



The Pakistan Credit Rating Agency Limited

Rating Report

CCL Pharmaceuticals (Pvt.) 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 |
|--------------------|------------------|-------------------|---------|---------|--------------|
| 20-Oct-2021 | A | A1 | Stable | Initial | - |

Rating Rationale and Key Rating Drivers

The ratings take comfort from CCL Pharmaceuticals Pvt. Ltd (herein referred as "CCL" or the "Company"), reputable profile in pharmaceutical segment of Pakistan with a legacy built over 50 years and operations in more than 22 countries worldwide. Product portfolio of the Company is divided into two major domains, Pharmaceuticals and Consumer Health Care. CCL's top 5 products include major brands such as, Sita Met, Pulmonol, Maxflow, Paraxyl CR and Orinase Met, these contribute approx. 45% in total revenue. CCL has state of the art GMP compliant manufacturing facility which is able to produce dry powder, liquid orals, solid orals, liquid injectable, powder injectable. Major capital expenditure is underway to upgrade manufacturing facility for PICs compliant which is a higher drugs compliance certification thus CCL will become one of the few PICs compliant pharmaceutical companies in Pakistan. Sponsors have decades of experience in Pharmaceutical business with well-defined vision to capitalize growth trajectory. CCL is classified among country's top 20 pharmaceuticals and recognized as one of the fastest growing Company. In FY 2020-21, CCL was the fastest growing Company amongst the top 25 Pharmaceuticals Companies. The company is taking cognizance of corporate governance structure and formulated various committees at board and management level. The Company is led by professional management which includes highly qualified professionals with vast & diversified experience at senior management level in pharmaceutical industry & multinational organizations. The oversight role is played by the sponsoring shareholders with collaboration of Independent advisors on the board of directors. The operations of the Company benefited with sound system of internal controls implemented across the organization. The assigned ratings of the Company take comfort from sticky demand of product and strong market share in Anti-Diabetic, Anti-Depressants and Expectorants. Financial profile of the Company is considered strong with healthy coverages, upright working capital management and comfortable cashflows. Capital structure is modestly leveraged to support BMR (PIC/S Compliant) and capacity expansions. Borrowings are comprising mix of short term and long term with significant portfolio of fixed rate instruments including Export Refinance Facilities, LTFF Facility availed for BMR and SBP Salaries and Wages Refinance Scheme. Going forward the Company will be benefited from (a) more formal group structure with incorporation of CCL Holdings (b) increase of its market share with new molecules and through brand acquisitions (c) exploring new export destinations after PIC/S compliance.

The ratings are dependent on upheld sustainable profits and market share while retaining sufficient cash flows and coverages. However, adherence to maintain its debt metrics at an adequate level is a prerequisite.

Disclosure

| | |
|------------------------------|--|
| Name of Rated Entity | CCL Pharmaceuticals (Pvt.) Limited |
| Type of Relationship | Solicited |
| Purpose of the Rating | Entity Rating |
| Applicable Criteria | Methodology Corporate Rating(Jun-21),Criteria Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria Rating Modifiers(Jun-21) |
| Related Research | Sector Study Pharmaceutical(May-21) |
| Rating Analysts | Sohail Ahmed Qureshi sohail.ahmed@pacra.com +92-42-35869504 |

Profile

Legal Structure CCL Pharmaceuticals (Pvt.) Limited (hereinafter referred to as "the Company" or "CCL Pharma") is a private limited company.

Background The company was founded by Dr. Dilawar Hussain, grandfather of current sponsors, 50 years ago. However, it was formally incorporated as company on April 28, 1985 under the Companies Ordinance 1984. Business was taken over by three sons; Mr. Sajjad Sheikh, Mr. Zubair Sheikh & Javaid Sheikh. Business is now in hands of third generation.

Operations The Company is principally engaged in the manufacturing and sales of all sorts of medicines, drugs and allied activities. Manufacturing facility contains top-of-the-line machinery and can produce oral solids (tablets, capsules), oral liquids (syrups), dry powder suspensions, liquid injections and dry powder injections. Company's product portfolio is segregated into eleven therapeutic segments.

