



The Pakistan Credit Rating Agency Limited

## Rating Report

### Shajar Capital Pakistan (Pvt.) Limited

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
28-Nov-2019	BMR3	-	Stable	Maintain	-
30-May-2019	BMR3	-	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

The rating reflects the Company's modest business profile with the adequate governance structure. Majority owned by Dar-ul-Shifa International Private Limited, (89% shareholding). The Company catered the challenging economic condition of the country and maintained its market share at around 2%. The company has lean organizational structure with adequate departmentalization. The company has adequate IT infrastructure and risk management framework. the company has devised IT, CDD/KYC, AML and employee's code of conduct policies, in line with directives of the regulators. These can be further strengthened by implimenting seperate policies and procedures for key functions. The company is exposed to market risk and potential conflict of interest as it has a small proprietary investment portfolio, (~PKR 7mln or 3.5% of equity). The company has a low leveraged capital structure, supported by sponsors loan, and modest net capital balance of ~PKR 29mln at the end FY19 that meets the minimum regulatory requirement. the NCB reduced on YoY basis.

The rating is dependent on the management's ability to improve revenues, in turn, profitability of the company . Meanwhile, retaining key personnel, improving governance framework and maintaining strong controls is critical.

#### Disclosure

<b>Name of Rated Entity</b>	Shajar Capital Pakistan (Pvt.) Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Broker Management Rating
<b>Applicable Criteria</b>	PACRA_Methodology_Security Broker_FY19(Jun-19)
<b>Related Research</b>	Sector Study   Brokerage & Securities(Jun-19)
<b>Rating Analysts</b>	Madiha Sohail   madiha.sohail@pacra.com   +92-42-35869504



## Ownership

**Ownership Structure** Shajar Capital Pakistan (Pvt.) Ltd. is a subsidiary of Dar-ul-Shifa International (Pvt.) Ltd, an established healthcare venture, comprising a hospital and medical college. Dar-ul-Shifa International (Pvt.) Ltd. is holds (89.24%), rest of the stakes lie with Syed Ali Farhan Razi and Javed Yousuf Ahmedjee.

**Stability** The company has formal succession plan, in which the short term replacements procedures and the long-term human resource strategy are defined.

**Business Acumen** The sponsors have diversified experience in the healthcare, education, brokerage and oil sectors. The directors have relevant qualification and diversified experience in Capital Markets and Fund Management.

**Financial Strength** The Dar ul Shifa International (Pvt.) Ltd had reported equity of ~PKR 907mln as at June-18. The owners have provided financial support to the company in the past.

## Governance

**Board Structure** The company's board of directors comprises three members, including the CEO, Mr. Rehan Ateeq. Mr. Amir Waliuddin and Syed Ali Farhan Razi are non-executive directors. Mr. Amir Waliuddin is also entrusted with the responsibilities of the Chairman of the board. Four board meetings were held in FY19 and discussions were mainly held on financial performance of the company, risk management policies, and the prevailing market conditions.

**Members' Profile** Mr. Rehan Ateeq (CEO) is a Senior Associate Member of the Financial Services Institute of Australasia (Finsia) and held the position of treasurer of Financial Market Association of Pakistan (FMAP) in 2004-05. He has more than a decade of diversified experience in Treasury Operations and Management, Capital Markets and Fund Management.

**Board Effectiveness** The company has an established Audit Committee with defined TORs having three members including the CEO. The committee is chaired by Mr. Amir Waliuddin.

**Financial Transparency** The company has an in-house internal audit function that documents and reports its observations to the board. The external auditors of the company are Parker Randall - A.J.S Chartered Accountants. They are in B category of SBP audit firms ranking.

## Management

**Management Team** The company has a mix of experienced professionals at various positions Mr. Shahrukh Naqvi, currently Director Sales at Shajar Capital, is a seasoned professional and has more than fifteen years of relevant experience. Mr. Yawar Uz Zaman, Head of Research, has more than a decade of professional experience in Capital Market Research. He has MBA qualification from Bahria University, Karachi and also completed MPhil in business Management from IBM.

**Organizational Structure** The company's organizational structure comprises seven departments, which directly reports to the CEO. The company has created and filled all requisite positions to ensure smooth operations. Departments are headed by "Directors" or head of departments. These are adequately staffed.

