



The Pakistan Credit Rating Agency Limited

Rating Report

Jadeed Feeds Industries (Pvt.) Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
25-Mar-2021	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The global feed industry is valued at ~\$460bln, with poultry (~\$166bln) constituting ~36% of the total industry. Pakistan produces ~3.5mln MT annually, with ~150 registered feed mills and ~200 unregistered feed mills catering to it. The industry generates an annual turnover of ~PKR 396bln. Amidst the COVID-19 pandemic, closure of restaurants/marriage halls and export avenues led to a supply glut of poultry products in local market. Lately, as business avenues became operational, demand for poultry products has improved. A visible surge is also observed in feed and poultry product prices. This, along with SBP's interest rate cut and deferment/restructuring option has provided sufficient respite to the industry players.

The rating reflects Jadeed Feed's association with Jadeed Group, a leading and integrated player in the poultry supply chain. The Group has significant presence along poultry supply chain as it imports and breeds grandparent poultry stock (Ross 308). Lately, the Company has merged Jadeed Farms and Jadeed GP Farms into Jadeed Feeds. The Company's current business line comprises three main products: poultry feed variants, poultry breeding stock and day old chicks. At present, the Company has a strong topline dominated by poultry feed sales followed by poultry breeder stock and day old chick sales. Topline is expected to post stable growth on the back of significant demand for poultry products and increased prices. Margins are currently stable, however, are expected to improve once the internal synergies are streamlined. Inventory management system and related efficiencies would require the Company's attention to keep its working capital costs low. Financial risk profile of the Company is characterized by moderate leveraging, to fund working capital needs. The Company is expected to limit borrowings to the extent that leveraging remains moderate. The coverages are stable, however, and will further benefit from the low interest rate scenario leading to better cashflows. The Sponsors have agreed to execute a formal shareholding agreement providing clarity on succession and governance framework.

The ratings are dependent on the management's ability to prudently manage liquidity and working capital requirements. The management's ability to build profitable volumes and adherence to strong financial discipline remain critical for the ratings. Envisioned improvement in business and financial profile along with effective changes in governance framework would be beneficial. Significant deterioration in coverages and/or margins will have negative impact on the ratings.

Disclosure

Name of Rated Entity	Jadeed Feeds Industries (Pvt.) 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 Poultry Feed(Jan-21)
Rating Analysts	Faiqa Qamar faiqa.qamar@pacra.com +92-42-35869504

Profile

Legal Structure Jadeed Feeds Industries (Pvt.) Limited ('Jadeed Feeds' or 'the Company') was incorporated in Jun-08 as a Private Limited Company as per the Companies Ordinance, 1984 (now Companies Act 2017).

Background Mr. Javaid, along with his brothers, setup poultry business in 1980's. In 2005, the assets split and S.B. Feeds was renamed as Jadeed Farms. Jadeed Farms has a placement capacity of 2.6mln breeder birds and a hatching capacity of 453mln eggs per annum. In 2008, the Group setup its first feed mill with a manufacturing capacity of 60MT per hour. In 2012, Jadeed GP Farms was setup with a placement capacity of 0.33mln grandparent stock and has a hatching capacity of 47.5mln eggs per annum. In 2016, the Group's second feed mill was setup with a feed manufacturing capacity of 120MT per hour. In 2017, the Group setup its edible oil mill, as its backward integration plan. Lately, the Group increased its combined feed manufacturing capacity to 240MT per hour and merged Jadeed Farms and Jadeed GP Farms into Jadeed Feeds.

Operations The Company is primarily involved in manufacturing and selling variants of poultry feed, along with breeding grand parent stock (Ross -308) and selling poultry breeding stock and day-old chicks. The Company's feed mills, located in Khanewal and Shahkot, have a combined capacity of 576,000MT per annum. Utilization levels posted a stable trend ~ 47%. Breeding farms, located across Pakistan, are fully utilized. The Company's hatcheries, located in Kot Momin, have a utilization levels of 55% amidst Covid-19 pandemic.

Ownership

Ownership Structure The Company's major ownership resides with Mr. Jan Mohammad Javaid (81%). The remaining stake resides with his two sons Mr. Muhammad Sohaib Javaid (7%) and Mr. Muhammad Safwan Javaid (7%), and wife, Mrs. Shazia Javaid (5%).