Ownership

Ownership Structure Sponsoring family owns the entire shareholding of the company. Shareholding are owned equally by Mr. Kashif Sajjad Sheikh, Mr. Asim Dilawar Sheikh, Mr. Hassan Zubair Sheikh and Mr. Nadeem Bin Javaid Sheikh.

Stability Over the years, there has been no change in the shareholding structure of the company. Shareholding is expected to remain with the sponsoring family.

Business Acumen Mr. Kashif Sajjad Sheikh has a strong profile relating to the pharmaceuticals industry. He is the seasoned professional with nearly three decades of professional experience. Under his leadership the Company achieved many milestones and became one of the top players in the industry. Other sponsors also have strong industry-wide knowledge and extensive experience and have the power to direct relevant activities of the Company.

Financial Strength Financial Strength of the entity is considered strong. Apart from CCL Pharmaceuticals, sponsoring family has stakes in other group entities which are CCL Life Sciences, StratHealth Pharma, Dilsons, Dilawar Hussain Foundation, Cozmetica.pk and AMVI Pharm.

Governance

Board Structure The overall control of the Company vests in eight-member board of directors/advisors. One is executive director, including the MD & CEO, while four are non-executive members of the sponsoring family and remaining three are independent advisors.

Members' Profile Seven of the board members carry extensive experience of the pharmaceutical industry, while Mr. Kashif Sajjad Sheikh is the chairman of board. He has nearly three decades of experience in pharmaceutical operations and international business development. Formerly, he served as CCL Pharma's CEO. He is the past Chairman of Pakistan Pharmaceutical Manufacturers' Association. Other board members are also thorough professionals and carry experiences of managing business affairs in different sectors.

Board Effectiveness The board has made four committees namely i) Audit Committee, ii) HR Committee, iii) Finance Committee and iv) Operational Review Committee. During the year, various board meetings were held. Attendance of board members in these meetings remained strong and the meeting minutes are documented adequately.

Financial Transparency M/s Rahman Sarfaraz Rahim Iqbal Rafiq & Co., Chartered Accountants, classified in category 'A' by SBP with satisfactory QCR rating, are the external auditors of the Company. The firm has expressed an unmodified opinion on the financial statements of CCL Pharma for year ended June 30, 2020.

Management

Organizational Structure CCL Pharma has a traditional hierarchical organizational structure and department heads are directly reportable to the CEO of the company. The organizational structure of the company is divided into nine functional departments and are headed by highly qualified and experienced professionals.

Management Team Dr. Shahzad Khan is the CEO of the company. He has more than 25 years of experience in medical research, pharmacovigilance, marketing & sales and strategy and organizational transformation from MSD, Hilton & Getz Pharma. He is graduate from King Edward Medical College and has post graduate qualification in accounting & supply chain. He is assisted by a team of professionals.

Effectiveness The Company has eight management committees namely i) procurement, ii) Executive sales & Operational Planning, iii) Business Management Review, iv) Operational, v) Quality Control, vi) ERP Steering, vii) SSD Steering, viii) BMR Steering to ensure the effectiveness of management and ix) New Product Development.

MIS CCL Pharma has implemented Oracle based ERP system (different modules). The system is designed to integrate all areas of a business. The ERP software enables the management to generate regular and customized reports (daily, weekly, monthly and yearly) pertaining to sales, purchase, inventory and other important areas.

Oversight Of Third-Party Service Providers

Business Risk

Industry Dynamics Pharmaceuticals witnessed a double-digit growth of 19.13 percent during June-May FY2021 against 10.69 percent growth last year. Panic buying of medicines and escalated prices contributed to this encouraging situation. There are 800+ players in the industry. Healthcare services industry is considerably a low-risk industry in view of limited demand cyclicality. Healthcare services and medical devices are in high demand in view of supportive demographic trends with ageing population, growth in income levels and continuous emergence of new diseases. The prices of pharmaceuticals are controlled and regulated by the government.

