



The Pakistan Credit Rating Agency Limited

Rating Report

Jauharabad Sugar Mills Limited

Report Contents

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
24-Sep-2021	BBB+	A2	Stable	Maintain	-
29-Jan-2021	BBB+	A2	Stable	Upgrade	-
07-Apr-2020	BBB	A2	Positive	Maintain	-
17-Oct-2019	BBB	A2	Stable	Maintain	-
30-Apr-2019	BBB	A2	Stable	Maintain	-
28-Dec-2018	BBB	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Pakistan's sugar industry is the country's 2nd largest agro-based industry, comprising 90 mills with an annual crushing capacity estimated ~65–70mln MT. The industry is trying to overcome the supply challenges. However, support price, set by considering the cost incurred by farmers, remains a constraint. During MY21, the overall sugar production increased by 15%, YoY, to 5.6mln MT (MY20: 4.9mln MT) due to better crop availability and an increase in area under cultivation. The recent surge in local sugar prices was registered by the demand-supply gap. Previously, the sales tax levied on sugar was increased to 17% (previously 8%,) charged on the PKR 60/KG price, which contributed to higher prices. In the FY21 budget, a sales tax of 17% was proposed to be levied on the market retail price instead of PKR 60/kg. However, Government has allowed not to charge sales tax on market retail price till Nov-21. Moreover, in MY21 crushing season, the Government increased the support price of sugarcane to PKR 200 per maund (previously, it was increased to PKR 190 from PKR 180 per maund). Actual realized sugarcane prices at the mill gate were even higher. To meet the local demand and curb the hike in sugar prices, the Government planned to import 0.8mln MT of sugar. Out of this, 0.3mln MT has already been imported, till Jun-21. Lately, TCP approved to import another 0.1mln MT of sugar. Going forward, despite higher input costs, higher sugar prices are expected to remain favourable for millers.

The ratings reflect an improved business profile of Jauharabad Sugar Mills Limited ('Jauharabad Sugar' or 'the Company') in line with the current dynamics of sugar industry. Relatively better sugarcane availability in MY21 resulted in higher sugar production. Despite high procurement costs, rising sugar prices has led to improved revenues. The Company has displayed improvement in margins on the back of relatively low conversion costs. Over the years, the Sponsors' business acumen and support (in the form of loan) have remained beneficial for the Company. The management pays continuous attention to enhance efficiencies through BMR. The financial profile of Jauharabad Sugar remains adequate, characterized by improved working capital management, adequate coverages and modestly leveraged capital structure.

The ratings are dependent upon the management's ability to sustain business margins, while improving the financial risk profile. Any significant deterioration in the Company's margins and/or coverages would have a negative impact.

Disclosure

Name of Rated Entity	Jauharabad Sugar Mills Limited
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 Sugar(Dec-20)
Rating Analysts	Shayan Farooq shayan.farooq@pacra.com +92-42-35869504

Profile

Legal Structure Jauharabad Sugar Mills Limited ('Jauharabad Sugar' or 'the Company') was incorporated as a public limited company and is listed on the Pakistan Stock Exchange since 1973.

Background The Company was initially established on build, operate and transfer (BOT) contract by Pakistan Industrial Development Corporation (PIDC) in collaboration with Thal Development Authority (TDA). In 1955, Saigol Group acquired the contract and named the Company Kohinoor Sugar Mills Limited. In Oct 2013, Cane Processing (Pvt.) Limited (CPL) acquired major stake (64%) of Kohinoor Sugar Mills and changed its name to Jauharabad Sugar Mills Limited.

Operations The Company has two sugarcane crushing units, named Line-I and Line-II. Line-I can crush 5,500 MT/day of sugarcane, however, it's currently not operational. While, Line-II can crush 7,000MT/day. The Company manufactured 52,925 MT (MY20: 41,150 MT) of sugar at an average recovery rate of 9.9% (MY20: 9.7%), with capacity utilization of 76% (MY20: 76%) during MY21. The mill is located in Jauharabad, district Khushab, while the registered office is in Lahore.

Ownership

Ownership Structure Jauharabad Sugar is majorly owned by a Holding Company - Cane Processing (Pvt.) Limited (64%) - and individual's of Latif family (10%). NIT and ICP hold 3% shares. The Company has a free float of ~ 20%. The Holding Company is primarily owned by Mrs. Ghazala Amjad (99%).