**Client Servicing** The company has established a research department comprising two members including the Head of Research. Currently, the department is covering ~70-80% of the KSE-100 market capitalization and regularly issues reports.

**Complaint Management** The company has defined policy for lodging the complaint. Complaints can be made via email or calls and can also be lodged by filling online complaint form.

**Extent Of Automation / Integration** The company is currently using "SEAMS" software by microlinks Pvt. Ltd. The software is fully integrated with data base and has built in virus control procedures. It can generate real time reports on timely basis.

**Continuity Of Operations** To ensure business continuity, a fully tested disaster recovery and business continuity plan is in place with daily, weekly and monthly backups being made.

**Risk Management Framework** The company has devised a risk management framework. In this regard, the company has developed policies and procedures including MTS and MFS policy (includes exposure limits and margins) and KYC/CDD policies where customer's initial assessment is done. Each customer is assigned a risk level from low to high. The company has also devised AML policy as a part of risk management.

**Regulatory Compliance** The company has a compliance department, headed by Mr. Sheheryar Rafique. He is the member of CIMA and is CA finalist and has more than six years of professional experience. The department ensures that all the regulatory requirements are fulfilled on timely basis.

## Business Sustainability

**Business Risk** KSE-100 index recorded an overall oscillating trend during FY19. The start of FY19 witnessed the market gaining momentum, reaching the highest point of 43,557 on July 30, 2018, after which it started dropping hit low of 33,166 on May 17, 2019. In line with the trend in the preceding period, KSE-100 index posted a negative return of around ~19% in FY19 compared to the negative return of ~10% in FY18. The lackluster performance can be attributable to slowing GDP, large fiscal and current account deficits and significant exchange rate depreciation. The index witnessed a rising trend in 4MFY20 as sentiments improved and certain key economic indicators started to stabilize. The market posted a positive return of 13% in 4MFY20. The overall trading volumes remained depressed in FY19 and averaged ~PKR 96mln putting pressure on brokerage income. However, the volumes have improved in 4MFY20, in line with better market performance. SECP has also taken certain initiatives including introduction of minimum commission rates and relaxation in reporting and capital of brokers to boost market activity.

**Business Profile** Main activities of the company include equity and commodity brokerage, corporate finance and financial advisory services. In terms of value of traded shares, the company enjoys ~2.0% market share in the ready equity market.

**Revenue And Profitability Analysis** The company earns majority of its revenues from institutional clients but intends to engage more HNWI and increase retail clientele. However, these initiatives have yet to materialize. The company's operating revenue mainly comprises equity brokerage, commodity brokerage and advisory income. The company's brokerage income decrease significantly to ~PKR 28mln in FY19 (FY18: ~PKR 99mln) mainly due to decline in the revenue from institutional customers. The company curtailed its operating expenses by 11% to ~PKR 69mln (FY18: ~PKR77mln). The company posted net loss of ~PKR 57mln (FY18: ~PKR 53m profit).

## Financial Sustainability

**Credit Risk** For the assessment of client's credit worthiness, the company has formulated detailed KYC/CDD policies. These policies entail customer identification, risk assessment, due diligence and compliance function.

**Market Risk** At end Jun-19, the company's long term investment of ~PKR 14mln comprises only PSX shares, which were allotted as a result of Corporatization, Demutualization and Integration Act 2012. The company's short term proprietary investments were ~PKR 7 mln (FY18: ~PKR 9mln) in listed equities. Proprietary book as compared to company's equity comprised ~4.5% in FY19 (FY18: ~5%). Trading in proprietary book creates conflict of interest and exposes the company to market risk. In this regard, the company has an approved exposure limit of PKR 800 Mn for proprietary investments.

**Liquidity Profile** The liquidity risk of the company arises from its T+2 settlement framework. At the end of FY19, the liquid assets were 0.8x of the short term borrowings and Creditors (FY18: ~0.9x).

**Financial Risk** The company has a debt free capital structure. At FY19, the Net Capital Balance of the company stood at ~PKR 29mln (FY18: ~PKR26mln), which meets the minimum regulatory requirement. The company received an advance against future issuance of share capital of PKR 45mln during FY19 to meet its financial requirements.



