21 declined by 73% to PKR 2.2bln (3QFY20: PKR 8.4bln) due to significantly lower volumes, as the Company's solvent extraction unit was not operational for most part of 3QFY21. During FY21, revenues are expected to be further impacted as they stem from refining segment mostly.

Margins Lower sales translated in to lower gross profits (3QFY21: PKR 327mln, 3QFY20: PKR 689mln). However, gross margin increased during 3QFY21 (3QFY21: 15%, 3QFY20: 8%) as higher input cost was passed on to consumers. Operating margins also posted a surge (3QFY21: 11%, 3QFY20: 6%) due to reduced admin and selling expenses (3QFY21: PKR 78mln, 3QFY20: PKR 149mln). However, due to trickle down effect of a reduced topline, despite lower finance cost (3QFY21: PKR 437mln, 3QFY20: PKR 680mln), net margins turned negative (3QFY21: -7%, 3QFY20: 1%). The Company booked net loss of PKR 152mln during 3QFY21 (3QFY20: Profit PKR 90mln). During FY21, margins are expected to remain squeezed as the Company is procuring semi-refined oil from external sources.

Sustainability The Company's crushing plant has remained non-operational for the most part of 3QFY21, and resultantly, the revenue stream of the Company may continue to be impacted. However, the Company aims to optimize utilization of its refining capacity along with keeping costs under control.

Financial Risk

Working Capital Sadiq Oil’s inventory days are high as a buffer stock of 5-6 months is being maintained to counter rise in oilseed prices (3QFY21: 592 days, 3QFY20: 128 days). It operates with brokers on cash basis for oil sales while a credit period of 50-60 days is given for meal sales, of which 98% are sold to Sadiq Feeds. The average receivable days have significantly risen to 132 days (3QFY20: 64 days) as feed business faced challenges due to the lockdown. Majorly raw materials are procured on advance basis, which further increased to 31 days (3QFY20: 7 days). This lead to a high net cash cycle of 693 days (3QFY20: 185 days). The Company's borrowing cushion improved due to lower utilization of short term borrowings (3QFY21: PKR 2.1bln, 3QFY20: PKR 4.3bln). In FY21, the Company is procuring semi-refined oil from external sources to manage its refining operations as the crushing plant is non-operational.

Coverages Interest coverage decreased to 0.6x in 3QFY21 (3QFY20: 1.3x) due decrease in free cashflows (3QFY21: PKR 254mln, 3QFY20: PKR 853mln) from lower profitability. Core and Total Coverage also declined due to lower profitability, standing at 0.3x in 3QFY21 (3QFY20: 1x). Going forward, coverage ratios will continue to remain under pressure from stressed cash flows.

Capitalization The Company is highly leveraged owing to their need for credit facilities for working capital requirements (3QFY21: 68%, 3QFY20: 71%). Debt majorly comprises of short term 61% (3QFY20: 89%). Out of this, short term debt stood at PKR 2.1bln (3QFY20: PKR 4.3bln). The leveraging is reduced as Sponsors injected equity of PKR 670mln in FY20.