Stability Presence of a Holding Company bodes well for stability. Transferring entire family stake to Holding Company would further strengthen the structure.

Business Acumen The sponsoring family has interests in other ventures and enjoys strong business acumen. Apart from owning two LPG businesses, named Synergy and Awami, the sponsors have acquired Pasrur Sugar Mills Limited, having an operational capacity of 3,500 TCD (installed capacity 8,000 TCD).

Financial Strength Jauharabad Sugar is primarily owned by Cane Processing (Pvt.) Limited. As at Sep'20, Cane Processing's total assets stood at PKR 642mln, which are entirely financed by equity.

Governance

Board Structure Jauharabad Sugar's Board comprises one Executive Director, three Independent Directors and three Non-executive Directors nominated by Cane Processing (Pvt.) Limited. Board's chairman is a Non-executive Director. The Company's Board structure draws strength from its size and independent oversight.

Members' Profile All BoD members have relevant expertise. The Board's Chairman, Mr. Muhammad Aamir Beg, is associated with the Company from 5 years, having over all experience of 5 decades. Mr. Farhan Ilyas, an Independent Director, is the Chairman of Audit Committee and has work experience of above 3 decades. During MY21, Ms. Nazia Waheed, an Independent Director, resigned, and was replaced by Ms. Faiza Iftikhar. Also, Mr. Amjad Bashir, a Non-Executive Director, resigned and was replaced by Mr. Kamran Zahoor.

Board Effectiveness Jauharabad Sugar's Board met four times during MY21, with majority attendance, maintaining well documented minutes. The Board has two sub-committees: Audit Committee and Human Resource & Remuneration Committee. The Audit Committee met four times, while HR Committee met once during MY21.

Financial Transparency The Company's external auditors, UHY Hassan Naem & Company, Chartered Accountants, have expressed an unqualified opinion on the financial report of MY20. The firm has been QCR rated by ICAP and is in Category 'B' of SBP panel.

Management

Organizational Structure Jauharabad Sugar operates through eight divisions: Mill, Operations, Power, Cane, Marketing, Human Resource, Internal Audit and Finance. All functional heads report to the Chief Operating Officer (COO), who reports to the Company's CEO. However, Head of Internal Audit and Human Resource department report administratively to the CEO and functionally to the Board's Audit and Human Resource & Remuneration Committees, respectively.

Management Team Mr. Jamal Ahmad, the CEO, passed away on 3rd Sep 21. He had an overall work experience of 40 years and was associated with the Company for 5 years. The Board appointed Mr. Syed Anwar Hussain Shahid as his replacement during the Board meeting held on 23rd Sep 21. Mr. Ahsan Latif, the COO, has work experience of 22 years and is associated with the Company since 2013.

Effectiveness The Company's management ensures effectiveness through a Management Committee. This committee comprises heads of all divisions. A co-ordination meeting is held on daily basis to review the progress of every department. Minutes of these meetings are documented and circulated for follow ups.

MIS The Company initially used COSMOSOFT system to control cane procurement. Now, an ERP system is in place at the Company, which is updated on real time basis. It generates 15 reports to assist the top management in monitoring and evaluating the performance of different departments.

Control Environment To ensure operational efficiency, the Company has setup an Internal Audit Function and it is co-sourced internal audit to KPMG. They provide support, guidance and monitoring of the internally placed SOPs. KPMG conduct Gap Analysis for evaluating the already placed policies and procedures.

Business Risk

Industry Dynamics Pakistan's sugar industry is the country's 2nd largest agro-based industry, comprising 90 mills with an annual crushing capacity estimated ~65-70mln MT. The industry is trying to overcome the supply challenges. However, support price, set by considering the cost incurred by farmers, remains a constraint. During MY21, the overall sugar production increased by 15%, YoY, to 5.6mln MT (MY20: 4.9mln MT) due to better crop availability and an increase in area under cultivation. The recent surge in local sugar prices was registered by the demand-supply gap. Previously, the sales tax levied on sugar was increased to 17% (previously 8%.) charged on the PKR 60/KG price, which contributed to higher prices. In the FY21 budget, a sales tax of 17% was proposed to be levied on the market retail price instead of PKR 60/kg. However, Government has allowed not to charge sales tax on market retail price till Nov-21. Moreover, in MY21 crushing season, the Government increased the support price of sugarcane to PKR 200 per maund (previously, it was increased to PKR 190 from PKR 180 per maund). Actual realized sugarcane prices at the mill gate were even higher. To meet the local demand and curb the hike in sugar prices, the Government planned to import 0.8mln MT of sugar. Out of this, 0.3mln MT has already been imported, till Jun-21. Lately, TCP approved to import another 0.1mln MT of sugar. Going forward, despite higher input costs, higher sugar prices are expected to remain favourable for millers.