**The Pakistan Credit Rating Agency Limited**

Shajar Capital Pakistan (Private) Limited  
BALANCE SHEET As at

	<i>PKR mln</i> 30-Jun-19 FY19 Audited	<i>PKR mln</i> 30-Jun-18 FY18 Audited	<i>PKR mln</i> 30-Jun-17 FY17 Audited	<i>PKR mln</i> 30-Jun-16 FY16 Audited
<b>A. EARNING ASSETS</b>				
<b>a. Finances</b>				
1. Margin Trading System	0	0	0	0
3. Ready Futures	0	0	0	0
4. Receivable from NCCPL - net	0	0	0	0
	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>b. Investments</b>				
1. Deposits with Banks	1	11	1	11
2. Govt. Securities	0	0	0	0
3. Debt Securities & Mutual Funds	0	0	0	0
4. Other Investments				
i) Related Party	0	0	0	0
ii) Long Term Deposits	2	2	2	2
iii) Listed Equity Investments - Long Term	14	32	42	65
iv) Listed Equity Investments - Short Term	7	9	30	83
v) Unlisted	0	0	0	0
	<b>24</b>	<b>55</b>	<b>74</b>	<b>160</b>
<b>Total Earning Assets</b>	<b>24</b>	<b>55</b>	<b>74</b>	<b>160</b>
<b>B. NON-EARNING ASSETS</b>				
1. Cash and Bank Balances - Own Funds	0	1	2	1
2. Taxation	73	70	85	74
3. Cash and Bank Balances - Client Funds	32	39	30	17
4. Accounts Receivable	15	7	19	12
5. Due from related party	0	0	54	10
6. Advances, Deposits and Other receivables	21	40	72	19
7. Fixed Assets	21	25	49	37
<b>Non-Earning Assets</b>	<b>162</b>	<b>183</b>	<b>311</b>	<b>170</b>
<b>C. TOTAL ASSETS</b>	<b>186</b>	<b>237</b>	<b>385</b>	<b>330</b>
<b>D. Funding</b>				
<b>1. Commercial</b>				
i) Advances from Customers	0	0	0	0
ii) Payables to Customers	26	54	60	29
	<b>26</b>	<b>54</b>	<b>60</b>	<b>29</b>
<b>2. FIs</b>				
i) Short-term Borrowings	0	3	15	24
ii) Current Maturity of Long Term Debt	0	0	0	0
iii) Long-term Borrowings	0	0	161	161
	<b>0</b>	<b>3</b>	<b>176</b>	<b>186</b>
<b>Liabilities</b>	<b>26</b>	<b>57</b>	<b>236</b>	<b>215</b>
<b>E. Other Liabilities</b>				
1. Due to Associates	0	0	0	0
2. Other Liabilities (staff gratuity, Accrued mark-up)	10	7	13	4
3. Provision for Taxation	0	0	0	0
<b>Other Liabilities</b>	<b>10</b>	<b>7</b>	<b>13</b>	<b>4</b>
<b>F. EQUITY</b>				
1. Share Capital	215	215	150	150
2. Reserves:				
i. Statutory Reserve	0	0	0	0
ii. Capital Reserve	0	0	0	0
iii. Reserve for Bonus Shares	0	0	0	0
iv. Revenue Reserve	(96)	(39)	(92)	(108)
v. Unappropriated Profit	0	0	0	0
	<b>(96)</b>	<b>(39)</b>	<b>(92)</b>	<b>(108)</b>
<b>Pure Equity</b>	<b>119</b>	<b>176</b>	<b>58</b>	<b>42</b>
3. Surplus/(Deficit) on Revaluation of Investments	(13)	(2)	7	0
4. Director's Subordinated loan	45	0	70	70
<b>Total Equity</b>	<b>151</b>	<b>174</b>	<b>135</b>	<b>111</b>
<b>G. TOTAL LIABILITIES &amp; EQUITY</b>	<b>186</b>	<b>237</b>	<b>385</b>	<b>330</b>
<b>H. CONTINGENT LIABILITIES</b>				