Relative Position CCL Pharma is market leader in Neuropsychiatry, expectorants and Diabetes Management. Three branded products of the Company are market leader which are Sita Franchise in anti-diabetics, anti-depressants and natural source calcium followed by three further products which are ranked second in the market, these are BPH products, expectorant and Xiga franchise in anti-diabetics. CCL Pharma holds a market share of ~1.76% and ranked 18th on YTD basis under the IQVIA ranking report. CCL is now recognized as one of the fastest growing Companies in FY2020-21 amongst the top 25 Pharmaceuticals Companies.

Revenues The Revenue base of the company has been on upward trajectory for last few years. CAGR of the company's revenue from FY18 to FY21 was 19.6%. During FY21, the sales of the company clocked at PKR 8,183mln. (FY20: PKR 6,458mln, FY19: PKR 5,361mln, FY18: 4,802).

Margins Margins of the company are on a pathway of growth. Gross margins improved to 44% in FY21 (FY20: 42.6%, FY19: 40.6%, FY18: 42%), mainly due to diversified product mix. Despite the significant inflationary impact and increase in operating expenses, operating margins also improved and clocked at 10.7% in FY21 (FY20: 8.2%, FY19: 5.1%, FY18: 5.8%). Total finance cost has decreased from PKR 213mln in FY20 to PKR 124mln in FY21 as a result of decrease in borrowings and lower interest rates. Accordingly, Net margin improved to 6.6% during FY21 as compared to 2.9% in FY20. Company margins maintains low risk to any adverse exchange rate movement due to sizeable exports.

Sustainability The company is in process of BMR which will remove the bottlenecks in the exiting operations of the Company and will enhance the total production capacity of the Company. Further, with this BMR Company will be able to have PIC/S certification. This certification will make the Company complied with requirements of more than 50 countries and open new ventures for export sales.

Financial Risk

Working Capital Short term borrowings have decreased in FY21 to PKR 825mln from PKR 1,165mln in FY20 and PKR 1,146mln in FY19. Company's gross working capital days have decreased from last two years to 77 days in FY21 (FY20: 92 days, FY19: 89 days) on account of decline in receivable days. Net working capital days have also decreased to 65 days in FY21 as compared to 81 days in FY20 and 76 days in FY19. Company maintains sizeable portfolio of fixed rate financing instruments, thus reducing the financial risk.

Coverages The company generated FCFO of PKR~987mln during FY21 (FY20: PKR ~560mln, FY19: PKR 387mln). On account of lower interest cost and improved profitability, interest coverage against FCFO has improved considerably (FY21: 12.2x, FY20: 2.8x, FY19: 3.2x). Debt coverage ratio has also improved (FY21: 2.1x, FY20: 1.6x, FY19: 1.8x) owing to decreased finance cost and improved FCFO during the review period.

Capitalization The company has a leveraged capital structure. Total debt of the company in FY21 was recorded at PKR~1,952mln (FY20: PKR 1,671mln). Out of the total debt, PKR~825mln pertained to short term. Equity of the company stood at PKR~2,223mln in FY21 (FY20: PKR~989mln). Gearing ratio of the company has improved to ~46.7% in FY21 from ~62.8% in FY20.



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Financial Summary

PKR mln

| CCL Pharmaceuticals (Pvt.) Limited Pharmaceutical | Jun-21 12M | Jun-20 12M | Jun-19 12M | Jun-18 12M |
|--|---------------|---------------|---------------|---------------|
|--|---------------|---------------|---------------|---------------|

A BALANCE SHEET

| | | | | |
|----------------------------|-------|-------|-------|-------|
| 1 Non-Current Assets | 2,472 | 1,053 | 941 | 830 |
| 2 Investments | - | - | - | - |
| 3 Related Party Exposure | 780 | 505 | 203 | 175 |
| 4 Current Assets | 2,301 | 2,029 | 2,063 | 1,440 |
| <i>a Inventories</i> | 1,319 | 1,193 | 1,091 | 574 |
| <i>b Trade Receivables</i> | 535 | 428 | 538 | 405 |
| 5 Total Assets | 5,554 | 3,587 | 3,207 | 2,445 |
| 6 Current Liabilities | 1,171 | 736 | 646 | 446 |
| <i>a Trade Payables</i> | 401 | 174 | 222 | 168 |
| 7 Borrowings | 1,952 | 1,671 | 1,425 | 982 |
| 8 Related Party Exposure | - | - | 7 | 7 |
| 9 Non-Current Liabilities | 208 | 191 | 204 | 192 |
| 10 Net Assets | 2,223 | 989 | 925 | 817 |
| 11 Shareholders' Equity | 2,223 | 989 | 925 | 817 |