Relative Position The Company contributed approximately 0.9% to the total sugar production in Pakistan and can be categorized as a relatively small player.

Revenues Jauharabad Sugar generates revenue by selling refined sugar in the local market, molasses and bagasse. During MY20, the Company's revenue posted an increase (3QMY21: PKR 2,124mln, 3QMY20: PKR 817mln). The rise was attributable to increase in average selling price, and higher volumes (3QMY21: 21,258MT, 3QMY20: 6,545MT).

Margins During 3QMY21, the Company's gross margins posted a dip to 16% (3QMY20: 33%), on the back of rise in sugarcane prices, along with lower recovery rate. Stable capacity utilization (3QMY21: 76%, 3QMY20: 76%) and finance costs (3QMY21: PKR 145mln, 3QMY20: PKR 141mln) led to higher net income (3QMY21: PKR 37mln, 3QMY20: PKR 12mln). The Company's net margin also improved to 1.7% during 3QMY21 (3QMY20: 1.5%).

Sustainability Going forward, the Company is planning to install a distillery. Initial feasibility has been carried out in this regard. The Company has also installed 15MW biomass co-generation power plant, with an exportable capacity of 10MW to FESCO, expected to be commercially operational by 2022.

Financial Risk

Working Capital By offloading more inventory comparatively, the Company improved the inventory held days (3QMY21: 178days, 3QMY20: 480days). Receivable days improved further due to majority cash based sales (3QMY21: 9days, 3QMY20: 45days). Due to timely payments made to the sugar cane suppliers, payable days remain low (3QMY21: 10days, 3QMY20: 17days). This led to significantly improved net working capital cycle (3QMY21: 176days, 3QMY20: 508days). As a result, short term trade and total leverage also showed improvement.

Coverages Jauharabad Sugar's interest cover (3QMY21: 2.1x, 3QMY20: 1.7x) is a function of increased free cash flows (3QMY21: PKR 302mln, 3QMY20: PKR 230mln), and a marginal rise in finance cost. This also led to a surge in core coverage ratio (3QMY21: 1.4x, 3QMY20: 1.1x).

Capitalization During 3QMY21, the Company improved its leverage ratio (3QMY21: 48%, 3QMY20: 61%) owing to revaluation of long term assets, and rise in equity (3QMY21: PKR 4.1bln, 3QMY20: PKR 2.3bln). Around 78% of the debt comprises short term debt (3QMY21: PKR 2.9bln, 3QMY20: PKR 2.7bln) obtained to finance working capital requirement (3QMY20: 78%). Long-term loan (3QMY21: PKR 142mln, 3QMY20: PKR 182mln) was obtained to set-up the biomass power plant.



