



The Pakistan Credit Rating Agency Limited

## Rating Report

### Sindh Abadgars Sugar Mills Limited

#### Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
20-Feb-2023	BBB	A2	Stable	Maintain	-
21-Feb-2022	BBB	A2	Stable	Maintain	-
23-Aug-2021	BBB	A2	Stable	Maintain	-
04-Sep-2020	BBB	A2	Stable	Maintain	-
16-Sep-2019	BBB	A2	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

Pakistan's sugar industry is the country's 2nd largest agro-based industry, comprising 90 mills with an annual crushing capacity estimated ~ 80–90mln MT. The industry has overcome the raw material supply challenges, lately. However, support price of sugarcane, set by the Government considering the cost incurred by farmers, remains a constraint. During MY22, the support prices for sugar-cane in Punjab were fixed at PKR 230/maund and PKR 250/maund in Sindh. Actual realized sugarcane prices at the mill gate were even higher. During MY22, the overall sugar production increased by ~9%, YoY, to 7.1mln MT (MY21: 6.5mln MT) due to better crop availability and an increase in area under cultivation. Subsequently, sugar prices witnessed ~12% decrease during MY22 compared to the preceding year. Furthermore, the Government has allowed exports of 0.5mln MT considering the surplus sugar production in the country. During the current crushing season (MY23), loss of area under cultivation of roughly 4.7% amidst flash floods; the forecast of sugar production is affected and is estimated to be ~7mln MT. This, along with exporting possibility, is anticipated to remain favorable for the millers.

The ratings reflect Sindh Abadgars Sugar Mills Ltd.'s ('Sindh Abadgars' or 'the Company') association with an established group in the agriculture and allied chain and demonstrated support from the Sponsors. Sindh Abadgars has a modest business profile and relatively lower margins. The Company generates revenue from the sale of refined sugar and ensuing by-products: molasses and bagasse. The mill, located in Sindh, has a relatively adequate capacity of 8,000 TCD. Better crop availability, amidst higher sugar-cane production, led to increased production during MY22. Furthermore, the Company was able to benefit from lower average procurement price and this led to improved financial performance. The Company has sufficient inventory levels to reap benefits from the export possibility during the ongoing year. This is expected to bode well for the Company's profitability. Lack of diversification exposes the Company to inherent volatility in the sugar industry. Financial risk profile of the Company is characterized by a high working capital cycle, dominated by increased inventory levels, and significant short-term borrowings to finance working capital requirements. Coverages and leverage remain adequate. Continued group support, in case need arises, remains imperative for the ratings.

~The ratings are dependent upon improving margins and strict working capital discipline. The Company's ability to improve profitability while further strengthening coverage ratios remains critical. Any significant deterioration in business performance and/or financial health will negatively impact ratings.

#### Disclosure

<b>Name of Rated Entity</b>	Sindh Abadgars Sugar Mills Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Corporate Rating(Jun-22),Methodology   Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology   Rating Modifiers(Jun-22)
<b>Related Research</b>	Sector Study   Sugar(Apr-22)
<b>Rating Analysts</b>	Ahmad Faraz Arif   ahmad.faraz@pacra.com   +92-42-35869504

## Profile

**Legal Structure** Sindh Abadgars Sugar Mills Limited ('Sindh Abadgars' or 'the Company') is a Public Limited Company and is listed on the Pakistan Stock Exchange.

**Background** The Company was incorporated in Karachi, Pakistan, on January 28, 1984. The Company used to be under the ownership of the Effendi Group. However, the Essarani Family overtook the business in 2005.

**Operations** The Company is involved in the manufacture and sale of white refined crystal sugar of all grades, colors and by-products bagasse and molasses. The mill is located at Tando Mohammed Khan (38 miles from Hyderabad, Sindh) with a current crushing capacity of 8,000 MT per day. During MY22, the Company produced 45,478 MT of sugar (MY21: 27,074 MT) witnessing ~70% increase YoY owing to the increase in production and yield of sugar cane in the country. The sugar recovery rate surged to ~11.1% compared ~10.1% in MY21 mainly due to higher moisture content in the sugar-cane crop amidst monsoon rains.