B INCOME STATEMENT

| | | | | |
|--|---------|---------|---------|---------|
| 1 Sales | 8,183 | 6,458 | 5,361 | 4,802 |
| <i>a Cost of Good Sold</i> | (4,585) | (3,708) | (3,185) | (2,783) |
| 2 Gross Profit | 3,598 | 2,750 | 2,176 | 2,019 |
| <i>a Operating Expenses</i> | (2,721) | (2,219) | (1,904) | (1,738) |
| 3 Operating Profit | 877 | 531 | 272 | 281 |
| <i>a Non Operating Income or (Expense)</i> | 9 | (21) | 30 | (2) |
| 4 Profit or (Loss) before Interest and Tax | 886 | 510 | 302 | 278 |
| <i>a Total Finance Cost</i> | (124) | (213) | (134) | (79) |
| <i>b Taxation</i> | (226) | (112) | (35) | (60) |
| 6 Net Income Or (Loss) | 536 | 186 | 133 | 139 |

C CASH FLOW STATEMENT

| | | | | |
|--|-------|-------|-------|-------|
| <i>a Free Cash Flows from Operations (FCFO)</i> | 987 | 560 | 387 | 354 |
| <i>b Net Cash from Operating Activities before Working Capital Changes</i> | 842 | 350 | 277 | 276 |
| <i>c Changes in Working Capital</i> | (212) | (227) | (566) | (107) |
| 1 Net Cash provided by Operating Activities | 630 | 123 | (290) | 169 |
| 2 Net Cash (Used in) or Available From Investing Activities | (530) | (89) | (75) | (85) |
| 3 Net Cash (Used in) or Available From Financing Activities | (66) | (39) | 275 | (52) |
| 4 Net Cash generated or (Used) during the period | 34 | (6) | (90) | 32 |

D RATIO ANALYSIS

| | | | | |
|--|-------|-------|-------|-------|
| 1 Performance | | | | |
| <i>a Sales Growth (for the period)</i> | 26.7% | 20.5% | 11.6% | -- |
| <i>b Gross Profit Margin</i> | 44.0% | 42.6% | 40.6% | 42.0% |
| <i>c Net Profit Margin</i> | 6.6% | 2.9% | 2.5% | 2.9% |
| <i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i> | 9.5% | 5.2% | -3.3% | 5.2% |
| <i>e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholder</i> | 29.3% | 19.8% | 16.4% | 17.0% |
| 2 Working Capital Management | | | | |
| <i>a Gross Working Capital (Average Days)</i> | 77 | 92 | 89 | 62 |
| <i>b Net Working Capital (Average Days)</i> | 65 | 81 | 76 | 49 |
| <i>c Current Ratio (Current Assets / Current Liabilities)</i> | 2.0 | 2.8 | 3.2 | 3.2 |
| 3 Coverages | | | | |
| <i>a EBITDA / Finance Cost</i> | 14.4 | 3.4 | 3.8 | 6.0 |
| <i>b FCFO / Finance Cost+CMLTB+Excess STB</i> | 2.1 | 1.6 | 1.8 | 2.2 |
| <i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i> | 1.2 | 1.4 | 1.1 | 0.8 |
| 4 Capital Structure | | | | |
| <i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i> | 46.7% | 62.8% | 60.8% | 54.8% |
| <i>b Interest or Markup Payable (Days)</i> | 75.6 | 68.6 | 105.1 | 65.2 |
| <i>c Entity Average Borrowing Rate</i> | 4.7% | 13.0% | 10.2% | 7.2% |

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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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

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- (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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