The Pakistan Credit Rating Agency Limited

Financial Summary

	Jun-21	Mar-21	Dec-20	Sep-20	Jun-20	Mar-20	Dec-19	Sep-19	Sep-18
	9M	6M	3M	12M	9M	6M	3M	12M	12M
A BALANCE SHEET									
1 Non-Current Assets	5,069	5,098	5,107	5,128	3,373	3,392	3,282	3,276	3,241
2 Investments	18	18	17	17	17	17	-	-	-
3 Related Party Exposure	-	-	-	-	-	-	-	-	-
4 Current Assets	3,504	4,464	1,681	731	2,927	3,246	1,475	1,085	1,449
a Inventories	2,564	3,824	933	194	2,473	2,526	864	390	753
b Trade Receivables	131	24	1	1	1	27	12	270	327
5 Total Assets	8,591	9,579	6,806	5,876	6,317	6,655	4,758	4,361	4,689
6 Current Liabilities	357	265	309	294	299	382	529	563	261
a Trade Payables	71	48	86	84	-	25	47	50	67
7 Borrowings	3,093	4,254	1,354	420	2,900	3,170	1,047	637	1,442
8 Related Party Exposure	693	617	702	724	599	599	611	611	610
9 Non-Current Liabilities	361	375	350	354	252	256	258	261	242
10 Net Assets	4,087	4,069	4,091	4,084	2,267	2,250	2,313	2,289	2,135
11 Shareholders' Equity	4,087	4,069	4,091	4,084	2,267	2,250	2,313	2,289	2,135
B INCOME STATEMENT									
1 Sales	2,124	693	159	3,503	817	627	357	3,441	2,195
a Cost of Good Sold	(1,783)	(455)	(107)	(2,899)	(549)	(446)	(284)	(2,788)	(2,149)
2 Gross Profit	341	238	52	604	268	181	73	654	46
a Operating Expenses	(123)	(102)	(40)	(171)	(115)	(96)	(39)	(186)	(138)
3 Operating Profit	218	137	12	433	153	86	34	468	(93)
a Non Operating Income or (Expense)	3	2	(0)	(5)	3	2	1	(5)	267
4 Profit or (Loss) before Interest and Tax	221	138	12	428	156	88	35	463	174
a Total Finance Cost	(145)	(89)	(7)	(231)	(141)	(89)	(9)	(206)	(138)
b Taxation	(39)	(31)	2	17	(3)	(4)	(2)	(75)	(31)
6 Net Income Or (Loss)	37	18	7	213	12	(5)	23	183	5
C CASH FLOW STATEMENT									
a Free Cash Flows from Operations (FCFO)	302	202	46	514	230	131	59	565	(2)
b Net Cash from Operating Activities before Working Capital	223	173	43	242	124	88	29	291	(129)
c Changes in Working Capital	(2,612)	(3,825)	(834)	244	(2,177)	(2,372)	(433)	667	(652)
1 Net Cash provided by Operating Activities	(2,389)	(3,652)	(790)	486	(2,053)	(2,284)	(404)	958	(781)
2 Net Cash (Used in) or Available From Investing Activities	(43)	(38)	(11)	(166)	(180)	(174)	(24)	(112)	(245)
3 Net Cash (Used in) or Available From Financing Activities	2,625	3,741	910	(142)	2,217	2,486	410	(833)	1,453
4 Net Cash generated or (Used) during the period	194	51	108	177	(17)	29	(18)	12	427
D RATIO ANALYSIS									
1 Performance									
a Sales Growth (for the period)	-19.1%	-60.4%	-81.9%	1.8%	-68.4%	-63.5%	-58.5%	56.8%	-15.0%
b Gross Profit Margin	16.1%	34.4%	32.8%	17.2%	32.8%	28.9%	20.5%	19.0%	2.1%
c Net Profit Margin	1.7%	2.6%	4.4%	6.1%	1.5%	-0.9%	6.6%	5.3%	0.2%
d Cash Conversion Efficiency (FCFO adjusted for Working C	-108.7%	-523.0%	-496.0%	21.7%	-238.5%	-357.1%	-104.8%	35.8%	-29.8%
e Return on Equity [Net Profit Margin * Asset Turnover * (T	1.4%	1.1%	0.7%	6.0%	0.8%	-0.6%	4.2%	7.7%	0.3%
2 Working Capital Management									
a Gross Working Capital (Average Days)	186	532	324	45	525	467	196	92	136
b Net Working Capital (Average Days)	176	515	276	38	508	456	184	86	119
c Current Ratio (Current Assets / Current Liabilities)	9.8	16.9	5.4	2.5	9.8	8.5	2.8	1.9	5.6
3 Coverages									
a EBITDA / Finance Cost	2.3	2.4	6.4	2.4	1.8	1.7	6.9	2.9	0.3
b FCFO / Finance Cost+ CMLTB+Excess STB	1.4	1.5	1.7	1.7	1.1	0.7	1.7	1.8	0.0
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Fin	3.9	3.4	5.6	3.3	7.0	10.2	4.0	2.3	-7.0
4 Capital Structure									
a Total Borrowings / (Total Borrowings+Shareholders' Equi	48.1%	54.5%	33.4%	21.9%	60.7%	62.6%	41.7%	35.3%	49.0%
b Interest or Markup Payable (Days)	133.1	131.4	120.9	4.9	149.5	169.6	71.0	34.9	144.7
c Entity Average Borrowing Rate	6.2%	5.7%	1.2%	10.0%	7.2%	6.8%	1.7%	9.2%	6.4%

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	
CC	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.
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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- 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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Conduct of Business

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- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
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- (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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- (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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