Stability Ownership of the business is seen as stable as the major ownership vests with Mr. Javaid. The sponsors have agreed to execute a formal shareholding agreement providing clarity on succession and governance framework.

Business Acumen Jadeed Group has experienced multiple business cycles. The Group is among the few players that imports and breeds Grand Parent poultry stock and is among the highest GP chick producers in Pakistan. Currently, there are two companies working under Jadeed Group.

Financial Strength The sponsors have adequate net worth to provide capital support to the business. The Group has substantial financial strength with consolidated asset base of ~PKR 23bln and an equity base of ~PKR 7.6bln as of FY20.

Governance

Board Structure The Company's BoD comprises three Executive Directors from the sponsoring family. Lack of independent oversight and diversity indicate room for improvement in the governance structure.

Members' Profile The BoD members are very well equipped with the relevant business knowledge. Mr. Javaid has ~ 40 years of experience in poultry and allied chain; while, Mr. Sohaib and Mr. Safwan have 15 years and 12 years of experience in the same field, respectively.

Board Effectiveness The BoD is assisted by Board Audit Committee, comprising 5 members. The Committee is headed by Mr. Safwan and meets on quarterly basis. The BoD convenes quarterly meetings. Minutes of the BoD and Committee meetings are adequately maintained.

Financial Transparency The Company's external auditors, Muniff Ziauddin and Co., has expressed an unqualified opinion on the financial statements of the Company for year ended Jun-20. The firm has been QCR rated by ICAP and is placed in category A of SBP's panel of auditors.

Management

Organizational Structure The Company operates through three functions: Production, Finance, Marketing and Sales. All functional managers' report to the CEO, who makes pertinent decisions. Thus, highlighting key man risk of management.

Management Team The Company's management comprises of experienced professionals. Mr. Javaid, Group's CEO, has significant experience and expertise in the poultry and feeds industry. The Group CFO, Mr. Bilal, has almost two decade of overall experience. Mr. Faisal Rasheed, DGM Finance, has an overall experience of 15 years.

Effectiveness Management's effectiveness and efficiency is ensured through the presence of Sales and Management committee setup at Group level. The Committee, comprising 5 members, is headed by the CEO. The Committee meets on need basis to manage and monitor pertinent business matters in timely manner.

MIS Customized software, installed by Sidat Hyder, is used at group. Standardized reports are generated as per requirement.

Control Environment Internal Audit Function has been setup at Group level which ensures operational efficiency and implementation of policies and procedures of the Company.

Business Risk

Industry Dynamics The global feed industry is valued at ~\$460bln, with poultry (~\$166bln) constituting ~36% of the total industry. Pakistan produces ~3.5mln MT annually, with ~150 registered feed mills and ~200 unregistered feed mills catering to it. Feed and Poultry industry generates an annual turnover of ~PKR 396bln from local sales and ~ PKR 1bln from export sales. Amidst the COVID-19 pandemic, closure of restaurants/marriage halls and export avenues led to a supply glut of poultry products in local market. this led to prices of poultry products decreased. Sale of feed and recovery from farms remained under pressure. Lately, as business avenues became operational, demand for poultry products has improved. A visible surge is also observed in feed and poultry product prices. SBP's interest rate cut and deferment/restructuring option has provided sufficient respite to the industry players.

Relative Position Jadeed Feeds hold a market share of ~14% on revenue basis and ~5% on production basis. The Company is the only player in the industry that imports and breeds grandparent poultry stock (Ross - 308).

Revenues Post-merger, the Company generates revenue by selling variants of poultry feed (72%), followed by day-old chicks (21%) and parent breeder stock (7%). The Company's top 10 customers generate ~8% of total revenue. Over years, the Company's revenue has increased and the same trend has been maintained by the Company during FY20 as Jadeed Feeds posted a revenue of PKR 27bln (FY19: PKR 23bln), increased by ~19%. Similarly, during 2QFY21, the Company's topline stood at PKR ~16.8bln, up by ~26%. (2QFY20~PKR 13.3bln) backed by increased demand and surge in poultry product prices.