PACRA

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

Sadiq Oil Extraction (Pvt.) Limited Edible Oil	Mar-21 9M	Dec-20 6M	Sep-20 3M	Jun-20 12M	Mar-20 9M	Dec-19 6M	Sep-19 3M	Jun-19 12M	Jun-18 12M
A BALANCE SHEET									
1 Non-Current Assets	1,217	1,248	1,288	1,313	1,280	1,312	1,326	1,336	999
2 Investments	-	-	-	-	-	-	-	-	-
3 Related Party Exposure	-	-	-	-	-	-	-	-	-
4 Current Assets	5,542	6,568	7,247	7,397	6,251	6,605	6,771	6,506	3,969
a Inventories	*3,735*	*4,659*	*5,490*	*5,940*	*3,882*	*4,066*	*4,907*	*4,003*	*3,404*
b Trade Receivables	*1,156*	*1,372*	*1,234*	*1,005*	*1,907*	*2,077*	*1,398*	*2,048*	*45*
5 Total Assets	6,759	7,816	8,535	8,710	7,531	7,917	8,096	7,842	4,968
6 Current Liabilities	1,583	1,522	1,829	1,596	745	584	854	391	527
a Trade Payables	*330*	*287*	*186*	*174*	*355*	*225*	*472*	*103*	*40*
7 Borrowings	3,382	4,538	4,883	5,209	4,817	5,499	5,641	6,251	2,940
8 Related Party Exposure	113	113	104	73	-	-	28	-	834
9 Non-Current Liabilities	-	-	-	-	7	7	7	7	-
10 Net Assets	1,681	1,643	1,719	1,832	1,962	1,827	1,567	1,193	668
11 Shareholders' Equity	1,681	1,643	1,719	1,832	1,962	1,827	1,567	1,193	668
B INCOME STATEMENT									
1 Sales	2,238	1,147	532	7,116	8,423	5,424	2,797	10,862	6,407
a Cost of Good Sold	*(1,910)*	*(980)*	*(454)*	*(6,080)*	*(7,734)*	*(4,995)*	*(2,585)*	*(10,075)*	*(5,964)*
2 Gross Profit	327	168	78	1,035	689	429	212	787	443
a Operating Expenses	(78)	(50)	(45)	(127)	(149)	(96)	(26)	(69)	(31)
3 Operating Profit	250	117	32	908	540	333	186	718	412
a Non Operating Income or (Expense)	*35*	*2*	*0*	*(4)*	*231*	*213*	*99*	*(6)*	*(7)*
4 Profit or (Loss) before Interest and Tax	285	120	33	904	770	547	284	712	405
a Total Finance Cost	*(437)*	*(309)*	*(146)*	*(824)*	*(680)*	*(483)*	*(249)*	*(577)*	*(302)*
b Taxation	-	-	-	*(106)*	-	-	-	*(121)*	*(58)*
6 Net Income Or (Loss)	(152)	(190)	(113)	(26)	90	64	35	14	45
C CASH FLOW STATEMENT									
a Free Cash Flows from Operations (FCFO)	*254*	*58*	*(58)*	*1,024*	*853*	*600*	*315*	*713*	*263*
b Net Cash from Operating Activities before Working Capital	*(304)*	*(356)*	*(256)*	*345*	*232*	*156*	*128*	*258*	*7*
c Changes in Working Capital	*2,258*	*960*	*523*	*94*	*554*	*62*	*158*	*(3,671)*	*(1,626)*
1 Net Cash provided by Operating Activities	1,953	604	267	439	786	218	286	(3,413)	(1,620)
2 Net Cash (Used in) or Available From Investing Activities	(13)	(13)	(11)	(74)	(43)	(41)	(19)	(331)	(335)
3 Net Cash (Used in) or Available From Financing Activities	(1,787)	(631)	(296)	(345)	(755)	(182)	(271)	3,744	1,964
4 Net Cash generated or (Used) during the period	154	(39)	(39)	20	(12)	(4)	(4)	0	10
D RATIO ANALYSIS									
1 Performance									
a Sales Growth (for the period)	-58.1%	-67.8%	-70.1%	-34.5%	3.4%	-0.1%	3.0%	69.5%	45.1%
b Gross Profit Margin	14.6%	14.6%	14.6%	14.6%	8.2%	7.9%	7.6%	7.2%	6.9%
c Net Profit Margin	-6.8%	-16.5%	-21.3%	-0.4%	1.1%	1.2%	1.3%	0.1%	0.7%
d Cash Conversion Efficiency (FCFO adjusted for Working C	112.2%	88.8%	87.5%	15.7%	16.7%	12.2%	16.9%	-27.2%	-21.3%
*e Return on Equity [Net Profit Margin * Asset Turnover * (T*	-10.5%	-21.8%	-26.0%	-1.5%	6.0%	7.0%	9.2%	1.5%	9.5%
2 Working Capital Management									
a Gross Working Capital (Average Days)	724	1032	1172	333	192	205	202	161	128
b Net Working Capital (Average Days)	693	995	1141	326	185	200	192	159	126
c Current Ratio (Current Assets / Current Liabilities)	3.5	4.3	4.0	4.6	8.4	11.3	7.9	16.6	7.5
3 Coverages									
a EBITDA / Finance Cost	0.9	0.7	0.5	1.3	1.3	1.3	1.3	1.4	1.6
b FCFO / Finance Cost+CMLTB+Excess STB	0.3	0.2	-0.3	1.2	1.0	1.2	1.2	1.1	0.8
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Fi	-5.9	-3.4	-1.5	1.2	1.8	2.6	0.6	1.1	-25.1
4 Capital Structure									
a Total Borrowings / (Total Borrowings+Shareholders' Equit	67.5%	73.9%	74.4%	74.2%	71.1%	75.1%	78.3%	84.0%	85.0%
b Interest or Markup Payable (Days)	136.1	154.1	177.0	148.6	105.4	86.5	92.2	122.8	81.4
c Entity Average Borrowing Rate	12.3%	10.8%	11.0%	14.9%	15.8%	18.0%	20.2%	12.4%	9.5%

Credit Rating

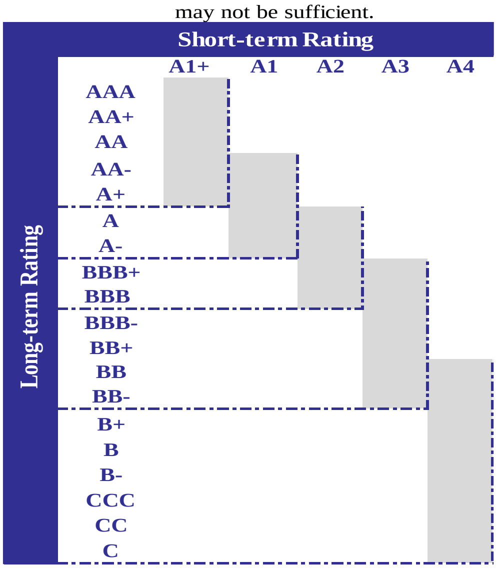
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+ 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.
A+ 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.
BBB+ 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.
BB+ BB BB-	**Moderate risk.** Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
B+ 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.
CCC CC C	**Very high credit risk.** Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
D	Obligations are currently in default.

Short-term Rating

Scale	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
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 surveill 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):

Entities

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

Instruments

a) Basel III Compliant Debt Instrument Rating
b) Debt Instrument Rating
c) Sukuk Rating

Regulatory and Supplementary Disclosure
(Credit Rating Companies Regulations,2016)

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