



The Pakistan Credit Rating Agency Limited

## Rating Report

### Mirpurkhas Sugar Mills Limited

#### Report Contents

1. Rating Analysis
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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
05-Apr-2024	A-	A2	Stable	Maintain	-
05-Apr-2023	A-	A2	Stable	Maintain	-
05-Apr-2022	A-	A2	Stable	Maintain	-
07-Apr-2021	A-	A2	Stable	Maintain	-
10-Apr-2020	A-	A2	Stable	Maintain	-
22-Oct-2019	A-	A2	Stable	Maintain	-
28-Jun-2019	A-	A2	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

The Pakistani sugar sector, recognized as the second most substantial agro-based industry within the nation, encompasses 91 mills with a collective processing capacity of roughly 80–90 million metric tons. The season ended with a sugar output of ~6.6 million tons, a ~16% decrease from the previous year's ~7.9 million tons due to severe floods that damaged the crop and shortened the harvesting period. Despite the lower crop, the country had sufficient sugar stocks to meet the annual demand, owing to the large carryover from the previous year. Anticipated water scarcity is projected to precipitate a significant ~13.7% contraction in the forthcoming sugarcane supply for MY24, ascribed to a decrement in cultivated area and yields.

The ratings reflect Mirpurkhas Sugar Mills Ltd.'s ('Mirpurkhas' or 'the Company') strong standing in the market, which is attributed to its established position and its affiliation with the leading group - Ghulam Faruque Group. This association likely contributes to Mirpurkhas' stability and credibility within the industry. The ratings take into account Mirpurkhas Sugar Mills Ltd.'s varied revenue sources stemming from the sale of sugar, molasses, bagasse and paper. Also, the Company entered into a joint venture with Mehran and Faran Sugar Mills Limited and established Unicol Limited - a leading ethanol producer. This helped the Company to mitigate the effects of sugar industry's volatility and enhanced the Company's profitability. Sales of the Company stood at PKR 7,779mln during MY23 (MY22: PKR 4,833mln) with sucrose recovery rate of 10.55% due to increase in domestic prices of the sugar (MY23: PKR 116/kg, MY22: PKR 91/kg). Whereas, upward trend of the net profit of the Company stood at PKR 839mln during MY23 (MY22: PKR 204mln). Following the trend, net profit margins increased and stood at 10.8% during MY23 (MY22: 4.2%). Paper and board division also contributed in the profits and covers 24% of the total sales. Interest coverage ratio of the Company slightly decreased and stood at 0.9x during MY23 (MY22: 1.0x) due to increased finance cost (MY23: PKR 1,120mln, MY22: PKR 427mln). Despite of an increased finance cost, total interest coverage ratio slightly improved (MY23: 0.3x, MY22: 0.2x) due to improved profit before taxation. Whereas, leverage of the Company increased and stood at 66% during MY23 (MY22: 62%) due to increase in short term borrowings (MY23: PKR 4,772mln, MY22: PKR 2,202mln), primarily availed for paper and board division. The Company is exposed to exchange rate risk as the exports contribute 5% of the sales.

The ratings are dependent on the Company's ability to improve profitability while strengthening coverage ratios. Prudent debt management and efficient working capital management, to eliminate any mismatch, is critical. Continued negative trade, total leverage and deterioration in coverages would negatively impact ratings in future.

#### Disclosure

<b>Name of Rated Entity</b>	Mirpurkhas Sugar 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   Sugar(Aug-23)
<b>Rating Analysts</b>	Muhammad Zain Ayaz   zain.ayaz@pacra.com   +92-42-35869504

## Profile

**Legal Structure** Mirpurkhas Sugar Mill Limited (the Company) is a public listed company and listed on Pakistan Stock Exchange.

**Background** The Company was incorporated on May27, 1964 and started its operations in 1966 with a crushing capacity of 1,500 TCD. Over the years, through frequent BMR and capacity enhancements, crushing capacity has been enhanced to 12,500 TCD. The Company's mill is located at Umerkot Road, Mirpurkhas, Sindh. Meanwhile the head office is based in Karachi.

