The Pakistan Credit Rating Agency Limited

Rating Report

Punjab Oil Mills Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
11-Feb-2021	BBB+	A2	Stable	Maintain	-
29-Feb-2020	BBB+	A2	Stable	Maintain	-
30-Aug-2019	BBB+	A2	Stable	Maintain	-
01-Mar-2019	BBB+	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Pakistan's edible oil industry is heavily reliant on imports since key imported raw materials account for ~80% of the cost of production. Additionally, lower yields have pushed farmers away from cultivating oilseeds, further increasing dependence on imports. Demand for edible oil was impacted during lockdown in the later half of FY20 due to the Covid-19 outbreak. However, being a staple food item, edible oil demand at household level did not drop. On the supply side, the key raw materials – oilseed and RBD palm oil – were imported primarily from the USA, Brazil and Malaysia. Industry players had sufficient inventories to fulfill demand. Lately, demand from all avenues for edible oil has picked up. International prices of Soybean oilseed and RBD Palm oil have picked up by ~51% and 60%, respectively, while the rupee has depreciated around 9% since Jan-20. Resultantly, domestic prices of branded cooking oil and vegetable ghee surged by 4% and 10%, respectively. Going forward, players in the refining segment and making ghee may further benefit from increased prices. However, branded and packaged oil segment is expected to remain competitive. Interest rate cut and SBP initiative steps like restructuring/deferment of loans have provided some respite in the short-time.

The ratings reflect Punjab Oil Mills Limited's ('Punjab Oil' or 'the Company') established presence in the cooking oil industry through its flagship brands Canolive and Zaiqa. The Company's premium brand (Canolive) enjoys solid margins as the Company was able to pass on the higher cost to consumers. Curtailed selling and distribution costs resulted in maintained operating margin. However, low volumes depleted the profitability. Going forward, revenue and profitability are expected to recoup from all channels supported by increased prices, specially in branded cooking oil segment, amid challenges arising from stern market competition. The Company is expected to engage in high marketing and promotional activities for the development of new products. The ratings draw strength from the Company's strong financial profile, comprising minimal short-term and long-term borrowings. Punjab Oil Mills has a low leveraged capital structure, strong coverage ratios and efficient working capital management.

The ratings are dependent on the management’s ability to improve profitability and gain market share, while maintaining prudent working capital management. Substantial increase in leveraging may impact ratings.

Disclosure

Name of Rated Entity	Punjab Oil Mills Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Ratings(Jun-20),Methodology | Correlation Between Long-Term And Short-Term Rating Scale(Jun-20),Criteria | Rating Modifier(Jun-20)
Related Research	Sector Study | Edible Oil(Feb-20)
Rating Analysts	Faiqa Qamar | faiqa.qamar@pacra.com | +92-42-35869504

Profile

Legal Structure Punjab Oil Mills Limited ('Punjab Oil' or 'the Company') is a public listed company, listed on the Pakistan Stock Exchange.

Background The Company was incorporated in 1983, and commenced operations in 1984. The Company's product portfolio, which initially comprised only banaspati ghee and cooking oil, has diversified with the addition of several new products.

Operations The Company is primarily engaged in the manufacturing and sale of banaspati ghee, cooking oil, specialty fats, laundry soaps, mushrooms and coffee. The Company's facility is located in the Industrial Triangle, Islamabad, with a combined refining capacity of 33,000 MT per annum. The capacity for refining cooking oil is 19,000 MT and for ghee/specialty fats is 14,000 MT per annum. Capacity utilization decreased to 87% during FY20 (FY19: 95%), due to the decreased demand amidst Covid-19 pandemic.

Ownership

Ownership Structure Three families, namely, Jahangir Family, Mailk Family and Batla Family combined have majority shareholding in the Company. Other shareholders include NIT, Mutual Funds, Financial Institutions and the general public.

Stability Ownership structure of the business is seen as stable, although no formal shareholding agreement exists among sponsoring families.

Business Acumen Sponsors of the Company have strong profiles relating to textile, finance and economics, and edible oil industries.

Financial Strength The Company's financial strength is represented through the support of its group. The Company is seen as the flagship entity for the Malik Family, whereas, Jahangir Family and Batla Family also have other business interest.

Governance

Board Structure The Company's Board of Directors consists of seven members including the Chairman, four non-Executive Directors and two Executive Directors. One non-Executive Director is a nominee of NIT.

