



The Pakistan Credit Rating Agency Limited

## Rating Report

### Chanar Sugar Mills Limited

#### Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

#### Rating History

| Dissemination Date | Long Term Rating | Short Term Rating | Outlook | Action   | Rating Watch |
|--------------------|------------------|-------------------|---------|----------|--------------|
| 30-Sep-2020        | BBB-             | A3                | Stable  | Maintain | -            |
| 17-Oct-2019        | BBB-             | A3                | Stable  | Initial  | -            |

#### Rating Rationale and Key Rating Drivers

Pakistan's sugar industry is the 2nd largest agro based industry after textile, comprising ~ 90 mills with annual crushing capacity estimated around 65 – 75 mln MT. It contributes about 0.6% to GDP and 2.9% of total value addition in agriculture. In previous years, the industry was under pressure owing to over supply combined with challenges in the support price mechanism. Additionally, a slowdown in international sugar prices made exports viable only through subsidy support. Government approved an export quota upto 1 MMT, however, no subsidy was announced. Consequently, zero exports were reported in August 2020 (August 2019: ~USD 5mln). During MY20, sugar production declined by ~9% YoY and clocked in at ~4.8MT (MY19: ~5.27MT), owing to reduction in the area under cultivation and water scarcity. Sugar prices improved in local market as inventory levels reduced. Due to low crop availability in the crushing period ended Mar-20. The Government increased the support price of sugarcane to PKR 190 per maund (previously PKR180). Actual realized sugarcane price at mill gate were higher. Despite increase in costs, higher local sugar prices have improved miller's profitability.

The ratings reflect modest business profile of Chanar Sugar Mills Limited with relatively small crushing capacity of 4,800 tons per day. The sponsors have sound understanding of the business and have been proactive in improving efficiencies. The Company's topline posted a declining trend during 9MMY20, due to subdued demand emanating mainly from corporate customers. However, low sugarcane availability in MY20 and higher procurement cost has resulted in rising sugar prices in local market resulting in better profits for the millers. Moreover, the Company remains exposed to inherent cyclical nature of the sugar industry as the revenue stream lacks diversification. The Company has developed a leveraged capital structure. Financing needs mainly emanate from prolonged working capital cycle. The Company has long term loans to finance BMR and group projects. The rating incorporate irrevocable and unconditional guarantee, to secure cost overruns of the project, given on behalf of its associated company. This may further stress the existing cashflows as coverages remain stretched.

The ratings are dependent upon the management's ability to improve revenues while sustaining the margins. Meanwhile, close monitoring of working capital requirements remain critical for the ratings. Any further deterioration in the Company's cashflows and/or coverages would have a negative impact on the ratings.

#### Disclosure

|                              |  |
|------------------------------|--|
| <b>Name of Rated Entity</b>  | Chanar Sugar Mills Limited   |
| <b>Type of Relationship</b>  | Solicited  |
| <b>Purpose of the Rating</b> | Entity Rating  |
| <b>Applicable Criteria</b>   | Methodology   Corporate Ratings(Jun-20),Methodology   Correlation Between Long-Term And Short-Term Rating Scale(Jun-20),Criteria   Rating Modifier(Jun-20) |
| <b>Related Research</b>      | Sector Study   Sugar(Dec-19)   |
| <b>Rating Analysts</b>       | Faiqa Qamar   faiqa.qamar@pacra.com   +92-42-35869504  |

## Profile

**Legal Structure** Chanar Sugar Mills Limited ('Chanar Sugar' or 'the Company') was incorporated as a Public Limited Company in Nov-90.

**Background** Sponsors entered the business arena through textile sector. In early 80's, Mr. Javed Kayani setup textile mills named Rai and Aruj in the spinning segments. Later in 90's, he tapped in the sugar industry by setting up Chanar Sugar Mills Limited. In FY14, the Company set-up into co-generation biomass power plant. The plant achieved COD in Feb-19.

**Operations** Chanar Sugar primarily manufactures and sell sugar and its by-products molasses, bagasse and mud. The Company has one sugarcane crushing unit, Line I, with an installed capacity of 4,800 tons per day. During MY20, utilization remained stable at 81% (MY19: 82%). Chanar Sugar produced 38,542MT (MY19: 36,415MT) of sugar at an average recovery rate of 9% (MY19: 9.5%). The Company's registered office and mill is located in Tehsil Tandianwala, district Faisalabad, while the head office is situated in Muslim Town, Lahore.

## Ownership

**Ownership Structure** Chanar Sugar's ownership resides with the sponsors, Kayani Family, through individual family members. Mr. Javed Kayani, along with his spouse holds 99% shareholding in the Company. The remaining shareholding is evenly divided between the two sons of Mr. Javed Kayani.

