



The Pakistan Credit Rating Agency Limited

## Rating Report

### Sargodha Jute Mills Limited

#### Report Contents

1. Rating Analysis
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3. Rating Scale
4. Regulatory and Supplementary Disclosure

#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
29-Mar-2024	A-	A2	Stable	Maintain	-
30-Mar-2023	A-	A2	Stable	Maintain	-
31-Mar-2022	A-	A2	Stable	Maintain	-
31-Mar-2021	A-	A2	Stable	Maintain	-
03-Apr-2020	A-	A2	Stable	Maintain	-
30-Oct-2019	A-	A2	Stable	Maintain	-
30-Apr-2019	A-	A2	Stable	Maintain	-
20-Dec-2018	A-	A2	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

The ratings reflect Sargodha Jute Mills Limited’s (“the Company” or “SJML”) prominent presence in the jute industry of Pakistan emanating from considerable market share and wide-ranging final product utility owing to its legacy of over 4 decades. The company’s core operations constitute the manufacturing and sale of Jute products including sacking bags, hessian cloth, hessian bags, yarn, and twines. The inherent strength of the Company lies in two segments (i) Usage of Jute bags for the storage of essential food items at a large scale and (ii) Predominately exports of Jute value-added products. Pakistan’s jute sector is entirely reliant on imports to cater to its raw material needs and imports 100% of its material from Bangladesh owing to the quality and cost-effectiveness of the product. Jute prices fluctuate globally given the demand and supply dynamics and productivity of the Jute crop. During last year, the prices remained on a downward trajectory owing to dampened demand. This price benefit was partially offset by the massive PKR devaluation over the year, a hike in the policy rate that triggered a steep incline in the finance costs, a higher tax burden, and a consistent escalation in oil, gas, and electricity prices that have significantly impacted the cost of production and exerted pressures on the profitability margins. However, the Company was able to pass on a major portion of this cost escalation to its customers. The rating takes comfort as despite these obstructive macroeconomic indicators the company was able to sustain the growth trajectory in its top-line owing to the nature of its products as these are preferred for the storage of wheat and other crops owing to their biodegradability, breathability, and superior tensile strength which supports higher shelf life. The top line of the Company has observed a growth of 24.5% YoY primarily attributable to price hikes and stable demand. The SJML export segment has remained stagnant in FY23 and posted a marginal decline. The company sustained its Gross Profit Margin of ~13%. However, the bottom line of the company diluted owing to a significant increase of ~84% in the finance costs of the company and notional loss booked on the decline in the value of equity securities held by the company. Going forward, the Company is focusing on further growth in its export segment. The ownership and the board structure are comprised of sponsoring family members. All members possess extensive industry-specific exposure and expertise. The financial risk profile of the Company is considered adequate with comfortable coverages, cashflows, and a slightly stretched working capital cycle. Capital structure is leveraged, where borrowings are comprised of only short term to meet their working capital requirements owing to the seasonal nature of the business.

The ratings are dependent on sustainability of profits and market share while retaining sufficient cashflows and coverages. However, adherence to maintaining its debt metrics at an adequate level is a prerequisite.

#### Disclosure

<b>Name of Rated Entity</b>	Sargodha Jute Mills Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Corporate Rating(Jul-23),Methodology   Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology   Rating Modifiers(Apr-23)
<b>Related Research</b>	Sector Study   Jute(Oct-23)
<b>Rating Analysts</b>	Sohail Ahmed Qureshi   sohail.ahmed@pacra.com   +92-42-35869504

**Profile**

**Legal Structure** Sargodha Jute Mills Limited (“Sargodha Jute” or “the Company”) was incorporated in Pakistan on February 10, 1981, as an unlisted Public Limited Company under the repealed Companies Act, 1913 (now the Companies Act, 2017).

**Background** The Company was established in 1981 by Mian Muhammad Aslam (late). The group has one jute mill and one textile mill. Later on, the operations of Sargodha Jute were handed over to Mian Parvez Aslam son of Mian Muhammad Aslam. The Company has an installed production capacity of 30,500 MT/annum.

**Operations** The principal activity of the Company is manufacturing, selling, and dealing in jute products. The product portfolio of the Company includes yarn, hessian cloth, hessian bags, sacking cloth, sacking bags, and twine.

