The Pakistan Credit Rating Agency Limited

# Rating Report

## Al-Abbas Sugar Mills Limited

**Report Contents**



**Rating History**

| Dissemination Date | Long Term Rating | Short Term Rating | Outlook | Action | Rating Watch |
|---|---|---|---|---|---|
| 10-Apr-2023 | A+ | A1 | Stable | Maintain | - |
| 11-Apr-2022 | A+ | A1 | Stable | Maintain | - |
| 12-Apr-2021 | A+ | A1 | Stable | Maintain | - |
| 21-Apr-2020 | A+ | A1 | Stable | Maintain | - |
| 28-Oct-2019 | A+ | A1 | Stable | Maintain | - |
| 08-May-2019 | A+ | A1 | Stable | Upgrade | - |
| 06-Nov-2018 | A | A1 | Positive | Maintain | - |
| 09-May-2018 | A | A1 | Stable | Maintain | - |
| 30-Sep-2017 | A | A1 | Stable | Maintain | - |

### Rating Rationale and Key Rating Drivers

Pakistan’s sugar industry is the country's 2nd largest agro-based industry, comprising of 90 mills with an annual crushing capacity estimated at~ 80–90mln MT. Despite overcoming the challenge of raw material supply, the industry is facing a constraint due to the government set support price for sugarcane. During MY22, the support prices for sugarcane in Punjab were fixed at PKR 230/maund and PKR 250/maund in Sindh. Realized sugarcane prices at the mill gate were even higher. During MY22, the overall sugar production increased by ~9%, YoY, to 7.1mln MT (MY21: 6.5mln MT) due to better crop availability and an increase in area under cultivation. Subsequently, sugar prices witnessed ~12% decrease. During the current crushing season (MY23), loss of area under cultivation of ~4.7% amidst flash floods; the forecast of sugar production is affected and is est. to be ~7mln MT. However, the carryover stock from MY22 and the expected sugar production during MY23 are likely to result in a surplus stock of sugar. Therefore, the Government has allowed exports of 0.25mln MT on the basis of production during MY22. The support prices have been fixed at PKR 300/maund for Punjab and PKR 302/maund for Sindh. Although low sugar prices and increased sugarcane prices have prompted many sugar mills to close the crushing early in MY23, sugar exports are expected to be favorable for the industry, ensuring liquidity remains intact.
The ratings reflect Al-Abbas Sugar Mills Ltd. ('Al-Abbas' or 'the Company') diversified revenue stream emanating from sugar, ethanol and storage facilities. This provides competitive advantage to the Company mitigating volatility and industry specific risks. Better availability of sugarcane led to stable sugar production. Rising sugar prices, in local market, and ethanol prices, in international market, sustained decent margin and benefitted the Company's bottom-line. Storage tank terminals provide an additional cushion to cashflows. Going forward, high sugar stock is expected to benefit the Company in terms of export potential and higher prices may drive better margins for the Company. Ratings draw strength from the Company’s strong financial profile represented by a modestly leveraged capital structure, strong coverages, efficient management of working capital. Strong governance framework bodes well for the Company.

The ratings are dependent on the Company's ability to sustain margins with healthy coverages while maintaining necessary cushion and discipline in working capital management. Significant deterioration of relationship among shareholders leading to adverse impact on the Company's profile and/or excessive borrowings deteriorating the coverages will impact the ratings.

**Disclosure**

| | |
|---|---|
| **Name of Rated Entity** | Al-Abbas Sugar Mills Limited |
| **Type of Relationship** | Solicited |
| **Purpose of the Rating** | Entity Rating |
| **Applicable Criteria** | Methodology \| Corporate Rating(Jun-22),Methodology \| Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology \| Rating Modifiers(Jun-22) |
| **Related Research** | Sector Study \| Sugar(Apr-22) |
| **Rating Analysts** | Faiqa Qamar \| faiqa.qamar@pacra.com \| +92-42-35869504 |

## Profile

**Legal Structure** Al-Abbas Sugar Mills Limited (‘Al-Abbas Sugar’ or ‘the Company’) is a public listed company, incorporated in May 1991.