## Ownership

**Ownership Structure** Sindh Abadgars is majorly owned by the Essarani Family, with ~79% of the holding vesting with the sponsoring family members. Insurance Companies collectively hold ~2.4% while foreign investors (mainly Islamic Development Bank) also hold a sizeable chunk of 9%. Remaining ~10% of the Company's shares reside with the general public

**Stability** Ownership is stable as the major stake rests with Essarani family. Although no documented succession planning exists, the roles of family members are defined.

**Business Acumen** The Essarani family has been involved in the agriculture sector for a significant period of time and operates under the name 'United Group'. The Group's entities include two sugar mills (Sindh Abadgars and SGM Sugar Mills), United Ethanol Industries Limited (Distillery), Agro Trade Private Limited, and United Agro Chemicals, involved in Commodity trading (Fertilizer and Coal).

**Financial Strength** The Company has adequate financial strength derived from its Group and support of sponsors.

## Governance

**Board Structure** Sindh Abadgars Board comprises ten members. There are five non-executive directors, two executive directors, and three independent directors. Nine members are male, with one female representation. The Board is dominated by the sponsoring family (7).

**Members' Profile** Mr. Deoo Mal Esraani, Chairman of the Board, also chairs the Board of two other group companies, SGM Sugar Mills Limited and United Ethanol Industries Limited. Three independent directors are inducted on the Board: Mr. Zafar Ahmed Ghori, Mr. M. Siddiq Khokhar, and Ms. Maheshwari Osha.

**Board Effectiveness** The Company's Board constitutes two sub-committees for monitoring and oversight namely, Audit Committee and HR & Remuneration Committee.

**Financial Transparency** Auditors of the Company, M/s Rahmat Sarfaraz Rahim Iqbal Rafiq, have expressed an unqualified opinion on financial statements for MY22. The firm has been categorized in category 'A' by SBP and has been QCR rated.

## Management

**Organizational Structure** The organization structure is divided into two segments, to oversee operations at the Mill and administration from the Head-Office. Mill operations are headed by the resident director, whereas administration is headed by Group CFO with both heads reporting directly to the CEO. The Company has established departments for its core functions, namely: a) Administration & Sales, b) Finance & Tax, c) Purchase, and d) Corporate Affairs. All departments report to the CFO who then reports to the CEO.

**Management Team** Dr. Tara Chand, the Chief Executive Officer, has more than 16 years of experience in the sugar and allied industry. He is ably supported by Mr. Abdul Rahim Mallah (Resident Director Mills) and Mr. Saqib Ghaffar (Group CFO). The senior management team comprises seasoned professionals having significant experience in the Sugar Industry.

**Effectiveness** The Company has no management committees in place. However, performance is discussed among management on a fortnightly basis. Further, daily reporting to the CEO of bank lines, inventory, and sales positions enables effective control and management.

**MIS** The Company has deployed ERP software from Cosmosoft, which has completed its trial run.

**Control Environment** Internal audit department is shared at the Group level. Going forward, the group plans to enhance its control environment through induction of additional individuals.

## Business Risk

**Industry Dynamics** Pakistan's sugar industry is the country's 2nd largest agro-based industry, comprising 90 mills with an annual crushing capacity estimated ~80-90mln MT. The industry has overcome the raw material supply challenges, lately. However, support price of sugarcane, set by the Government considering the cost incurred by farmers, remains a constraint. During MY22, the support prices for sugar-cane in Punjab were fixed at PKR 230/maund and PKR 250/maund in Sindh. Actual realized sugarcane prices at the mill gate were even higher. During MY22, the overall sugar production increased by ~9%, YoY, to 7.1mln MT (MY21: 6.5mln MT) due to better crop availability and an increase in area under cultivation. Subsequently, sugar prices witnessed ~12% decrease during MY22 compared to the preceding year. Furthermore, the Government has allowed exports of 0.5mln MT considering the surplus sugar production in the country. During the current crushing season (MY23), loss of area under cultivation of roughly 4.7% amidst flash floods; the forecast of sugar production is affected and is estimated to be ~7mln MT. This, along with exporting possibility, is anticipated to remain favorable for the millers.