**Stability** Ownership structure of the Company seems stable. Although there is no formal succession plan but the second generation is gradually being inducted.

**Business Acumen** The sponsoring family has a long standing business history. Their first venture was in the spinning segment. Later, Mr. Javed Kayani tapped in the sugar industry by setting up Chanar Sugar Mills Limited. Recently, the Company has ventured into energy segment by setting up Chanar Energy Limited, a 22MW cogeneration power plant, using bagasse as fuel.

**Financial Strength** As at Mar-20, Chanar Sugar and Chanar Energy has total assets of PKR 10bln, supported by total equity of PKR 2.6bln. However, the sponsors' main cash producing asset remains Chanar Sugar.

## Governance

**Board Structure** Chanar Sugar's Board, comprising four Executive Directors, is dominated by the sponsoring family. Lack of independent oversight and absence of non-executive director on Board indicate room for improvement in the Company's governance framework.

**Members' Profile** The Board's Chairman, Mr. Javed Ahmed Kayani, is the founder of the Company. Having an overall business experience of above two decades, Mr. Javed Kayani has served as the Chairman of Pakistan Sugar Mills Association as well and is a veteran of sugar industry.

**Board Effectiveness** Chanar Sugar's Board meets informally and minutes of these meetings are documented as per requirement. Moreover, there are no formal Board committees.

**Financial Transparency** The Company has appointed Grant Thornton Anjum Rehman, Chartered Accountants as external auditors. They have expressed unqualified opinions on financial statements of the Company for MY19. The firm has been categorized in class 'A' category by SBP and has been QCR rated by ICAP. The firm was appointed as the Company's auditors in 2019.

## Management

**Organizational Structure** Chanar Sugar's operations are segregated between Head Office and Mill. Purchase, Finance, Information Technology and Sales functions are monitored by their respective Heads from the Company's head office. However, mill is monitored by GM Mill. All functional Heads and GM Mill reports to the Company's Business Head, who reports to the Chief Executive Officer. Pertinent decisions made by the Company's CEO are implemented by the entire team.

**Management Team** Mr Javed Kayani, a veteran professional, is the CEO of the Company. Mr. Hassan Ali, Business Head, has an overall experience of more than a decade. He has been associated with the Company for five years. Mr. Ahmed Raza, GM Finance, holds the office of Company Secretary as well. Having an overall experience of above a decade, Mr. Ahmed has been a part of the Company for more than six years.

**Effectiveness** No formal management committees are in place at Chanar Sugar. However, senior management monitors operational issues through informal meetings.

**MIS** Chanar Sugar relies on in-house developed modules for MIS, updated on real time basis. Six reports are generated from these modules to assist the top management in decision making process. Most of these reports are seasonal in nature and generated as per requirement.

**Control Environment** At present, internal audit function is not in place at Chanar Sugar Mills. Going forward, the management is planning to set up an in-house internal audit function to provide support and also to monitor the already placed policies and procedures within the Company.

## Business Risk

**Industry Dynamics** Pakistan's sugar industry is the 2nd largest agro based industry after textile, comprising ~ 90 mills with annual crushing capacity estimated around 65 – 75 mln MT. It contributes about 0.6% to GDP and 2.9% of total value addition in agriculture. In previous years, the industry was under pressure owing to over supply combined with challenges in the support price mechanism. Additionally, a slowdown in international sugar prices made exports viable only through subsidy support. Government approved an export quota upto 1 MMT, however, no subsidy was announced. Consequently, zero exports were reported in August 2020 (August 2019: ~USD 5mln). During MY20, sugar production declined by ~9% YoY and clocked in at ~4.8MT (MY19: ~5.27MT), owing to reduction in the area under cultivation and water scarcity. Sugar prices improved in local market as inventory levels reduced. Due to low crop availability in the crushing period ended Mar-20. The Government increased the support price of sugarcane to PKR 190 per maund (previously PKR180). Actual realized sugarcane price at mill gate were higher. Despite increase in costs, higher local sugar prices have improved miller's profitability.

**Relative Position** Chanar Sugar contributes approximately 0.7% to total sugar production in Pakistan.

**Revenues** Chanar Sugar generates revenue by selling refined sugar (70%), molasses (16%) and bagasse (14%). The Company makes direct sales to a diverse set of local corporate customers. The revenues have fluctuated in recent years, in line with sugar sector dynamics. In 3QMY20, the Company's revenues posted a dip of 27% and amounted to PKR 1.5bln (3QMY19: PKR 2.1bln), mainly due to lower demand emanating from corporate customers as the production activities of confectionery and beverages industries remain low during Covid-19's lockdown.