**Background** The Company's started with manufacturing and sale of white refined sugar as commercial operations commenced in Dec-93. Subsequently, the Company set-up two distillery plants in 2000 (Unit I) and 2004 (Unit II). The Company also built storage terminals later on.

**Operations** The Company's head office is located in Karachi, with the sugar mill and distilleries located in Mirwah Gorchani, Mirpurkhas. Mill's rated crushing capacity stands at 8,500 TCD and the distilleries have a combined capacity to produce 170,000 liters of Ethanol per day (Unit I: 85,000 Liters; Unit II: 85,000 Liters). The Company witnessed a decline in production during MY22 amid better crop availability across Sindh, and produced 53,945 (MY21: 38,440 MT) of sugar, up by 40%. A relatively better recovery rate of 10.8% (MY21: 10.4%) was achieved. Ethanol production stood at 48,692MT. The Company also operates 12 tanks, having a combined storage capacity of 22,850 MT per month to store ethanol and petroleum products.

## Ownership

**Ownership Structure** Haji Ghani family and associates own majority shareholding (~58%) in the Company, followed by Jahangir Siddiqui (JS) Group (~29%). ~9% of the Company’s shares float freely in the market.

**Stability** The two major shareholders of the Company are involved in a long standing dispute since 2013. Legal proceedings in this regard are being carried out in Sindh High Court and outcome is pending. However, the management believes that the case will be decided in the favor of the Company

**Business Acumen** The sponsors (Haji Ghani Group ) have strong business track record. Mr. Haji Abdul Ghani holds experience of chairing the Boards of various brokerage firms and has served as the Vice Chairman of Pakistan Stock Exchange. Haji Ghani Group was previously involved in the cement sector.

**Financial Strength** The Company is the flagship entity of Haji Ghani Group and has maintained stable profits over the years supported by a sufficient equity base of PKR 4.6bln as at Dec-22.

## Governance

**Board Structure** The BoD comprises nine Directors with one Executive Director and eight Non-Executive Directors, including three Independent Directors and two Female Directors. The BoD is chaired by a Non-Executive Director, and is dominated by Haji Ghani Family with five Nominee Directors.

**Members’ Profile** The BoD members have strong profiles and specialize in financial services, in addition to sugar and ethanol. Mr. Zakaria Usman is the current Chairman of the BoD.

**Board Effectiveness** The BoD is assisted by three committees, namely, Audit Committee, HR & Remuneration Committee and Risk Management Committee. Mr. Haroon Askari (Independent Director) chairs the Audit and HR & Remuneration Committees; whereas, Mr. Salman Hussain Chawala (Independent Director) chairs the Risk Management Committee.

**Financial Transparency** During MY22, Company has appointed BDO Ebrahim & Co. Chartered Accountants as their external auditors. The firm is classified in category ‘A’ of SBP and have a satisfactory QCR rating. They have expressed an unqualified opinion on the financial statements for the year ending in Sep-22. Previously, M/s Reanda Haroon Zakaria & Co., Chartered Accountants were the external auditors of the Company since 2014.

## Management

**Organizational Structure** Al-Abbas Sugar has a well defined organizational structure, whereby department heads have direct reporting lines to the CEO. The five departments comprise: Finance, Administration / Human resource, Procurement / Purchase, Audit, and Plant Operations.

**Management Team** Mr. Asim Ghani is the CEO since Dec-17. Mr. Ghani previously overlooked the operational aspects of Al-Abbas as an Executive Director and has been associated with Company for 22 years. Mr. Samir Hajani, Chief Financial Officer, has been associated with the Company for the past 10 years.

**Effectiveness** The long association of the Company’s senior management ensures consistency in overall policies and strengthens the management structure.