Shajar Capital Pakistan (Private) Limited  
INCOME STATEMENT

For the period ended	30-Jun-19 FY19	30-Jun-18 FY18	30-Jun-17 FY17	30-Jun-16 FY16
	Audited	Audited	Audited	Audited
<b>1. Fee-Based Income</b>				
a. Advisory Fees	-	34	22	34
b. Commission / Underwriting	-	-	-	-
c. Brokerage	28	99	52	41
d. Other	-	-	-	-
	<b>28</b>	<b>133</b>	<b>74</b>	<b>74</b>
<b>2. Operating Expenses</b>				
a. Personnel Expenses	(35)	(40)	(67)	(46)
b. Other Non-interest/Mark Up Expenses	(34)	(73)	(39)	(59)
	<b>(69)</b>	<b>(113)</b>	<b>(106)</b>	<b>(105)</b>
<b>3. Brokerage Income / (Loss)</b>	<b>(42)</b>	<b>19</b>	<b>(31)</b>	<b>(31)</b>
<b>4. Non Fee-Based Income</b>				
a. Finances	-	-	-	-
a. Placements (including Reverse REPO/COI/CFS)	-	-	-	-
b. Bank Deposits and others	0	0	0	0
	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>3 Other Income</b>				
Capital Gain / (Loss) on Sale of Investments	(15)	(0)	33	2
Unrealised gain / (Loss) on remeasurement of short term investment - car	-	(0)	(5)	10
Unrealised gain / (Loss) on remeasurement of investment held as "Availab	(11)	(10)	27	-
Dividend Income	0	1	1	1
Share of profit of subsidiaries/associates	-	-	-	-
Exchange Gain/(Loss)	-	-	-	-
Gain on sale of fixed assets	-	-	-	(0)
Rental Income	-	-	-	-
Liability Written-off	-	48	-	-
Sale of Scrap	-	1	-	-
Profit on exposure deposit	-	0	0	-
Others	2	1	1	1
	<b>(24)</b>	<b>41</b>	<b>58</b>	<b>14</b>
<b>5. Total Operating Income / (Loss)</b>	<b>(66)</b>	<b>60</b>	<b>27</b>	<b>(17)</b>
6. Financial Charges	(1)	(1)	(1)	(10)
<b>8. Profit / (Loss) Before Tax</b>	<b>(67)</b>	<b>59</b>	<b>25</b>	<b>(26)</b>
9. Taxes	(0)	(16)	(1)	(2)
<b>10. Net Income</b>	<b>(67)</b>	<b>43</b>	<b>24</b>	<b>(28)</b>



