



## The Pakistan Credit Rating Agency Limited

### Rating Report

#### Engro Polymer & Chemicals Limited | Sukuk | Jan 19

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
19-Jul-2019	AA	-	Stable	Maintain	-
18-Jan-2019	AA	-	Stable	Initial	-
09-Oct-2018	AA	-	Stable	Preliminary	-

#### Rating Rationale and Key Rating Drivers

The ratings recognize Engro Polymer's established foothold in the local PVC and caustic soda market. EPCL is the only manufacturer of Poly Vinyl Chloride (PVC), having a market share of ~66% in domestic market. Growth of PVC demand in domestic market and improved vinyl chain dynamics lead to higher revenues and improved profitability. Keeping in view growth trajectory, EPCL announced a CAPEX of PKR 10.3bln, an addition of 100K tons capacity on PVC and 50K tons of VCM. The Company raised on a tune of PKR 7.6bln of which PKR 5.4bln has been raised through the issuance of right shares. Remaining CAPEX will be funded through internally generated cash and debt. EPCL further plans to enter Hydrogen Per Oxide business through a green field manufacturing facility by investing US\$ 23mln. During expansion, the strength of the balance sheet is likely to remain intact. The ratings also reflect EPCL's association with one of the country's leading conglomerate – Engro Corp. Also, the cost of expansion (imported component) will rise due to Rupee devaluation. However, this impact is curtailed to an extent through hedging.

The ratings are dependent upon holding sustained operations and margins. Successful and timely execution of expansion projects within stipulated time frame and cost parameters, maintenance of coverages would remain important to uphold ratings. Maintenance of strong financial profile and coverages is important.

#### Disclosure

<b>Name of Rated Entity</b>	Engro Polymer & Chemicals Limited   Sukuk   Jan 19
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Debt Instrument Rating
<b>Applicable Criteria</b>	PACRA_Methodology_Corporate_FY19(Jun-19),PACRA_Methodology_Sukuk_FY19(Jun-19)
<b>Related Research</b>	Sector Study   Chemical(Jun-19)
<b>Rating Analysts</b>	Muhammad Hassan   muhammad.hassan@pacra.com   +92-42-35869504



## Profile

**Legal Structure** Engro Polymer and Chemicals Limited, established in 1997, started commercial production in 1999. The Company is listed on Pakistan Stock Exchange.

**Background** Engro Polymer and Chemicals Limited, formerly known as Engro Asahi Polymer and Chemicals Limited, is the only Poly Vinyl Chloride (PVC) manufacturer in Pakistan. The Company is the only fully integrated chemical production facility in the country, located at Port Qasim, Karachi.

**Operations** The Company is primarily involved in the manufacturing, marketing and distribution of PVC and its allied products with design annual capacity of 195,000 tons per annum. The Company also produces Caustic Soda.

## Ownership

**Ownership Structure** Engro Polymer and Chemicals Limited is a subsidiary of Engro Corporation Limited which is ultimately owned by DH Group. ECL holds majority stake in the company (56%). The other major shareholder is Mitsubishi Corporation (11%).

**Stability** The Executive Director - Mr. Imran Anwer, have strong knowledge of the industry and extensive experience in relevant fields and have the power to direct relevant activities of the Company. As Engro Polymer and Chemicals is a subsidiary of Engro Corp and Engro Corp is a subsidiary of DH Corp.

**Business Acumen** Dawood Group is a conglomerate with over three generations of experience in commercial and social enterprises. Currently, the Group has interests in various sectors of the economy including Fertilizers, Foods, Power Generation, Technology, Financial Services, Chemical Storage, and Petrochemicals.

**Financial Strength** Engro Corp has a strong consolidated asset base of ~ PKR406bln supported by an equity base of ~ PKR 192bln as at 3MCY19.

## Governance

**Board Structure** The Board of Directors (BoD) comprise of 7 members including CEO. Four Board members are from the parent while one member represents Mitsubishi Corporation. There is one independent director. Mr. Ghiasuddin Khan – the CEO of Engro Corp - is Non-Executive Chairman of EPCL.

**Members' Profile** Members of the board have a good mix of skills and experience. Mr. Ghias Uddin Khan – the CEO of Engro Corp, is Non-Executive Chairman of Engro Polymer & Chemicals Limited. He helps set a cohesive direction to create growth and value for the group of companies by focusing on long-term strategy and digital transformation.