**MIS** The Company has deployed Oracle R-12 as its ERP system, enabling it to generate various reports for effective management and decision making.

**Control Environment** The internal audit department ensures compliance and efficiency by conducting quarterly evaluations with reporting to the Audit Committee.

## Business Risk

**Industry Dynamics** Pakistan’s sugar industry comprises 90 mills with an annual crushing capacity at ~80–90mln MT. Despite overcoming raw material supply challenges, government-set support price for sugarcane creates a constraint. In MY22, sugarcane support price in Punjab were fixed at PKR 230/maund and PKR 250/maund in Sindh. Actual realized sugarcane prices were even higher. The overall sugar production increased by ~ 9%, YoY. Subsequently, sugar prices posted a dip by ~12%. In the ongoing season (MY23), loss of area under cultivation amidst flash floods; the forecast of sugar production is affected, est. to be ~7mln MT. However, the carryover stock and the expected sugar production during MY23 are likely to result in sugar surplus. Thus, the Govt. has allowed exports upto 0.25mln MT on the basis of MY22's production. Sugarcane support prices are fixed at PKR 300/maund in Punjab and PKR 302/maund in Sindh. Although low sugar prices locally and increased sugarcane cost have prompted many sugar mills to close the crushing early in MY23, sugar exports are expected to be favorable for the industry, ensuring liquidity.

**Relative Position** Owing to numerous industry players, companies relatively have low market share. Al-Abbas Sugar contributes ~ 0.7% to the total sugar production and~ 6% to the total ethanol production of Pakistan

**Revenues** The Company generates revenue by manufacturing and selling sugar (~38%) and ethanol (~62%). During MY22, the Company's overall revenue posted a growth of ~40% (MY22: PKR 10.4bln, MY21: PKR 7.4bln), attributable to volumetric increase in sugar (MY22: 53,947MT, MY21: 35,213MT) and ethanol (MY22: 48,912MT, MY21: 31,406MT) divisions. Moreover, higher prices of sugar and ethanol supplemented the topline. Going forward, revenues are expected to remain stable.

**Margins** The Company registered improved profits during MY22 supported by better sugar prices. Gross profit stood at PKR 2.3bln (MY21: PKR 1.2bln), due to the higher turnover. Gross margin stood at 23% (MY21: 16%), improving on the back of higher prices. Due to trickle down effect, operating margin stood at 19%, up from 12% during MY21. On net level the margins posted significant growth (MY22: 19%, MY21:10%). The Company posted a net profit of PKR 1.9bln, up from PKR 752mln during MY21.

**Sustainability** Going forward, the Company performance will largely depend on the sugar division, and its industry dynamics. Meanwhile, the Company is expected to continue it’s stable performance in ethanol division.

## Financial Risk

**Working Capital** Seasonal working capital financing represents the predominant portion of borrowings on the Company’s balance sheet. An inclining trend was witnessed in net cash cycle to 69 days in MY22 (MY21: 42 days). This was due to higher inventory of sugar stored by the Company (MY22: 96 days, MY21: 84 days). Receivable days remained stable (MY22: 8 days, MY21: 7days). While, the Company made early payments leading to improved payable days (MY22: 35days, MY21: 49 days). The Company remains succesful in maintaining an adequate borrowing cushion at short-term trade and total asset level.

**Coverages** Interest cover is a function of free cash flows and finance cost. Interest cover remain stable at 11x in MY22 (MY21: 11x). Free cash flows stood at ~PKR 1.9bln in MY22 (MY21: ~PKR 859mln) on the back of improved profitability. The finance cost stood at PKR 169mln in MY22 (MY21: PKR 85mln), as the Company availed higher short-term borrowings for funding working capital. Moreover, core and total interest cover stood at 9.8x and 10x, respectively, in MY22 (MY21: 5.5x and 6x). Debt payback days remain minimal.