**Ownership**

**Ownership Structure** Mr. Parvez Aslam and his family members collectively own a majority stake of 75% in the Company. Mr. Irfan Aslam and Mr. Imran Aslam, sons of Mr. Parvez Aslam, own ~28% shares each. While Shahzad Textile Mills Limited, an associated Company, holds 25% stake.

**Stability** There is no formal succession plan but the ownership of shares and business roles are equally divided between the two brothers, sons of Mr. Parvez Aslam (Mr. Imran Aslam and Mr. Irfan Aslam). Mr. Irfan Aslam is the CEO of Sargodha Jute Mills Limited and Mr. Imran Aslam is the CEO of Shahzad Textile Mills Limited. Documentation of succession planning or formation of a holding company will bode well for the Company's stability.

**Business Acumen** Mr. Irfan Aslam is the CEO of Sargodha Jute and has been looking after the Company's operations for more than two decades. His ability to take effective strategic decisions and seize opportunities at the right time has kept the entity on the right track.

**Financial Strength** Mr. Irfan Aslam has a 25% shareholding in the associated company Shahzad Textile Mills Limited. Shahzad Textile Mills Limited has an assets base worth ~PKR 5.3bln as of December 22. Moreover, on a personal level, he is an active investor in real estate, stock market, and foreign exchange markets.

**Governance**

**Board Structure** The board of the Company consists of only three members, out of which two are from the sponsoring family. Mr. Irfan (CEO) and Mr. Ahsan (COO) are executive directors, whereas Mr. Imran (Chairman) is the non-executive director.

**Members' Profile** Mr. Irfan Aslam has more than two decades of experience in jute business and is a foreign university graduate. Mr. Imran Aslam is in the textile business and serves as CEO of Shahzad Textile Mills Limited.

**Board Effectiveness** The effectiveness of the board is being compromised due to its small size and domination by the sponsoring family. Secondly, board meetings are done on "as and when needed" basis. Moreover, absence of independent directors and board committees does not bode well for the board's effectiveness.

**Financial Transparency** The external auditors of the Company are Crowe Hussain Chaudhry & Co., Chartered Accountants. They expressed an unqualified opinion on the Company's annual financial statements for the year ended June 30, 2023.

**Management**

**Organizational Structure** The organizational structure of the Company is currently divided into two main divisions, Head Office and Mills. The CFO reports to the CEO while the purchase manager and manager commercial from Head Office and mill managers all report to the COO of the Company

**Management Team** Mr. Irfan Aslam (the CEO) holds the authority to take strategic decisions. He is supported by the COO, Mr. Ahsan Khan, who has vast experience of around three decades in jute business.

**Effectiveness** The Company has an adequate IT infrastructure and related controls. The Company maintains a comprehensive MIS reporting system to keep track of activities including a range of reports on cash position, receivable position, payable position, production, inventory status reports, and segment-wise profit & loss.

**MIS** Sargodha Jute Mills uses an Oracle-based ERP system by the name of Wizmen. Regular reporting of sales figures, raw materials positions, payables, receivables, and income statements on a monthly basis is shared with the top management.

**Control Environment** The Company is ISO 9001-2015 certified and has established a quality control department to ensure the quality of its products. In addition, the Company has devised a system for actively attending to customers' complaints and offering prompt solutions.

**Business Risk**

**Industry Dynamics** The revenue size of the jute industry is estimated at PKR 28,800mln (Qty 63,000MT) in FY23 as compared to PKR~23,259mln (Qty: 58,000MT) in FY22, up ~24% YoY. The imported volumes increased by 13% YoY in FY23 as overall demand increased. Also, an increase of ~52% was witnessed in the import value of Jute during FY23. However, the global jute prices remained on a downward trend during FY23. The margins of the industry are dependent on the productivity and prices of jute crop in Bangladesh, and any negative impact due to natural calamities is felt by the local importers. Pakistan's jute industry is relatively small with only 5 companies and two major players have a market share of around 60%.

**Relative Position** There are only a handful of companies operating in the jute industry. Sargodha Jute is the second largest player with an installed capacity of 30,500 MT/annum and enjoys a strong market share of around 30%. Thal Jute Mills is the other main player and holds ~30% market share, with an installed capacity of 33,800 MT. The remaining market share is divided between White Pearl Jute Mills, Indus Jute, and Madina Jute.