**The Pakistan Credit Rating Agency Limited**

Shajar Capital Pakistan (Private) Limited

RATIO ANALYSIS	30-Jun-19	30-Jun-18	30-Jun-17	30-Jun-16
	FY19	FY18	FY17	FY16
	Audited	Audited	Audited	Audited
<b>A. PERFORMANCE</b>				
1. ROE	(83.8%)	17.2%	4.0%	(20.7%)
a Net Profit Margin	(242.2%)	32.6%	32.2%	(37.8%)
b Asset Turnover	28.0%	38.7%	4.4%	18.5%
c Financial Leverage	123.4%	136.5%	285.0%	297.0%
2. ROA	(28.5%)	13.9%	6.7%	-
3. Personnel Expenses-to-Total Operating Income	(53.7%)	66.8%	250.2%	(276.9%)
4. Personnel Expenses-to-Fee Income	127.8%	30.3%	89.5%	61.9%
5. Cost-to-Fee Income	2,023.6%	65.3%	79.9%	118.8%
6. Cost-to-Total Operating Income	(105.2%)	188.3%	396.6%	(631.2%)
7. Taxes / Pre-Tax Profit	(0.5%)	27.0%	4.9%	(6.7%)
8. Net Non-Earning Assets / Equity	101.3%	101.3%	220.5%	149.2%
<b>B. FINANCIAL EXPOSURE</b>				
1. Short Term Proprietary Listed Securities / Core Equity	4.5%	5.3%	21.9%	74.6%
2. Total Investments / Total Equity	19.9%	31.0%	126.2%	384.5%
3. Fixed Income / Total Capital	-	-	-	-
4. NCB / Equity	24.3%	20.8%	43.7%	-
<b>C. LIQUIDITY</b>				
1. Trade Related Assets / Trade Related Liabilities	0.6	0.1	0.3	0.4
2. Liquid Assets/ Short Term Borrowings + Creditors	0.8	0.9	1.0	3.0
3. Liquid Assets / Total Assets	0.1	0.2	0.2	0.5
4. Liquid Assets / Trade Related Liabilities	0.8	1.0	1.2	5.5
5. Liquid Assets / (Short term Borrowings + Advances from Customers + Accounts Payable)	0.8	0.9	1.0	3.0
6. Liquid Investments / Equity	0.2	0.3	1.2	3.8
<b>D. COVERAGE RATIOS</b>				
1. EBITDA/Gross Interest	(32.1)	68.9	21.0	(1.4)
2. FCFO/Gross Interest	(35.7)	59.8	11.5	(2.0)
3. TCF/Gross Interest	(35.7)	59.8	11.5	(2.0)
<i>Debt Payback Analysis</i>				
4. Long-term Debt/FCFO	0.0	0.0	10.2	(8.1)
5. Total Debt / FCFO	0.0	0.1	11.1	(9.4)
<b>E. CAPITAL ADEQUACY</b>				
1. Equity / Total Assets	64.0%	74.3%	15.2%	12.6%
2. Total Equity (including surplus on revaluation) / Total Assets	81.0%	73.3%	35.1%	33.7%
3. Total Debt / Equity	-	1.9%	130.4%	167.0%
<b>F. FUNDING &amp; LIQUIDITY</b>				
1. Long-Term Debt / Total Debt	-	-	91.5%	86.8%
2. Unsecured Debt / Total Debt	-	-	91.5%	86.8%
3. LT Assets / LT Debt + Total Equity	52.9%	58.9%	47.1%	55.2%
4. Earnings before Interest & Tax / Financial Charges	-56.79	65.37	19.43	-1.70
5. Liquid Assets* / Total Debt	N/A	1,635.0%	42.1%	85.8%
* Liquid Assets = Cash & Bank Balances + Government Securities + Listed Equities + Listed TFCs + Reverse REPO - REPO				
<b>G. GROWTH</b>				
1. Total Assets	(21.6%)	(38.3%)	16.6%	-
2. Investments	(56.5%)	(25.9%)	(54.0%)	-
3. Equity	(13.3%)	28.7%	21.5%	-
4. Brokerage Revenue	(72.0%)	90.1%	28.0%	-
5. Asset Yield	(28.5%)	13.9%	6.7%	-

## Broker Management Rating Scale & Definitions

An independent opinion on the quality of management and services provided by the broker

### Long Term Ratings

<b>BMR 1A</b>	<b>Excellent.</b> Excellent regulatory compliance, control environment, and financial management; governance and risk management frameworks are extremely effective; HR, IT, and customer services are strongly proactive.
<b>BMR 1++</b> <b>BMR 1+</b> <b>BMR 1</b>	<b>Strong.</b> Strong regulatory compliance, control environment, and financial management; governance and risk management frameworks are highly effective; HR, IT, and customer services are highly proactive.
<b>BMR 2++</b> <b>BMR 2+</b> <b>BMR 2</b>	<b>Sound.</b> Sound regulatory compliance, control environment, and financial management; governance and risk management frameworks are effective; HR, IT, and customer services are proactive.
<b>BMR 3++</b> <b>BMR 3+</b> <b>BMR 3</b>	<b>Adequate.</b> Adequate regulatory compliance, control environment, and financial management; governance and risk management frameworks are satisfactory; HR, IT, and customer services are adequate.
<b>BMR 4++</b> <b>BMR 4+</b> <b>BMR 4</b>	<b>Inadequate.</b> Inadequate regulatory compliance, control environment, and financial management; governance and risk management frameworks need improvements; HR, IT, and customer services are insufficient.
<b>BMR 5</b>	<b>Weak.</b> Weak regulatory compliance and business practices.

**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

**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 rating remains suspended for six months, or/and d) 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:** The rating is based on information that is obtained from the client and sources we consider to be reliable but its accuracy and completeness are not guaranteed. PACRA shall owe no liability whatsoever to any loss or damage caused by or resulting from any error in such information. Our rating and related analyses are statements of opinions about the relative standing of the company and its affairs as of the date they are expressed. These are not recommendations to buy or subscribe/unsubscribe any services. None of the information in this document may be copied or otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA's written consent. This disclaimer is in accordance with Section 14(3)(x) of the 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**

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