**Capitalization** Al-Abbas Sugar has a adequately leveraged capital structure with debt/ (debt + equity) ratio of 39% in MY22 (MY21: 40%). Total debt of the Company stands at PKR 2.9bln in MY22 (MY21: PKR 2.2bln). The debt constitutes more than ~95% of short-term borrowing that were used to finance working capital requirements.

The Pakistan Credit Rating Agency Limited

*Financial Summary*
*PKR mln*

| Al-Abbas Sugar Mills Limited | Dec-22 | Sep-22 | Sep-21 | Sep-20 | Sep-19 |
|---|---|---|---|---|---|
| Sugar | 3M | 12M | 12M | 12M | 12M |
| **A BALANCE SHEET** | | | | | |
| 1 Non-Current Assets | 1,466 | 1,491 | 1,527 | 1,614 | 1,646 |
| 2 Investments | 1,435 | 1,788 | 1,255 | 2,035 | 1,201 |
| 3 Related Party Exposure | - | - | 3 | 1 | 1 |
| 4 Current Assets | 6,688 | 6,092 | 4,404 | 2,840 | 3,565 |
| *a Inventories* | *3,960* | *3,103* | *2,325* | *1,071* | *1,347* |
| *b Trade Receivables* | *53* | *457* | *12* | *287* | *81* |
| **5 Total Assets** | 9,589 | 9,371 | 7,189 | 6,489 | 6,413 |
| 6 Current Liabilities | 2,211 | 1,761 | 1,594 | 1,678 | 1,470 |
| *a Trade Payables* | *1,260* | *1,011* | *976* | *1,002* | *1,035* |
| 7 Borrowings | 2,294 | 2,984 | 2,204 | 1,320 | 1,623 |
| 8 Related Party Exposure | - | - | - | - | - |
| 9 Non-Current Liabilities | 21 | 20 | 20 | 96 | 92 |
| **10 Net Assets** | 5,063 | 4,606 | 3,371 | 3,395 | 3,227 |
| **11 Shareholders' Equity** | 5,063 | 4,606 | 3,371 | 3,395 | 3,227 |
| **B INCOME STATEMENT** | | | | | |
| **1 Sales** | 2,474 | 10,362 | 7,378 | 8,154 | 7,165 |
| *a Cost of Good Sold* | *(1,880)* | *(8,023)* | *(6,196)* | *(6,048)* | *(5,400)* |
| **2 Gross Profit** | 593 | 2,339 | 1,182 | 2,105 | 1,765 |
| *a Operating Expenses* | (107) | (378) | (267) | (429) | (497) |
| **3 Operating Profit** | 486 | 1,961 | 915 | 1,676 | 1,268 |
| *a Non Operating Income or (Expense)* | *67* | *259* | *4* | *(253)* | *(3)* |
| **4 Profit or (Loss) before Interest and Tax** | 554 | 2,220 | 919 | 1,423 | 1,265 |
| *a Total Finance Cost* | *(58)* | *(169)* | *(85)* | *(53)* | *(64)* |
| *b Taxation* | *(28)* | *(137)* | *(83)* | *(126)* | *(89)* |
| **6 Net Income Or (Loss)** | 468 | 1,914 | 752 | 1,244 | 1,112 |
| **C CASH FLOW STATEMENT** | | | | | |
| *a Free Cash Flows from Operations (FCFO)* | *508* | *1,866* | *859* | *1,633* | *1,228* |
| *b Net Cash from Operating Activities before Working Capital C* | *552* | *1,783* | *851* | *1,710* | *1,174* |
| *c Changes in Working Capital* | *(84)* | *(1,407)* | *(2,208)* | *1,034* | *116* |
| **1 Net Cash provided by Operating Activities** | 468 | 376 | (1,358) | 2,743 | 1,290 |
| **2 Net Cash (Used in) or Available From Investing Activities** | 342 | (566) | 721 | (823) | (998) |
| **3 Net Cash (Used in) or Available From Financing Activities** | (691) | 193 | 162 | (1,509) | (280) |
| **4 Net Cash generated or (Used) during the period** | 119 | 3 | (475) | 412 | 12 |
| **D RATIO ANALYSIS** | | | | | |
| **1 Performance** | | | | | |
| *a Sales Growth (for the period)* | -4.5% | 40.4% | -9.5% | 13.8% | -4.4% |
| *b Gross Profit Margin* | 24.0% | 22.6% | 16.0% | 25.8% | 24.6% |
| *c Net Profit Margin* | 18.9% | 18.5% | 10.2% | 15.3% | 15.5% |
| *d Cash Conversion Efficiency (FCFO adjusted for Working Ca* | 17.1% | 4.4% | -18.3% | 32.7% | 18.8% |
| *e Return on Equity [ Net Profit Margin * Asset Turnover * (Tot* | 38.7% | 48.0% | 22.2% | 37.6% | 32.6% |
| **2 Working Capital Management** | | | | | |
| *a Gross Working Capital (Average Days)* | 140 | 104 | 91 | 62 | 91 |
| *b Net Working Capital (Average Days)* | 98 | 69 | 42 | 17 | 44 |
| *c Current Ratio (Current Assets / Current Liabilities)* | 3.0 | 3.5 | 2.8 | 1.7 | 2.4 |
| **3 Coverages** | | | | | |
| *a EBITDA / Finance Cost* | 10.0 | 13.4 | 12.6 | 37.9 | 24.8 |
| *b FCFO / Finance Cost+CMLTB+Excess STB* | 9.0 | 9.8 | 5.5 | 19.2 | 21.0 |
| *c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finc* | 0.0 | 0.0 | 0.1 | 0.1 | 0.0 |
| **4 Capital Structure** | | | | | |
| *a Total Borrowings / (Total Borrowings+Shareholders' Equity)* | 31.2% | 39.3% | 39.5% | 28.0% | 33.5% |
| *b Interest or Markup Payable (Days)* | 103.2 | 55.0 | 43.9 | 28.3 | 41.5 |
| *c Entity Average Borrowing Rate* | 7.3% | 5.4% | 3.5% | 2.5% | 3.9% |