Margins Gross margin stood at 11.2% in FY20 (FY19: 7%) as the Company was able to pass on the increasing raw material costs. Similarly, on operational level the margin increased to 7.7% (FY19: 4.6%). However, on net level the margin remained stable at 2% (FY19: 1.6%). The Company posted a net profit of PKR 539mln in FY20 (FY19: PKR 378mln). During 2QFY21, the Company's gross margin stood at 9.4% (2QFY20 10.4%). Similarly, operational margin dipped to 5.9% (2QFY20: 7.4%). However, net margin increased to 3.7% (2QFY20: 1.5%). Net profit during 2QFY21 stood at PKR 617mln (2QFY20 : PKR 196mln)

Sustainability The Company aims to optimize utilization of its production capacity along with keeping costs under control, going forward.

Financial Risk

Working Capital The Company has a moderate working capital cycle, net cash cycle ~ 50-70 days, funded through short term borrowings. Inventory held days stood at 78 days in FY20 (FY19: 64 days) due to low demand amidst Covid-19. Receivable days stood at 30 days (FY19: 28 days). Payable days stood at 40 days (FY19: 51 days). In 2QFY21, inventory days remained stable at 75 days (2QFY20: 73 days). Similarly, receivable days and payable days stood at 29 days (2QFY20: 31 days) and 26 days (2QFY20: 31 days), respectively. Borrowing cushion against trade assets has improved, however, remains limited.

Coverages Free cash flows stood at ~PKR 2.9bln in FY20 (FY19: ~PKR 1.4bln), while finance cost stood at PKR 1.2bln in FY20 (FY19: PKR 542mln). Interest cover improved slightly to 2.6x during FY20 (FY19: 2.3x). Moreover, core and total interest cover stood at 1.8x each in FY20 (FY19: 1.2). Debt payback stood at 1.3 days in FY20 (FY19: 2.1). In 2QFY21, interest cover stood at 2.8x, core and total interest cover stood at 1.8x each, and debt payback days stood at 1.3x.

Capitalization The Company has moderately leveraged capital structure with debt-to-equity ratio at 57% in FY20 (FY19: 70%). Post merger, total debt increased to ~PKR 8.4bln (FY19: ~PKR 6.3bln) and mainly comprises short term borrowings (FY20: PKR 7.2bln, FY19: PKR 2.3bln). During 2QFY21, the leveraging ratio stands at 57%. The Company is expected to limit borrowings to the extent that leveraging remains moderate.