**Revenues** The Company reported sales growth of 24.5% in FY23 and clocked in at ~PKR 8,113mln (FY22, PKR 6,516mln). The increase was due to a 10.5% rise in local sales contributed by the increase in prices, more buying by the Government, and an upward trend in the purchase of local jute products. During FY23, the Company recorded a slight decrease in export sales of jute and clocked in at PKR 1,075mln (FY22, PKR 1,115mln). During 1HFY24, the revenue clocked in at PKR 1,631mln owing to the cyclic nature of the business as the majority of the sales are done in 2nd half of the FY in line with the wheat crop cycle.

**Margins** During FY23, the gross margin of the company remained the same at 12.9% (FY22, 13%) owing to an increase in the cost of raw materials owing to PKR depreciation. The net profit margin of the company showed a significant decrease and remained at 2.2% (FY22, 4.6%) owing to a sharp increase of ~84% in the finance cost of the company during FY23 and notional loss of PKR 131mln booked due to decline in the value of equity securities held by the company. However, during 1HFY24, the company's profitability improved as evidenced by the GP Margin of 20.1% and NP Margin of 3.7%.

**Sustainability** The company's topline has increased YoY in both; monetary and quantitative terms. The Company's revenues are further expected to improve as the Government starts procurement for wheat season. The demand for jute bags is also ever-increasing with the increase in the population of the country and the recent drastic flooding situation in Pakistan. Furthermore, jute bags are the main component for sale as they are environment friendly and bio-degradable, and with more social awareness it will become the preferred product.

**Financial Risk**

**Working Capital** During FY23, the Company's gross working capital days remained 94 days (FY22: 91 days) . The net working capital days have decreased slightly as finished goods inventory has increased to 22 days (FY22, 16 days). During 1HFY24, the net working capital cycle stretched to 269 days which reflects that the company is building up its inventories to cater to upcoming government purchasing. The Company has an adequate cushion to borrow against working capital if needed.

**Coverages** During FY23, free cash flows from operations increased to PKR 658mln (FY22, PKR 492mln). Interest coverage ratio is slightly under stress mainly on the back of a significant surge in finance costs which stood at PKR 298mln in FY23 (PKR 162mln, FY22). A portfolio of investments consists of PKR 314mln TDRs and PKR 189mln listed equity security investments.

**Capitalization** The Company has significantly reduced its borrowings and increased its equity on the back of revaluation of assets resulting in a reduced leverage of 20.9% (FY22, 32.3%). Total borrowings of the Company decreased to PKR 909mln (FY22, PKR 1,260mln). The debt portfolio comprises short-term borrowings only which are being used to meet working capital needs. The borrowings increased to PKR 1,505mln during 1HFY24 in order to fund the working capital needs during off season.



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

Sargodha Jute Mills Limited Jute	Dec-23 6M	Jun-23 12M	Jun-22 12M	Jun-21 12M
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#### A BALANCE SHEET

1 Non-Current Assets	2,237	2,287	1,423	1,458
2 Investments	511	511	545	667
3 Related Party Exposure	-	-	-	-
4 Current Assets	3,492	2,849	2,919	1,711
<i>a Inventories</i>	2,261	1,200	1,342	703
<i>b Trade Receivables</i>	563	869	751	439
<b>5 Total Assets</b>	<b>6,240</b>	<b>5,647</b>	<b>4,888</b>	<b>3,835</b>
6 Current Liabilities	818	880	827	515
<i>a Trade Payables</i>	40	51	33	27
7 Borrowings	1,505	909	1,260	790
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	414	414	162	156
<b>10 Net Assets</b>	<b>3,504</b>	<b>3,443</b>	<b>2,639</b>	<b>2,375</b>
<b>11 Shareholders' Equity</b>	<b>3,504</b>	<b>3,443</b>	<b>2,639</b>	<b>2,375</b>

#### B INCOME STATEMENT

1 Sales	1,631	8,113	6,516	4,575
<i>a Cost of Good Sold</i>	(1,303)	(7,063)	(5,669)	(3,959)
<b>2 Gross Profit</b>	<b>328</b>	<b>1,050</b>	<b>847</b>	<b>616</b>
<i>a Operating Expenses</i>	(101)	(296)	(250)	(209)
<b>3 Operating Profit</b>	<b>227</b>	<b>755</b>	<b>598</b>	<b>406</b>
<i>a Non Operating Income or (Expense)</i>	12	(80)	37	94
<b>4 Profit or (Loss) before Interest and Tax</b>	<b>239</b>	<b>675</b>	<b>634</b>	<b>501</b>
<i>a Total Finance Cost</i>	(141)	(327)	(173)	(86)
<i>b Taxation</i>	(38)	(171)	(163)	(59)
<b>6 Net Income Or (Loss)</b>	<b>61</b>	<b>178</b>	<b>298</b>	<b>355</b>