## Credit Rating

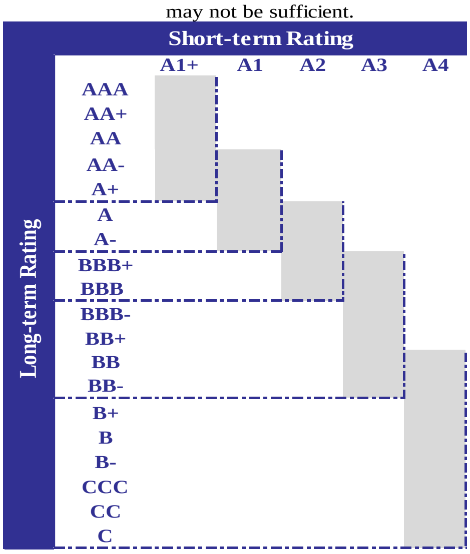
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

### 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+<br>AA<br>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+<br>A<br>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+<br>BBB<br>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+<br>BB<br>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+<br>B<br>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<br>CC<br>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):

a) Broker Entity Rating
b) Corporate Rating
c) Debt Instrument Rating
d) Financial Institution Rating
e) Holding Company Rating
f) Independent Power Producer Rating
g) Microfinance Institution Rating
h) Non-Banking Finance Companies 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 | Clause 11-(A)(p).
(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
(9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
(11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

**Independence & Conflict of interest**
(12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA´s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
(13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers’ associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
(14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
(15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
(16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst’s area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
(17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

**Monitoring and review**
(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
(19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)
**Probability of Default**
(22) PACRA´s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA´s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA´s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(f-VII)
**Proprietary Information**
(23) All information contained herein is considered proprietary by PACRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA’s prior written consent