**Operations** Prime business of the Company is manufacturing and sale of sugar. During MY23, the plant operated for 87 days (MY22: 124 days) crushing 562,641 MT (MY22:649,557) While producing 59,325 MT of sugar (MY22: 70,460) at a recovery rate of 10.55% (MY22: 10.85%). The Company is also dealing in paper and board division with 250MT/day production capacity.

## Ownership

**Ownership Structure** Major shareholdings lie with Faruque Group through Faruque Pvt. Limited and its associated that holds (45.95%), Sponsors of the Company (0.92%), Banks, DFIs, NBFIs and others (11.27%), Insurance Companies (2.56%), Modarabas (9.27%) and General Public (30%).

**Stability** The third generation of sponsors currently manages the Group, and there is an ongoing introduction of the fourth generation. The presence of a holding company structure, with clearly defined interests and a shared understanding among the family members involved in sponsorship, demonstrates stability in ownership.

**Business Acumen** The Company is a part of Ghulam Faruque Group, incorporated in 1964. Company has a diversified business lines. Apart from sugar that Group has a strong Presence in sugar and cement industry. Moreover, the Group also deals with air conditioning, industrial equipment trading and software solutions.

**Financial Strength** The Company derives financial strength from its Group. During FY23, consolidated group revenue and total assets stood at PKR ~89.2bln and PKR ~76.5bln, respectively.

## Governance

**Board Structure** The company has seven board members, three non-executive directors, two executive directors and two independent directors.

**Members' Profile** The members possess diverse backgrounds, showcasing significant expertise and specialization in industries such as sugar, cement, packaging, and steel industry.

**Board Effectiveness** The Board maintains effective oversight through Board Audit Committee and HR & Remuneration Committee. High frequency of Board of Directors & Committees' meetings bodes well for the Company

**Financial Transparency** Kreston Hyder Bhimji & Co. Chartered Accountants, has expressed an unqualified opinion on the financial reports for the Company for the year ending in Sept-23. The firm is classified under category 'A' by the SBP and holds a satisfactory QCR rating.

## Management

**Organizational Structure** The Company functions through ten departments, encompassing finance, sales, marketing, procurement, and internal audit, among others. All department heads report to the COO, who concurrently serves as the CFO. However, the heads of Internal Audit and HR report administratively to the CEO and functionally to the Board Audit Committee and Board HR & Remuneration Committee, respectively.

**Management Team** Management comprises experienced individuals. The CEO, Mr. Aslam Faruque has experience of above 3 decades. He also serves as the CEO of Unicol Ltd., a joint venture distillery project. He is ably supported by COO & CFO - Mr. Wasif Khalid, having an experience of above 2 decades.

**Effectiveness** The Board maintains effective oversight through Board Audit Committee and HR & Remuneration Committee. The frequent meetings of the Board of Directors and its Committees are indicative of a proactive approach, contributing positively to the Company's governance

**MIS** The Company implemented SAP in 2010. Production and sales reports are submitted to the senior management periodically.

**Control Environment** In order to ensure operational efficiency, the Company has setup an internal audit function. The department conducts regular reviews to monitor effectiveness of operations while identifying potential areas of improvement

## Business Risk

**Industry Dynamics** Pakistan sugar industry comprises of 91 sugar mills with annual capacity of 89-90mln MT. The average area under sugar cultivation is around ~1.2mln hectares (MY20-MY23) while the average production level of sugarcane crop has widely ranged from ~65mln MT – 90mln MT depending upon the area cultivation and crop yield. The share of sugarcane in the GDP of Pakistan is 0.9% during MY23. Production of sugarcane during MY23 is 91.1mln MT. Production of sugarcane is expected to be decreased in MY24 by ~13.7% due to decrease in sugarcane area by ~5.3% as well as reduction of crop yield by ~3.8% as scarcity of water is forecasted by on the backdrop of lack of adequate rainfall. The minimum support price of sugarcane is expected PKR 400/maund in Punjab, PKR 425/maund in Sindh and PKR 400/maund in KPK during MY24. The average global prices of ethanol recorded USD ~749 /MT during CY19-CY23. While USDA estimates exports of sugar around ~0.25mln MT in MY24, it appears highly unlikely, considering the expected reduction in sugar productivity by 6% in MY24.