Members' Profile Board members possess strong profiles and specialize in textiles, finance and economics, in addition to edible oils. Additionally, Board Chairman, Mr. Tahir Jahangir, previously presided over Towel Manufacturers Association of Pakistan. Mr. Izaz Malik serves as a Managing Director on the Board of Punjab Oil Mills Ltd. He has more than four decades of experience and associated with the company for 39 years. He is also a member of Human Resource and Remuneration Committee.

Board Effectiveness Board of Directors maintain effective oversight through Audit Committee and Human Resources & Remuneration Committee. Adequate frequency and high participation of meetings among board members bodes well for the Company.

Financial Transparency The Company has appointed M/s Malik Haroon Shahid Safdar & Co., Chartered Accountants, as external auditors. The firm, QCR rated not on SBP Panel of auditors, expressed an unqualified opinion on the financial statements of the Company ending in Jun-20.

Management

Organizational Structure The Company's organizational structure is based on five main departments, namely, operations & technical, planning & development, internal audit, sales and marketing, and finance. Functions relating to supply chain, production, information technology and administration come under the purview of Director Operations. Similarly, functions of sales and marketing, human resources and technical services are consolidated under the Director for Planning and Development. Both directors are supported by relevant department heads along with teams of individuals. Ultimate reporting lies with the Managing Director, with the exception of the internal audit department which functionally reports to the Audit Committee and administratively reports to the MD.

Management Team Management comprises of experienced individuals. Mr. Izaz Ilahi Malik, the Managing Director, holds a BSc in engineering and previously acted as the president for Pakistan Vanaspati Manufacturers Association. Director Planning and Development, Mr. Usman Ilahi Malik, holds a degree in Finance and Marketing from the Wharton School of Business and is a qualified Chartered Financial Analyst.

Effectiveness Management lacks presence of formal committees. However, meetings among senior management are conducted daily to ensure operational efficiency.

MIS The Company deploys Microsoft Dynamics as its Enterprise Resource and Planning system with eleven, fully integrated, modules.

Control Environment In order to ensure operational efficiency, the Company has setup an Internal Audit function. Regular reviews are undertaken by the department to monitor operational control.

Business Risk

Industry Dynamics Pakistan's edible oil industry is heavily reliant on imports since key imported raw materials account for ~80% of the cost of production. Additionally, lower yields have pushed farmers away from cultivating oilseeds, further increasing dependence on imports. Demand for edible oil was impacted during lockdown in the later half of FY20 due to the Covid-19 outbreak. However, being a staple food item, edible oil demand at household level did not drop. On the supply side, the key raw materials – oilseed and RBD palm oil – were imported primarily from the USA, Brazil and Malaysia. Industry players had sufficient inventories to fulfill demand. Lately, demand from all avenues for edible oil has picked up. International prices of Soybean oilseed and RBD Palm oil have picked up by ~51% and 60%, respectively, while the rupee has depreciated around 9% since Jan-20. Resultantly, domestic prices of branded cooking oil and vegetable ghee surged by 4% and 10%, respectively. Going forward, players in the refining segment and making ghee may further benefit from increased prices.

Relative Position Punjab Oil Mills Limited has a market share of ~0.8% in terms of revenue and ~0.8% in terms of refining in edible oil segment.

Revenues The Company generates its revenue from seven different segments – cooking oil, banaspati ghee, specialty fats, soap, mushrooms and coffee. During FY20, high concentration in revenue stream exists as the Company sources ~ 98% of its revenue from cooking oil and banaspati ghee, with cooking oil generating ~65% of total revenue, followed by banaspati ghee (29%), specialty fats (3%), soap (1%), coffee (1%), and mushrooms (1%).The Company mainly sells its products in the domestic market with exports (mainly comprising cooking oil) having a small share. The Company posted a topline of PKR 5.3bln during FY20 (FY19: PKR 5.5bln), witnessing a decrease of 4%. mainly attributed to low demand amidst COVID-19 pandemic.

Margins Gross margin for the year remain stable (FY20: 15%, FY19: 14.7%) due to increased prices of products over time to offset the increase in high raw material costs. During 1QFY21, further improvement can been seen in the gross margin as it stood at 17% indicating recovering demand after eased lockdown restrictions. On operational level the margin stood 4.3% during FY20 (FY19: 4.5%) and net margins stood at 1.6% (FY19: 1.9%). The slight decrease resonated with the decrease in topline. In 1QFY21, operating margin stood at 4.1% net margin stood at 2.9%. The increase in net margin indicates the reduced financial charges as a result of interest rate cut.

Sustainability The Company's future strategy involves focusing on the development of new product lines while maintaining share in the cooking oil segment. Moreover, the Company is looking to gradually consolidate its position in the banaspati ghee segment.