**Margins** During 3QMY20, the Company posted a gross profit of PKR 219mln (3QMY19: PKR 226mln), reflecting a dip of 3% YoY. This translated into gross margin of 14% (3QMY19: 11%), supported by increased sugar prices. The operating margins remain stable at 8% (3QMY19: 6%). Finance cost of the Company increased to PKR 136mln in 3QMY20 (3QMY19: PKR 95mln), and net margin posted a dip and stood at 0.2% (3QMY19: 1.4%).

**Sustainability** In Feb-19, Chanar Energy, a bagasse based co-generation power plant, became commercially operational. However, sizable revenue stream (emanating from Chanar Energy) remains important for the Company's performance. The management also plans to set up a distillery, while, financing decision for the project is yet to be finalized.

## Financial Risk

**Working Capital** Increased inventory levels kept the net working capital days on the higher side (3QMY20: 250days, 3QMY19: 158days). High short-term borrowings to support working capital requirement limits the cushion to borrow against trade assets. Strict discipline in working capital management is required to improve the short term borrowing buffer.

**Coverages** The Company's interest coverage were stressed (3QMY20: 0.7x, 3QMY19: 2.4x) due to significantly reduced free cash flows (3QMY20: PKR 91mln, 3QMY19: PKR 206mln). Similarly, core and total interest cover showed a downward trend due to significantly increased finance cost.

**Capitalization** Chanar Sugar Mills is significantly leveraged (3QMY20: 63%, 3QMY19: 60%). The Company's total debt stood at PKR 2.7bln during 3QMY20 (3QMY19: PKR 2.1bln). Major portion of the debt comprises short term borrowings (3QMY20: PKR 2.1bln, 3QMY19: PKR 1.5bln) to finance its working capital requirements. Long-term loan of PKR 535mln (including current maturity) as at Jun-20, was obtained for BMR and to set-up biomass power plant.