**Relative Position** The Company held ~0.9% share in total sugar production of the country and holds a relatively low market share.

**Revenues** The Company mainly generates revenue by selling sugar. Also the Company has another product line of Paper. The Company generates 24% revenue from paper and 76% revenue from sugar. Topline of the Company increased and stood at PKR 7,779mln during MY23 (MY22: PKR 4,833mln) posting the growth of 61% due to introduction of new business line (paper segment). Also, the 1QMY24 sales increased stood at PKR 2,795mln (1QMY23: 859mln).

**Margins** The Company's gross profit margin increased and stood at 17.5% during MY23 (MY22: 9.9%) due to introduction to a new business segment that has led to increase in sales. Also the gross profit margin for 1QMY24 stood at 14.9% (1QMY23: 7.5%).The share of profit from associate stands at PKR 911mln during MY23 (MY22: PKR 440mln). As a result, net income improved and stood at PKR 839mln (MY22: PKR 204mln). Following the trend, operating profit margin also increased and stood at 9.7% in MY23 (MY22: 4.8%). Also, net profit margin showed a significant surge and stood at 10.8% during MY23 (MY22: 4.2%) due to increase in sales and share of profit from associates (Unicol Limited and UniEnergy Limited). During 1QMY24, net profit margin deteriorated and stood at -4.7% (1QMY23:72.6%) due to increase in finance cost

**Sustainability** High sugar price in the local market and robust demand of ethanol in the export market during tends to bode well for the Company, going forward. However, the Company is exposed to volatility and ensuing challenges in the sugar sector. On the other hand, the company has successfully started commercial operations of its paper division from May12, 2023 with the installed capacity of 250 tons paper per day.

## Financial Risk

**Working Capital** The Company's working capital requirements is a function of managing the inventory as high inventory is require in form of sugar stocks. During MY23 the average inventory days improved and stood at 89 days (MY22: 91 days) due to increase in the turnover. Following the trend average inventory days for 1QMY24 also improved and stood at 112 days (1QMY23: 207 days). Trade receivables deteriorated and stood at 18 days during MY23 (MY22: 7 days). The Company poses inherent volatility owing to seasonality in crushing cycle. Company's trade payables stood at 9 days during MY23 (MY22: 8 days).

**Coverages** The FCFO of the company increased and stood at PKR 1,057mln during MY23 (MY22: PKR 408mln) due to increase in sales. Also, FCFO for 1QMY24 stood at PKR 352mln (1QMY23: PKR -32mln. Interest coverage ratio decreased and stood at 0.9x during MY23 (MY22:1.0x) due to increase in interest rates. Interest coverage ratio for 1QMY24 stood at 1.0x (1QMY23: -0.3x). Finance cost for MY23 increased and stood at PKR 1,120mln (MY22: PKR 427mln)

**Capitalization** The Company has moderate leveraged capital structure with the debt-to-equity ratio of 66% in MY23 (MY22: 62%). This increase is mainly due to increase in the borrowing of the Company. Total borrowings of the Company stood at PKR 7,754mln during MY23 (MY22: 5,160mln). Total borrowings for 1QMY24 also increased and stood at PKR 10,034mln (1QMY23: PKR 6,952mln).