Financial Risk

Working Capital The Company's working capital requirements emanate from inventories and trade receivables as sales are made on credit and sufficient stock of raw materials is maintained. The Company maintains a notable balance of trade receivables. In FY20, the average debtor days increased to 53 from 44 in FY19. Further, high reliance on imported raw materials forces the Company to maintain sufficient stock levels which have kept average raw material days slightly elevated. However, effective control on stock of finished goods have helped average inventory levels float around 25 days in FY20. Overall, net cash cycle stood at 64 days in FY20 (FY19: 57).

Coverages Interest cover is a function of free cash flows and finance cost. Free cash flows stood at PKR 153 mln in FY20 (FY19: PKR 174mln). The Company finance cost stood at PKR 22mln in FY20 (FY19: PKR 13 mln). In FY20, finance cost increased due to increased borrowings. Interest cover deteriorated to 6x in FY20 (FY19: 13x). Core and Total interest cover stood at 6x each in FY20.

Capitalization The Company has a low leveraged capital structure, represented by a debt-to-equity ratio of 13% in FY20. Total debt comprises short-term borrowings (86%) and long-term borrowings (14%). Short-term borrowings are utilized for working capital requirements and retirement of letters of credit. In FY20 short-term borrowing increased by 40% to PKR 174mln (FY19: PKR 124mln). In 1QFY21, leveraging ratio stands at 11%.

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

Punjab Oil Mills Limited Edible Oil	Sep-20 3M	Jun-20 12M	Mar-20 9M	Dec-19 6M	Sep-19 3M	Jun-19 12M	Mar-19 9M	Dec-18 6M	Sep-18 3M	Jun-18 12M
A BALANCE SHEET										
1 Non-Current Assets	697	702	704	713	718	717	751	694	28	671
2 Investments	-	-	-	-	-	-	-	-	-	-
3 Related Party Exposure	2	2	1	1	-	1	16	-	-	0
4 Current Assets	1,725	1,713	1,601	1,441	1,542	1,480	1,498	1,422	1,481	1,375
a Inventories	*429*	*404*	*275*	*204*	*355*	*329*	*408*	*356*	*433*	*332*
b Trade Receivables	*731*	*816*	*851*	*810*	*685*	*702*	*660*	*688*	*617*	*640*
5 Total Assets	2,423	2,417	2,306	2,154	2,260	2,199	2,265	2,116	1,509	2,046
6 Current Liabilities	805	804	732	611	772	732	685	649	762	707
a Trade Payables	*221*	*229*	*176*	*147*	*171*	*166*	*167*	*115*	*124*	*117*
7 Borrowings	167	201	184	145	117	124	142	109	114	86
8 Related Party Exposure	-	-	-	-	-	-	-	-	-	-
9 Non-Current Liabilities	127	122	109	106	103	100	93	95	95	93
10 Net Assets	1,325	1,289	1,280	1,292	1,267	1,242	1,345	1,263	538	1,160
11 Shareholders' Equity	1,325	1,289	1,281	1,293	1,267	1,242	1,279	1,231	1,177	1,160
B INCOME STATEMENT										
1 Sales	1,237	5,268	3,907	2,435	969	5,504	3,990	2,551	-	4,951
a Cost of Good Sold	*(1,025)*	*(4,479)*	*(3,305)*	*(2,020)*	*(809)*	*(4,697)*	*(3,421)*	*(2,195)*	*(956)*	*(4,211)*
2 Gross Profit	211	789	602	415	159	808	569	356	(956)	740
a Operating Expenses	(161)	(564)	(429)	(270)	(101)	(558)	(335)	(211)	(96)	(550)
3 Operating Profit	51	225	173	145	58	250	234	145	(1,052)	190
a Non Operating Income or (Expense)	*10*	*4*	*(1)*	*(4)*	*1*	*(5)*	*(10)*	*(5)*	*(2)*	*(7)*
4 Profit or (Loss) before Interest and Tax	61	228	172	141	59	244	224	140	(1,054)	182
a Total Finance Cost	*(4)*	*(22)*	*(16)*	*(10)*	*(5)*	*(16)*	*(11)*	*(7)*	*(3)*	*(8)*
b Taxation	*(20)*	*(123)*	*(96)*	*(59)*	*(27)*	*(121)*	*(88)*	*(57)*	*(27)*	*(105)*
6 Net Income Or (Loss)	36	84	60	72	27	107	125	75	(1,084)	69
C CASH FLOW STATEMENT										
a Free Cash Flows from Operations (FCFO)	*53*	*153*	*111*	*153*	*52*	*174*	*168*	*101*	*(1,071)*	*120*
b Net Cash from Operating Activities before Working Capital Changes	*48*	*133*	*97*	*93*	*48*	*159*	*157*	*95*	*(1,073)*	*112*
c Changes in Working Capital	*40*	*(149)*	*(58)*	*(24)*	*(17)*	*(97)*	*(163)*	*(103)*	*(52)*	*(34)*
1 Net Cash provided by Operating Activities	88	(16)	39	69	31	62	(6)	(7)	(1,125)	78
2 Net Cash (Used in) or Available From Investing Activities	(6)	(27)	(21)	(17)	(11)	(89)	(44)	(8)	(6)	(37)
3 Net Cash (Used in) or Available From Financing Activities	(35)	55	39	(1)	(8)	14	49	16	28	(58)
4 Net Cash generated or (Used) during the period	47	12	56	51	12	(13)	(1)	1	(1,103)	(16)
D RATIO ANALYSIS										
1 Performance										
a Sales Growth (for the period)	-6.1%	-4.3%	-5.4%	-11.5%	-29.6%	11.2%	7.4%	3.1%	N/A	--
b Gross Profit Margin	17.1%	15.0%	15.4%	17.0%	16.5%	14.7%	14.3%	14.0%	N/A	14.9%
c Net Profit Margin	2.9%	1.6%	1.5%	2.9%	2.8%	1.9%	3.1%	2.9%	N/A	1.4%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	7.5%	0.1%	1.4%	5.3%	3.6%	1.4%	0.1%	-0.1%	N/A	1.7%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	11.0%	6.8%	6.4%	11.0%	8.8%	8.9%	13.7%	12.4%	N/A	6.0%
2 Working Capital Management										
a Gross Working Capital (Average Days)	88	78	76	77	98	66	70	72	N/A	66
b Net Working Capital (Average Days)	71	64	64	65	82	57	60	64	N/A	57
c Current Ratio (Current Assets / Current Liabilities)	2.1	2.1	2.2	2.4	2.0	2.0	2.2	2.2	1.9	1.9
3 Coverages										
a EBITDA / Finance Cost	19.1	15.6	17.0	21.4	20.5	23.6	33.8	32.7	N/A	41.2
b FCFO / Finance Cost+CMLTB+Excess STB	8.9	5.8	8.3	18.3	12.8	13.1	20.6	19.1	N/A	20.4
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4 Capital Structure										
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	11.2%	13.5%	12.6%	10.1%	8.5%	9.1%	10.0%	8.1%	8.9%	6.9%
b Interest or Markup Payable (Days)	32.5	47.1	49.1	39.8	36.3	35.2	23.8	52.5	N/A	20.2
c Entity Average Borrowing Rate	10.4%	12.6%	12.5%	13.1%	13.5%	11.6%	9.6%	10.3%	0.0%	6.8%