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Financial Summary

Jadeed Feeds Industries (Pvt.) Ltd
Poultry Feed

PKR mln

	Dec-20	Jun-20	Dec-19	Jun-19	Dec-18	Jun-18	Dec-17	Jun-17
	6M	12M	6M	12M	6M	12M	6M	12M
A BALANCE SHEET								
1 Non-Current Assets	7,226	7,414	7,616	4,193	3,607	2,749	2,493	2,252
2 Investments	1	1	-	-	-	-	-	-
3 Related Party Exposure	-	-	-	-	-	-	-	-
4 Current Assets	12,161	11,132	10,360	9,081	8,234	5,196	5,046	5,370
a Inventories	7,315	6,551	5,559	5,053	4,714	2,857	2,788	2,622
b Trade Receivables	2,772	2,538	2,543	1,997	1,755	1,557	1,495	1,724
5 Total Assets	19,388	18,547	17,976	13,274	11,840	7,945	7,539	7,622
6 Current Liabilities	2,793	3,429	2,910	3,596	3,235	2,190	1,631	949
a Trade Payables	2,100	2,747	1,963	3,224	2,903	1,967	1,448	835
7 Borrowings	9,231	8,372	8,941	6,258	5,604	3,428	3,737	4,513
8 Related Party Exposure	-	-	-	-	-	-	-	-
9 Non-Current Liabilities	335	335	168	797	668	76	39	129
10 Net Assets	7,028	6,411	5,957	2,624	2,333	2,252	2,133	2,030
11 Shareholders' Equity	7,028	6,411	5,957	2,624	2,333	2,252	2,133	2,030
B INCOME STATEMENT								
1 Sales	16,833	27,279	13,270	23,164	9,978	15,426	7,872	12,182
a Cost of Good Sold	(15,256)	(24,222)	(11,863)	(21,524)	(9,323)	(14,563)	(7,431)	(11,491)
2 Gross Profit	1,577	3,057	1,407	1,641	655	863	441	691
a Operating Expenses	(586)	(959)	(426)	(585)	(302)	(240)	(122)	(181)
3 Operating Profit	991	2,098	981	1,056	353	623	319	510
a Non Operating Income or (Expense)	(13)	8	(2)	(7)	(4)	(16)	(8)	(10)
4 Profit or (Loss) before Interest and Tax	978	2,106	979	1,049	348	607	311	500
a Total Finance Cost	(361)	(1,179)	(595)	(542)	(205)	(335)	(171)	(302)
b Taxation	-	(388)	(189)	(129)	(56)	(39)	(20)	(90)
6 Net Income Or (Loss)	617	539	196	378	88	233	120	107
C CASH FLOW STATEMENT								
a Free Cash Flows from Operations (FCFO)	1,005	2,981	1,431	1,224	543	714	360	410
b Net Cash from Operating Activities before Working Capital Changes	1,005	1,906	983	745	375	373	161	109
c Changes in Working Capital	(1,740)	(1,688)	(1,613)	(1,250)	(896)	1,446	1,075	(651)
1 Net Cash provided by Operating Activities	(734)	218	(630)	(505)	(520)	1,818	1,235	(542)
2 Net Cash (Used in) or Available From Investing Activities	(200)	(1,816)	(1,554)	(2,680)	(1,839)	(423)	(349)	106
3 Net Cash (Used in) or Available From Financing Activities	859	1,697	2,235	3,258	2,429	(1,380)	(851)	441
4 Net Cash generated or (Used) during the period	(75)	99	51	73	70	15	35	4
D RATIO ANALYSIS								
1 Performance								
a Sales Growth (for the period)	23.4%	17.8%	14.6%	50.2%	29.4%	26.6%	29.3%	--
b Gross Profit Margin	9.4%	11.2%	10.6%	7.1%	6.6%	5.6%	5.6%	5.7%
c Net Profit Margin	3.7%	2.0%	1.5%	1.6%	0.9%	1.5%	1.5%	0.9%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	-4.4%	4.7%	-1.4%	-0.1%	-3.5%	14.0%	18.2%	-2.0%
e Return on Equity (Net Profit Margin * Asset Turnover * Total Assets/Sha	17.9%	9.8%	7.8%	18.0%	9.0%	10.6%	11.2%	5.3%
2 Working Capital Management								
a Gross Working Capital (Average Days)	104	108	104	92	101	104	100	130
b Net Working Capital (Average Days)	78	68	69	51	57	71	73	105
c Current Ratio (Current Assets / Current Liabilities)	4.4	3.2	3.6	2.5	2.5	2.4	3.1	5.7
3 Coverages								
a EBITDA / Finance Cost	2.8	2.8	3.0	2.6	2.5	2.6	2.6	2.1
b FCFO / Finance Cost+CMLTB+Excess STB	1.8	1.8	1.6	1.2	1.4	1.3	1.3	0.9
c Debt Payback (Total Borrowings+Excess STB)/(FCFO-Finance Cost)	1.3	0.6	0.9	2.1	1.9	2.9	2.7	3.7
4 Capital Structure								
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	56.8%	56.6%	60.0%	70.5%	70.6%	60.4%	63.7%	69.0%
b Interest or Markup Payable (Days)	117.5	70.6	83.5	73.5	75.1	50.6	25.1	63.2
c Entity Average Borrowing Rate	8.0%	14.7%	16.8%	10.5%	9.5%	8.5%	8.2%	6.6%

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	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
AA-	
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.
A-	
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.
BBB-	
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.
BB	
BB-	
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.
B-	
CCC	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.
CC	
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>Entities</p> <ul style="list-style-type: none"> 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 	<p>Instruments</p> <ul style="list-style-type: none"> a) Basel III Compliant Debt Instrument Rating b) Debt Instrument Rating c) Sukuk Rating
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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)
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- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

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- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
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- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA's opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
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- (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)
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- (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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