The Pakistan Credit Rating Agency Limited

Financial Summary  
PKR mln

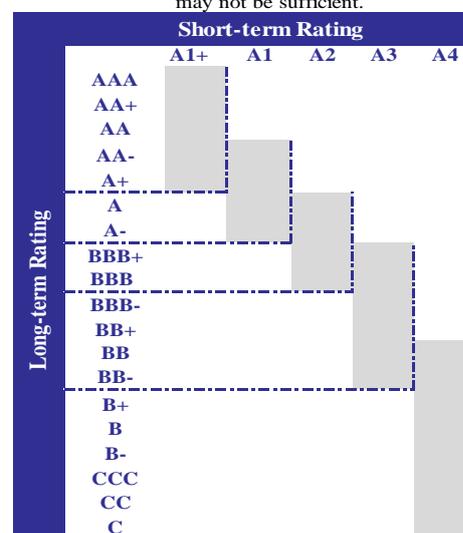
Mirpurkhas Sugar Mills Limited Sugar	Dec-23 3M	Sep-23 12M	Sep-22 12M	Sep-21 12M
<b>A BALANCE SHEET</b>				
1 Non-Current Assets	6,787	6,852	5,839	3,473
2 Investments	31	31	2	2
3 Related Party Exposure	2,528	2,385	1,723	1,992
4 Current Assets	7,226	4,556	2,661	2,277
a Inventories	4,449	2,408	1,405	993
b Trade Receivables	993	668	113	61
5 Total Assets	16,573	13,824	10,224	7,744
6 Current Liabilities	1,801	1,359	1,478	593
a Trade Payables	428	286	89	112
7 Borrowings	10,034	7,754	5,160	3,444
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	628	619	475	480
10 Net Assets	4,110	4,092	3,111	3,226
11 Shareholders' Equity	4,110	4,092	3,111	3,226
<b>B INCOME STATEMENT</b>				
1 Sales	2,795	7,779	4,833	3,861
a Cost of Good Sold	(2,380)	(6,416)	(4,355)	(3,579)
2 Gross Profit	416	1,363	478	283
a Operating Expenses	(172)	(612)	(247)	(177)
3 Operating Profit	244	751	231	105
a Non Operating Income or (Expense)	28	1,428	498	356
4 Profit or (Loss) before Interest and Tax	272	2,178	729	461
a Total Finance Cost	(362)	(1,124)	(429)	(246)
b Taxation	(42)	(215)	(96)	(75)
6 Net Income Or (Loss)	(132)	839	204	140
<b>C CASH FLOW STATEMENT</b>				
a Free Cash Flows from Operations (FCFO)	352	1,057	408	75
b Net Cash from Operating Activities before Working Capital Changes	(38)	445	453	49
c Changes in Working Capital	(2,158)	(1,803)	(550)	(322)
1 Net Cash provided by Operating Activities	(2,196)	(1,357)	(98)	(273)
2 Net Cash (Used in) or Available From Investing Activities	(35)	(1,216)	(1,612)	(883)
3 Net Cash (Used in) or Available From Financing Activities	2,279	2,589	1,694	1,156
4 Net Cash generated or (Used) during the period	48	15	(16)	0
<b>D RATIO ANALYSIS</b>				
1 Performance				
a Sales Growth (for the period)	43.7%	61.0%	25.2%	-16.7%
b Gross Profit Margin	14.9%	17.5%	9.9%	7.3%
c Net Profit Margin	-4.7%	10.8%	4.2%	3.6%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	-64.6%	-9.6%	-3.0%	-6.4%
e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/Sha.	-12.9%	23.3%	6.4%	4.6%
2 Working Capital Management				
a Gross Working Capital (Average Days)	139	108	97	85
b Net Working Capital (Average Days)	127	99	90	77
c Current Ratio (Current Assets / Current Liabilities)	4.0	3.4	1.8	3.8
3 Coverages				
a EBITDA / Finance Cost	1.0	1.1	1.0	1.0
b FCFO / Finance Cost+CMLTB+Excess STB	0.4	0.3	0.2	0.1
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	-136.6	-71.0	-206.7	-10.5
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	70.9%	65.5%	62.4%	51.6%
b Interest or Markup Payable (Days)	85.7	124.3	142.0	47.9
c Entity Average Borrowing Rate	16.7%	14.6%	8.2%	7.2%

### 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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(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)

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- 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

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- (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).
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- (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)

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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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- (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)
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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 | 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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