Credit Rating

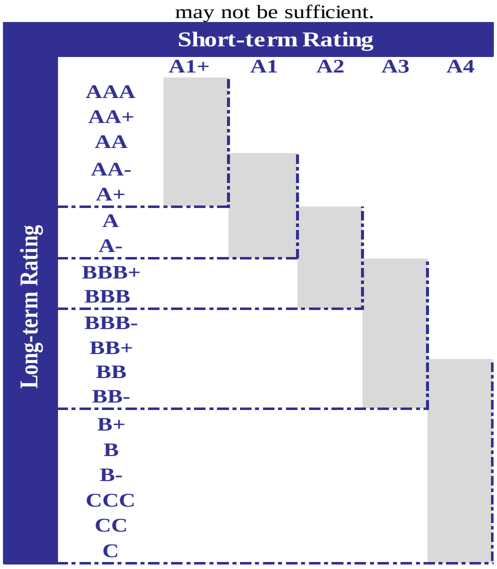
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+ 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.
A+ 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.
BBB+ 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.
BB+ BB BB-	**Moderate risk.** Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
B+ 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.
CCC CC C	**Very high credit risk.** Substantial credit risk “CCC” Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. “CC” Rating indicates that default of some kind appears probable. “C” Ratings signal imminent default.
D	Obligations are currently in default.

Short-term Rating

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



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

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

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

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

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

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

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

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

Entities
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

Instruments
a) Basel III Compliant Debt Instrument Rating
b) Debt Instrument Rating
c) Sukuk Rating

Regulatory and Supplementary Disclosure
(Credit Rating Companies Regulations,2016)

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

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

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

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

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

Monitoring and review
(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
(19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)
Probability of Default
(22) PACRA´s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA´s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA´s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(f-VII)
Proprietary Information