**Board Effectiveness** The board has two committees in place; (i) Board Audit Committee (BAC) and (ii) Board Compensation Committee (BCC).

**Financial Transparency** A.F.Ferguson & Co. Chartered Accountants, are the auditors of the company since long. The said firm is rated an 'A' category firm by SBP. They expressed an unqualified opinion on the Company's financial statements for year ended December 2018.

## Management

**Organizational Structure** The Company operates through seven departments, each headed by an experienced manager. These departments include (i) Audit (ii) Public Affairs (iii) Manufacturing (iv) Marketing (v) Supply Chain (vi) Finance (vii) Human Resource. Each department head directly reports to the CEO.

**Management Team** A very well qualified and experienced management team is there to run the business operations efficiently. The CEO, Mr. Imran Anwer, is a Chartered Accountant with over 20 years of experience. Before becoming the CEO of Engro Polymer in 2015, he was VP Business Development and Finance at Engro Foods since 2005, prior to which he worked for PwC Karachi and Deloitte & Touche Jeddah.

**Effectiveness** There are five committees in place, each having a six members panel except inquiry committee - a) Management Committee, b) Corporate HSE Committee, overlooking the Company's health and safety standards, c) Committee for Organization & Employee Development, d) Inquiry Committee, implementing Harassment of Women at the Workplace Act 2010 and e) Salary and Compensation Committee.

**MIS** The Company has SAP as ERP solution. Going forward the Company's corporate objective is implementation of state of the art end to end ERP "SAP S4 HANA", including FIORI, Business Planning & Consolidation and Success Factors.

**Control Environment** The control environment is strengthened by the role of Internal Audit department that provides periodic detailed reports to the Audit Committee for review and assessment and to take necessary remedial actions, where needed. Separate Internal Audit reports for each financial process, including inventory management, payroll, procurement, accounts receivables and accounts payable along with risk rating matrix for each process are prepared and shared with the Audit Committee.

## Business Risk

**Industry Dynamics** The international PVC market remained robust at 44mln tons in 2018, posting a growth of 3%, driven particularly by demand in Asia. South Asian PVC market posted a growth of 8% against last year. Despite strong growth, Pakistan's per capita PVC consumption remains much lower than regional averages. The main reason behind low per capita consumption of PVC is primarily because Pakistan uses PVC in conventional applications e.g. pipes and fittings, film packaging and shoes while increasing PVC consumption in China and India is attributable to construction sector, increasing housing demand and urbanization.

**Relative Position** Domestic PVC demand is met through Engro Polymer and Chemicals (~66%) – as the Company is the sole PVC producer in Pakistan, and the rest (~34%) is met through imports. PVC production stood at 203K MT with the capacity utilization of over 100%. In case of Caustic Soda, Engro Polymer and Chemicals Limited is one of the top three producers of Pakistan.

**Revenues** During CY18, the Company's top-line clocked in at PKR 35,272mln (CY17: PKR 27,731mln), posting a growth of ~27% on the back of increased sales volume of PVC.

**Margins** The Company's gross profit margin increased to ~25% during CY18 (CY17: 22%). Operating margins also increased to 19% (CY17: 15%). Despite increase in interest rates, the finance cost was kept under control due to improved operating cashflows. Consequently, the net margins increased to 14% (CY17: 7.5%). Other income from insurance claim and short-term investments in T-Bills and PIBs also supported the margins.

**Sustainability** The Company announced several new projects to further strengthen its position in the market. The projects include PVC/VCM expansion, caustic flakers plant, oxygen based VCM production and hydrogen peroxide. The Company is expected to complete the announced projects on time.

## Financial Risk

**Working Capital** The Company has a short working capital cycle as most of its sales are on cash. During CY18 net working capital days of the Company increased to 18 (CY17: 7 days). The number of days increased as the trade payable days decreased to 24 (CY17: 44 days).

**Coverages** FCFO of the Company posted a healthy growth of ~52% on YoY basis. During CY18, FCFO of the Company clocked in at PKR 8,821mln (CY17: PKR 5,819mln) on the back of improved sales revenue and profitability. Finance cost decreased to PKR 606mln (CY17: PKR 821mln). As a result, the interest coverages improved to 15.5x during CY18 (CY17: 7x). Debt Coverages also jumped to 16x (CY17: 7x).