#### C CASH FLOW STATEMENT

<i>a Free Cash Flows from Operations (FCFO)</i>	154	658	492	365
<i>b Net Cash from Operating Activities before Working Capital (</i>	18	325	343	203
<i>c Changes in Working Capital</i>	(555)	33	(804)	62
<b>1 Net Cash provided by Operating Activities</b>	<b>(537)</b>	<b>358</b>	<b>(461)</b>	<b>265</b>
<b>2 Net Cash (Used in) or Available From Investing Activities</b>	<b>-</b>	<b>(119)</b>	<b>102</b>	<b>(159)</b>
<b>3 Net Cash (Used in) or Available From Financing Activities</b>	<b>596</b>	<b>(350)</b>	<b>470</b>	<b>(113)</b>
<b>4 Net Cash generated or (Used) during the period</b>	<b>58</b>	<b>(111)</b>	<b>111</b>	<b>(6)</b>

#### D RATIO ANALYSIS

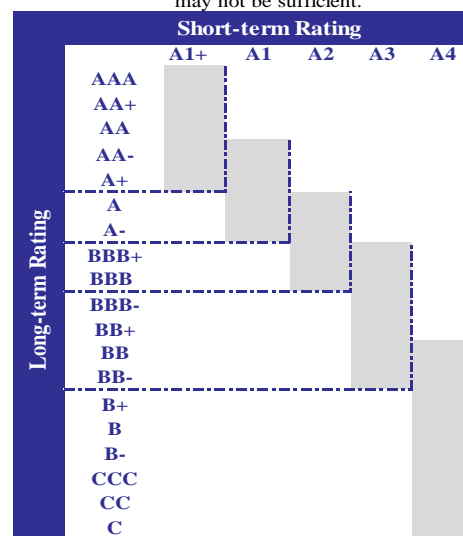
<b>1 Performance</b>				
<i>a Sales Growth (for the period)</i>	-59.8%	24.5%	42.4%	56.9%
<i>b Gross Profit Margin</i>	20.1%	12.9%	13.0%	13.5%
<i>c Net Profit Margin</i>	3.7%	2.2%	4.6%	7.8%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Ca</i>	-24.6%	8.5%	-4.8%	9.3%
<i>e Return on Equity [ Net Profit Margin * Asset Turnover * (To</i>	3.5%	5.8%	11.9%	16.3%
<b>2 Working Capital Management</b>				
<i>a Gross Working Capital (Average Days)</i>	274	94	91	94
<i>b Net Working Capital (Average Days)</i>	269	92	89	92
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	4.3	3.2	3.5	3.3
<b>3 Coverages</b>				
<i>a EBITDA / Finance Cost</i>	2.1	3.0	4.3	5.8
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	1.1	2.2	2.4	2.3
<i>c Debt Payback (Total Borrowings+Excess STB)/(FCFO-Fin</i>	0.0	0.0	0.1	0.4
<b>4 Capital Structure</b>				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity</i>	30.0%	20.9%	32.3%	25.0%
<i>b Interest or Markup Payable (Days)</i>	89.6	30.3	67.4	50.5
<i>c Entity Average Borrowing Rate</i>	17.1%	19.8%	15.8%	8.2%

### Credit Rating

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

Scale	Long-term Rating Definition
AAA	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	<b>Very high credit quality.</b> Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
AA-	
A+	
A	<b>High credit quality.</b> Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
A-	
BBB+	
BBB	<b>Good credit quality.</b> Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BBB-	
BB+	
BB	<b>Moderate risk.</b> Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
BB-	
B+	
B	<b>High credit risk.</b> A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
B-	
CCC	
CC	<b>Very high credit risk.</b> Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
C	
D	Obligations are currently in default.

Scale	Short-term Rating Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



\*The correlation shown is indicative and, in certain cases, may not hold.

**Outlook (Stable, Positive, Negative, Developing)** Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

**Rating Watch** Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

**Suspension** It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

**Withdrawn** A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults, or/and e) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

**Harmonization** A change in rating due to revision in applicable methodology or underlying scale.

**Surveillance.** Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

**Note.** This scale is applicable to the following methodology(s):  
 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

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### **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 | 17-(a)
- (19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)

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