**Relative Position** The Company contributed approximately 0.7% to the total production of sugar produced in Pakistan. Whereas large players supply approximately 6% of the total sugar produced.

**Revenues** The Company generates most of its revenue from the sale of refined sugar (86% of total sales). However, sale of molasses and bagasse also contribute to the Company's turnover. The Company's revenue stood at PKR 3,873mln during MY22 (MY21: PKR 2,679mln), witnessing a ~45% increase mainly due to higher sales volumes compared to the last year.

**Margins** During MY22, the Company's gross margins improved to 7.5% (MY21: 6.5%), on the back of low sugarcane during the year. The operating margin improved to 4.2% (MY21: 2.0%), on account of higher gross profit and relatively lower selling and admin expenses. The Company produced a net loss of PKR 41mln during MY22 (MY21: Net loss PKR 80mln), despite increase in finance costs amidst higher interest rates indicating the improved financial performance compared to the last year. Subsequently, net profit margin improved and stood at -1.1% during MY22 compared to -3.0% in preceding year.

**Sustainability** The Company's margins are expected to improve on the back of increase of sugar prices in the market. However, the management should also focus on diversifying the revenue base of the Company.

## Financial Risk

**Working Capital** The inventory days remained on the higher side in MY22, as the crushed sugar is stored due to surplus in the local market (MY22: 110 days, MY21: 73 days). The trade receivable days, however, stood at 6 days in MY22 compared to 36 days in MY21. Similarly, trade payable days witnessed decrease as well and stood at 27 days in MY22 (MY21: 38 days). Therefore, net working capital days elongated and stood at 89 days in MY22 (MY21: 72days). The Company's short-term trade leverage and short-term total leverage stood at 10.3% and 9.1%, respectively, indicating limited room to borrow against trade assets.

**Coverages** The Company's interest coverage ratio improved in MY22 and stood at 1.4x (MY21: 1.0x) on the back of relatively higher free cash flows (MY22: PKR 385mln, MY21: PKR 167mln), despite increase in finance costs (MY22: PKR 280mln, MY21: PKR 162mln). Similarly, the Company's debt coverage ratio improved to 1.1x (MY21: 0.6x) and debt payback period improved significantly, as well (MY22: 131.2x, MY21: 6.6x).

**Capitalization** The Company has a moderately leveraged capital structure with leveraging ratio remaining stable at ~50% as at MY22. The Company's capital structure is represented majorly by short-term borrowing to support working capital requirement and minimal long-term debt undertaken for BMR. The total debt of the Company stood at PKR 1,179mln as at MY22 (MY21: PKR 1,259mln) against an equity base of PKR 1,687mln as at MY22 (MY21: PKR 1,728mln). The sponsors have also provided the Company with subordinated loan of PKR 480mln as at MY22.



Sindh Abadgars Sugar Mills Limited Sugar	Sep-22 12M	Sep-21 12M	Sep-20 12M	Sep-19 12M
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**A BALANCE SHEET**

1 Non-Current Assets	3,099	3,246	2,397	2,606
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	1,827	1,504	919	892
a Inventories	1,322	1,017	60	461
b Trade Receivables	37	94	435	0
<b>5 Total Assets</b>	<b>4,926</b>	<b>4,750</b>	<b>3,317</b>	<b>3,498</b>
6 Current Liabilities	711	393	588	365
a Trade Payables	275	302	248	212
7 Borrowings	1,179	1,259	609	788
8 Related Party Exposure	480	480	260	260
9 Non-Current Liabilities	869	890	718	766
<b>10 Net Assets</b>	<b>1,687</b>	<b>1,728</b>	<b>1,142</b>	<b>1,318</b>
<b>11 Shareholders' Equity</b>	<b>1,687</b>	<b>1,728</b>	<b>1,142</b>	<b>1,318</b>