**Capitalization** The Company's leveraging reduced to 31% during CY18 (CY17: 53%). The company repaid some of its debt in 3QCY18 which has decreased the leveraging. Right issue of PKR 5.4bln, the equity has increased which means that despite procurement of further debt Company's leveraging is expected to remain at adequate level. Leveraging is expected to decrease once repayment starts. In addition, the Company has issued a privately placed, secured and listed Sukuk of PKR 8.75bln. Tenor of the Sukuk is 7.5 years with initial 5.5 years as grace period. The sukuk's profit (3MK+.90bps) is payable quarterly in arrears.



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

Engro Polymer & Chemicals Limited Chemicals	Mar-19 3M	Dec-18 12M	Dec-17 12M	Dec-16 12M
<b>A BALANCE SHEET</b>				
1 Non-Current Assets	22,688	19,589	16,203	16,719
2 Investments	6,994	7,703	150	740
3 Related Party Exposure	103	173	142	55
4 Current Assets	8,260	8,505	7,821	6,947
a Inventories	4,837	3,581	3,681	3,024
b Trade Receivables	551	430	505	456
5 Total Assets	38,044	35,970	24,315	24,461
6 Current Liabilities	11,058	10,832	7,731	6,226
a Trade Payables	3,197	2,942	1,715	4,964
7 Borrowings	8,607	7,500	8,750	6,584
8 Related Party Exposure	181	505	114	5,682
9 Non-Current Liabilities	579	390	-	-
10 Net Assets	17,618	16,744	7,720	5,968
11 Shareholders' Equity	17,618	16,744	7,720	5,968
<b>B INCOME STATEMENT</b>				
1 Sales	9,344	35,272	27,731	22,854
a Cost of Good Sold	(7,131)	(26,536)	(21,665)	(18,919)
2 Gross Profit	2,213	8,736	6,065	3,935
a Operating Expenses	(511)	(2,044)	(1,903)	(1,699)
3 Operating Profit	1,702	6,692	4,163	2,236
a Non Operating Income or (Expense)	88	363	(233)	(138)
4 Profit or (Loss) before Interest and Tax	1,790	7,055	3,930	2,098
a Total Finance Cost	(268)	(606)	(821)	(930)
b Taxation	(427)	(1,531)	(1,060)	(525)
6 Net Income Or (Loss)	1,094	4,917	2,049	643
<b>C CASH FLOW STATEMENT</b>				
a Free Cash Flows from Operations (FCFO)	2,059	8,821	5,819	3,698
b Net Cash from Operating Activities before Working Capital Changes	1,965	8,522	5,257	2,813
c Changes in Working Capital	(1,955)	1,097	(3,363)	289
1 Net Cash provided by Operating Activities	9	9,619	1,894	3,102
2 Net Cash (Used in) or Available From Investing Activities	(2,366)	(11,963)	(1,083)	(1,078)
3 Net Cash (Used in) or Available From Financing Activities	1,072	2,873	(503)	(1,807)
4 Net Cash generated or (Used) during the period	(1,285)	529	308	217
<b>D RATIO ANALYSIS</b>				
1 Performance				
a Sales Growth (for the period)	6.0%	27.2%	21.3%	2.7%
b Gross Profit Margin	23.7%	24.8%	21.9%	17.2%
c Net Profit Margin	11.7%	13.9%	7.4%	2.8%
d Cash Conversion Efficiency (EBITDA/Sales)	23.1%	26.2%	22.0%	17.6%
e Return on Equity (ROE)	25.5%	40.2%	29.9%	10.8%
2 Working Capital Management				
a Gross Working Capital (Average Days)	46	42	50	37
b Net Working Capital (Average Days)	16	18	7	-42
c Current Ratio (Total Current Assets/Total Current Liabilities)	0.7	0.8	1.0	1.1
3 Coverages				
a EBITDA / Finance Cost	8.6	16.3	7.4	4.8
b FCFO / Finance Cost+CMLTB+Excess STB	8.2	15.5	7.1	2.9
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	1.2	0.9	1.8	3.2
4 Capital Structure (Total Debt/Total Debt+Equity)				
a Total Borrowings / Total Borrowings+Equity	32.8%	30.9%	53.1%	61.6%
b Interest or Markup Payable (Days)	79.6	41.7	60.1	4.8
c Average Borrowing Rate	12.5%	7.0%	9.0%	8.8%