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

| Chanar Sugar Mills Limited<br>Sugar                                 | Jun-20<br>9M | Mar-20<br>6M | Dec-19<br>3M | Sep-19<br>12M | Jun-19<br>9M | Sep-18<br>12M |
|---|--------------|--------------|--------------|---------------|--------------|---------------|
| <b>A BALANCE SHEET</b>  |              |              |              |               |              |               |
| 1 Non-Current Assets  | 3,264        | 3,255        | 3,343        | 3,291         | 2,822        | 2,500         |
| 2 Investments   | -            | -            | -            | -             | -            | -             |
| 3 Related Party Exposure  | 41           | 41           | 41           | 30            | 48           | 48            |
| 4 Current Assets  | 3,420        | 3,374        | 2,477        | 1,525         | 2,111        | 1,624         |
| a Inventories   | 2,158        | 2,112        | 1,348        | 453           | 1,282        | 993           |
| b Trade Receivables   | 735          | 720          | 430          | 439           | 409          | 135           |
| 5 Total Assets  | 6,726        | 6,670        | 5,861        | 4,846         | 4,981        | 4,172         |
| 6 Current Liabilities   | 1,065        | 1,084        | 1,487        | 790           | 336          | 595           |
| a Trade Payables  | 705          | 725          | 598          | 299           | 118          | 284           |
| 7 Borrowings  | 2,664        | 2,665        | 1,447        | 1,171         | 2,114        | 1,126         |
| 8 Related Party Exposure  | 593          | 502          | 494          | 330           | 354          | 364           |
| 9 Non-Current Liabilities   | 514          | 514          | 514          | 514           | 522          | 501           |
| 10 Net Assets   | 1,889        | 1,906        | 1,919        | 2,042         | 1,655        | 1,586         |
| 11 Shareholders' Equity   | 1,889        | 1,906        | 1,919        | 2,042         | 1,655        | 1,586         |
| <b>B INCOME STATEMENT</b>   |              |              |              |               |              |               |
| 1 Sales   | 1,522        | 1,460        | 266          | 3,184         | 2,097        | 3,181         |
| a Cost of Good Sold   | (1,303)      | (1,288)      | (164)        | (2,797)       | (1,870)      | (2,895)       |
| 2 Gross Profit  | 219          | 171          | 103          | 388           | 226          | 286           |
| a Operating Expenses  | (93)         | (52)         | (32)         | (115)         | (95)         | (138)         |
| 3 Operating Profit  | 126          | 119          | 70           | 273           | 131          | 149           |
| a Non Operating Income or (Expense)                                 | 16           | 3            | (2)          | 19            | (2)          | 8             |
| 4 Profit or (Loss) before Interest and Tax                          | 142          | 122          | 68           | 292           | 129          | 157           |
| a Total Finance Cost  | (136)        | (100)        | (35)         | (217)         | (95)         | (102)         |
| b Taxation  | (2)          | (2)          | -            | (11)          | (5)          | (14)          |
| 6 Net Income Or (Loss)  | 4            | 20           | 33           | 65            | 29           | 40            |
| <b>C CASH FLOW STATEMENT</b>  |              |              |              |               |              |               |
| a Free Cash Flows from Operations (FCFO)                            | 91           | 177          | 109          | 404           | 206          | 214           |
| b Net Cash from Operating Activities before Working Capital Changes | 91           | 77           | 75           | 212           | 90           | 103           |
| c Changes in Working Capital  | (1,654)      | (1,602)      | (221)        | 381           | (799)        | 441           |
| 1 Net Cash provided by Operating Activities                         | (1,563)      | (1,525)      | (146)        | 593           | (709)        | 545           |
| 2 Net Cash (Used in) or Available From Investing Activities         | (70)         | (28)         | (93)         | (564)         | (300)        | (536)         |
| 3 Net Cash (Used in) or Available From Financing Activities         | 1,601        | 1,509        | 284          | 16            | 987          | (19)          |
| 4 Net Cash generated or (Used) during the period                    | (32)         | (44)         | 45           | 45            | (22)         | (10)          |
| <b>D RATIO ANALYSIS</b>   |              |              |              |               |              |               |
| 1 Performance   |              |              |              |               |              |               |
| a Sales Growth (for the period)                                     | -36.3%       | -8.3%        | -66.6%       | 0.1%          | -12.1%       | 56.6%         |
| b Gross Profit Margin   | 14.4%        | 11.7%        | 38.5%        | 12.2%         | 10.8%        | 9.0%          |
| c Net Profit Margin   | 0.2%         | 1.4%         | 12.5%        | 2.0%          | 1.4%         | 1.3%          |
| d Cash Conversion Efficiency (EBITDA/Sales)                         | 6.7%         | 12.8%        | 41.1%        | 13.5%         | 10.7%        | 8.5%          |
| e Return on Equity (ROE)  | 0.2%         | 2.0%         | 6.7%         | 3.6%          | 2.4%         | 2.5%          |
| 2 Working Capital Management  |              |              |              |               |              |               |
| a Gross Working Capital (Average Days)                              | 340          | 233          | 458          | 116           | 184          | 158           |
| b Net Working Capital (Average Days)                                | 250          | 169          | 304          | 82            | 158          | 136           |
| c Current Ratio (Total Current Assets/Total Current Liabilities)    | 3.2          | 3.1          | 1.7          | 1.9           | 6.3          | 2.7           |
| 3 Coverages   |              |              |              |               |              |               |
| a EBITDA / Finance Cost   | 0.8          | 2.0          | 3.4          | 2.1           | 2.6          | 3.0           |
| b FCFO / Finance Cost+CMLTB+Excess STB                              | 0.4          | 1.2          | 1.8          | 1.2           | 1.3          | 1.6           |
| c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)  | -21.3        | 6.1          | 3.4          | 4.5           | 5.8          | 4.0           |
| 4 Capital Structure (Total Debt/Total Debt+Equity)                  |              |              |              |               |              |               |
| a Total Borrowings / Total Borrowings+Equity                        | 63.3%        | 62.4%        | 50.3%        | 42.4%         | 59.9%        | 48.3%         |
| b Interest or Markup Payable (Days)                                 | 95.1         | 90.2         | 99.1         | 76.0          | 132.3        | 83.0          |
| c Average Borrowing Rate  | 7.3%         | 7.9%         | 7.4%         | 13.9%         | 5.8%         | 6.1%          |

**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+   | <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    |   |
| 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):

|  |   |
|--|---|
| <p><b>Entities</b></p> <ul style="list-style-type: none"> <li>a) Broker Entity Rating</li> <li>b) Corporate Rating</li> <li>c) Financial Institution Rating</li> <li>d) Holding Company Rating</li> <li>e) Independent Power Producer Rating</li> <li>f) Microfinance Institution Rating</li> <li>g) Non-Banking Finance Companies (NBFCs) Rating</li> </ul> | <p><b>Instruments</b></p> <ul style="list-style-type: none"> <li>a) Basel III Compliant Debt Instrument Rating</li> <li>b) Debt Instrument Rating</li> <li>c) Sukuk Rating</li> </ul> |
|--|---|

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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

### **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)

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