**B INCOME STATEMENT**

1 Sales	3,873	2,679	3,381	2,454
a Cost of Good Sold	(3,581)	(2,504)	(3,253)	(2,107)
<b>2 Gross Profit</b>	<b>292</b>	<b>175</b>	<b>128</b>	<b>347</b>
a Operating Expenses	(129)	(121)	(133)	(110)
<b>3 Operating Profit</b>	<b>163</b>	<b>54</b>	<b>(5)</b>	<b>237</b>
a Non Operating Income or (Expense)	103	3	4	2
<b>4 Profit or (Loss) before Interest and Tax</b>	<b>266</b>	<b>57</b>	<b>(1)</b>	<b>240</b>
a Total Finance Cost	(280)	(162)	(165)	(198)
b Taxation	(27)	25	1	8
<b>6 Net Income Or (Loss)</b>	<b>(41)</b>	<b>(80)</b>	<b>(165)</b>	<b>50</b>

**C CASH FLOW STATEMENT**

a Free Cash Flows from Operations (FCFO)	385	167	186	470
b Net Cash from Operating Activities before Working Capital	141	14	11	277
c Changes in Working Capital	(7)	(782)	212	(222)
<b>1 Net Cash provided by Operating Activities</b>	<b>134</b>	<b>(767)</b>	<b>223</b>	<b>54</b>
<b>2 Net Cash (Used in) or Available From Investing Activities</b>	<b>(14)</b>	<b>(116)</b>	<b>(19)</b>	<b>(52)</b>
<b>3 Net Cash (Used in) or Available From Financing Activities</b>	<b>(80)</b>	<b>869</b>	<b>151</b>	<b>(6)</b>
<b>4 Net Cash generated or (Used) during the period</b>	<b>40</b>	<b>(14)</b>	<b>355</b>	<b>(3)</b>

**D RATIO ANALYSIS**

<b>1 Performance</b>				
a Sales Growth (for the period)	44.6%	-20.7%	37.7%	--
b Gross Profit Margin	7.5%	6.5%	3.8%	14.1%
c Net Profit Margin	-1.1%	-3.0%	-4.9%	2.0%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital / Net Profit Margin)	9.7%	-22.9%	11.8%	10.1%
e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets / Equity)]	-2.4%	-5.6%	-13.4%	3.8%
<b>2 Working Capital Management</b>				
a Gross Working Capital (Average Days)	116	109	52	68
b Net Working Capital (Average Days)	89	72	27	37
c Current Ratio (Current Assets / Current Liabilities)	2.6	3.8	1.6	2.4
<b>3 Coverages</b>				
a EBITDA / Finance Cost	1.5	1.4	1.4	2.5
b FCFO / Finance Cost+CMLTB+Excess STB	1.1	0.6	0.9	1.6
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Financing Cost)	6.6	131.2	29.4	2.6

#### 4 Capital Structure

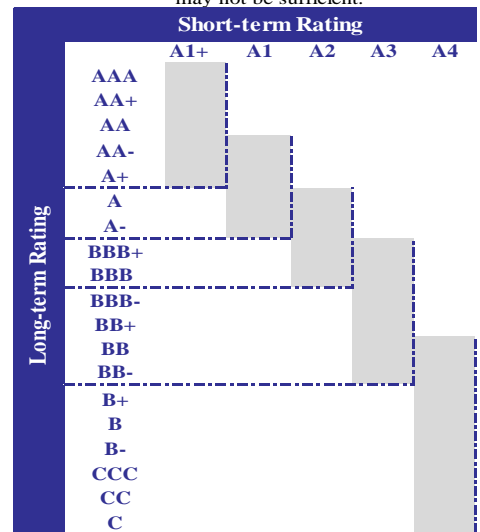
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	49.6%	50.1%	43.2%	44.3%
<i>b Interest or Markup Payable (Days)</i>	80.9	56.5	35.3	47.4
<i>c Entity Average Borrowing Rate</i>	11.0%	7.8%	11.1%	18.7%

### 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)

### **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

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(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)

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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).

(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)

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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)

(14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)

(15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)

(16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)

(17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

### **Monitoring and review**

(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)

(19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)

(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)

(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

### **Probability of Default**

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

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