## Regulatory and Supplementary Disclosure

Sukuk	
Issue size	PKR 8,750mln (inclusive of Green Shoe option of PKR 5,000mln)
Tenor	7.5 Years from the date of issue with a 5.5 years grace period
Profit Rate	The issue has a floating rate of return at 3Months KIBOR + 0.90% p.a. Profit is payable quarterly in arrears
Principal Repayment	Five (5) equal semi-annual installments commencing from the 66th month after the Issue date
Call Option	Early redemption of the Issue will only be allowed after forty two (42) months from the Issue Date and subject to the satisfaction of Early Redemption Conditions The Issuer shall give thirty [30] calendar days prior written notice to the Trustee and Sukuk holders which shall also specify the date fixed for the exercise of the Early Redemption. The redemption shall either be of full Issue amount or part of the Issue amount.
Trustee	Pak Brunei Investment Company
Debt Service Reserve Account	Installments (Principal plus Profit) will be made regularly prior to due date. EPCL shall provide 1/3rd of upcoming quarterly profit installment in DSR on monthly basis and shall maintain 1/3 of the Principal repayment in the DSR, 90 days prior to the Principal repayment due date and subsequently 1/3 on 60 days and 30 days before the Principal repayment due date
Security	The underlying instrument will be secured by hypothecation charge over all present and future movable fixed assets with a minimum 20% margin. The value of assets backing this Sukuk stands at PKR ~32,000mln. Initially ranking charge would be created which would be upgraded into pari-passu within 120 days of Issue date

Installment	Year	Due Date	Principal	Mark Up	Total Installment	Outstanding Balance
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-----PKR In Million -----

						8,750
1	2019	Mar-19	G R A C E  P E R I O D	246	246	8,750
2	2019	Jun-19		263	263	8,750
3	2019	Sep-19		319	319	8,750
4	2020	Dec-19		319	319	8,750
5	2020	Mar-20		319	319	8,750
6	2020	Jun-20		319	319	8,750
7	2020	Sep-20		319	319	8,750
8	2021	Dec-20		319	319	8,750
9	2021	Mar-21		319	319	8,750
10	2021	Jun-21		319	319	8,750
11	2021	Sep-21		319	319	8,750
12	2022	Dec-21		319	319	8,750
13	2022	Mar-22		319	319	8,750
14	2022	Jun-22		319	319	8,750
15	2022	Sep-22		319	319	8,750
16	2023	Dec-22		319	319	8,750
17	2023	Mar-23		319	319	8,750
18	2023	Jun-23		319	319	8,750
19	2023	Sep-23		319	319	8,750
20	2024	Dec-23		319	319	8,750
21	2024	Mar-24		319	319	8,750
22	2024	Jun-24	1,750	319	2,069	7,000
23	2024	Sep-24	-	255	255	7,000
23	2024	Dec-24	1,750	255	2,005	5,250
24	2025	Mar-25	-	191	191	5,250
25	2025	Jun-25	1,750	191	1,941	3,500
26	2025	Sep-25	-	127	127	3,500
27	2025	Dec-25	1,750	127	1,877	1,750
28	2026	Mar-26	-	64	64	1,750
29	2026	Jan-26	1,750	64	1,814	-

## Debt Instrument Rating Scale & Definitions

Credit rating reflects forward-looking opinion on credit worthiness of underlying 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 Ratings

<b>AAA</b>	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
<b>AA+</b> <b>AA</b> <b>AA-</b>	<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.
<b>A+</b> <b>A</b> <b>A-</b>	<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.
<b>BBB+</b> <b>BBB</b> <b>BBB-</b>	<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.
<b>BB+</b> <b>BB</b> <b>BB-</b>	<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.
<b>B+</b> <b>B</b> <b>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</b> <b>CC</b> <b>C</b>	<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.
<b>D</b>	Obligations are currently in default.

### Short Term Ratings

<b>A1+</b>	The highest capacity for timely repayment.
<b>A1</b>	A strong capacity for timely repayment.
<b>A2</b>	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
<b>A3</b>	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
<b>B</b>	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
<b>C</b>	An inadequate capacity to ensure timely repayment.

**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, a) some material identifiable event and/or b) deviation from expected trend. 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 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) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults, or/and f) 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.

**Disclaimer:** PACRA's ratings are an assessment of the credit standing of entities/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

### **Rating Team Statements**

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

### **2) Conflict of Interest**

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

### **Restrictions**

- (3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
- (4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
- (5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

### **Conduct of Business**

- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
- (8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
- (11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

### **Independence & Conflict of interest**

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

### **Monitoring and review**

- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

### **Probability of Default**

(22) PACRA’s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA’s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA’s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(f-VII)

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