The Pakistan Credit Rating Agency Limited

Rating Report

Engro Fertilizers Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
27-Jul-2023	AA	A1+	Stable	Maintain	-
29-Jul-2022	AA	A1+	Stable	Maintain	-
29-Jul-2021	AA	A1+	Stable	Maintain	-
29-Jul-2020	AA	A1+	Stable	Maintain	-
30-Jul-2019	AA	A1+	Stable	Maintain	-
28-Jan-2019	AA	A1+	Stable	Maintain	-
27-Jul-2018	AA	A1+	Stable	Upgrade	-
30-Dec-2017	AA-	A1+	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

Pakistan's predominantly agrarian economy primarily relies on local fertilizer production, satisfying approximately 88% of its needs, with the remaining portion imported. The Country's total fertilizer production capacity stands at around ~ 7.1mln MT of Urea and CAN and ~ 1.7mln MT of DAP, NP, and NPK. In CY22, Urea's offtake stood at ~6.6mln MT and DAP's offtake stood at 1.1mln MT. Whereas in 3MCY23, Urea offtake stood at ~ 1.6mln MT posting a stable trend. Similarly, DAP offtake stood at 0.2mln MT. Considering the overall urea demand and supply situation and LNG unavailability for the plants, ~0.26mln MT of urea was imported during CY22. Overall margins of the industry remained healthy and going forward industry's outlook is expected to remain satisfactory. International market prices fell at the start of quarter due to lower demand and sellers sought to offload barges in crowded markets due to force liquidity. Despite low demand, prices didn't correct to expected levels due to changing geopolitical situation internationally.
The rating reflects Engro Fertilizers Limited's sound risk profile. EFert derives strength from its parent company i.e., Engro Corporation Limited which is the largest conglomerate in Pakistan. The Company's capacity utilization of both Urea and NPK remained strong, primarily attributable to continued gas supply and improved plant efficiencies. The Company can reap benefits of stable gas supply from the Pressure Enhancement Facility installed in Mari Petroleum Daharki, once its operations start. The company can also benefit from the Green Pakistan Initiative, by the government of Pakistan, in the shape of subsidies. EFert continues to increase its topline backed by volumetric growth. The Company has also diversified its product portfolio into other agri-based products and has maintained healthy growth trajectory. At period end CY22, the gross margin of the Company dropped to ~27.3% (CY21: ~39.2%) and net profit margin to ~10.2% (CY21: ~23.3%), due to high raw material costs. A moderately leveraged capital structure (CY22: ~32.3% | 3MCY23: ~22.3%) with moderate coverages and significant liquidity leads to a robust financial profile. Ratings draw comfort from sponsors' business acumen and their widespread reach. A strong governance and management framework add strength to the Company's profile.

The ratings are dependent on the sustainability of operations and maintaining its market share. Sustainability in the strong ownership, stable dividends, and effective management of financial profile is important. Prudent management of the working capital, cash flows, and coverages are imperative for the ratings.

Disclosure

Name of Rated Entity	Engro Fertilizers Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Rating(Jun-22),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology | Rating Modifiers(Jun-22)
Related Research	Sector Study | Fertilizer(Jan-23)
Rating Analysts	Muhammad Zain Ayaz | zain.ayaz@pacra.com | +92-42-35869504

Profile

Legal Structure Engro Fertilizers Limited ("EFert" or "the Company") is a public listed company, incorporated in 2010

Background Continual expansions and diversifications in the Company's enterprises necessitated a broad restructuring in Engro Chemical Pakistan Ltd. which demerged to form a new Engro subsidiary – Engro Fertilizers Limited in the year 2010. The shareholding was gradually reduced from 100% as part of strategic re-alignment to explore new opportunities in other promising sectors involved.

Operations EFert has its registered office located at Marine Drive Block 4, Clifton Karachi. The Company has three production facilities in total, out of which two are Urea plants located in Daharki (Base and Enven Plant) and one NPK plant in Port Qasim, Karachi. The total designed capacity of EFert's urea plants – base plant: 975,000 MT per annum and Enven: 1,300,000 MT per annum – accounts for ~33% of industry's demonstrated capacity – second largest capacity. NPK has total capacity of 100,000MT. EFert, a leading name in the country's urea producers, is primarily in the business of manufacturing and marketing of urea and deals in other fertilizers. The product line of EFert comprises Urea sold under the brand name of Engro Urea, NPK – complex fertilizer – as Zarkhez, Phosphate-based products – DAP and MAP as Engro DAP, and Zorawar respectively, and zinc based fertilizers as Zingro. DAP is imported and sold in the local market. EFert has a strong country wide distribution network. In line with the objective to develop the complex and specialized fertilizer market, EFert arranges farmers awareness programs and has established various country wide assistance centres to guide the farmers the ways to increase crop yield. In CY22, the Company has produced ~1.9MT (CY21: ~2.1MT) of urea with a utilization level of 100%.

Ownership

Ownership Structure EFert is majority owned by Engro Corporation (~56%), one of the largest conglomerates in Pakistan. Rest of the ownership lies with general public (~24%), financial institutions (~3%), mutual funds (~3%), insurance companies (~2%) and others (~12%).

Stability The ownership structure of the Company is seen stable in foreseeable future as majority of shareholding vests with the sponsors through Engro Corp.

Business Acumen Engro Corp is a conglomerate with over three generations of experience in commercial and social enterprises. Currently, the Group has interests in various sectors including Fertilizer, Foods, Power Generation, Technology, Financial Services, Chemical Storage, and Petrochemicals. Strong affiliation and technical track record with international JVs have added to the success of companies within the Group

Financial Strength In CY22, EFert has equity of ~PKR 45 (CY21: ~PKR 45bln). Moreover, the Group is managing an asset base of ~PKR 316bln (CY21: ~PKR 133bln). Through its diverse set of business, it is generating a revenue of ~PKR 157bln (CY21: ~PKR 90bln) and posted PAT of ~PKR 16bln (CY21: ~PKR 21bln).

Governance

Board Structure The control of the Board vests with eight-member Board of Directors. There are four Non-Executive Directors, three Independent Directors and one Executive Director. Majority of the members have long association with the Company.

Members' Profile The Company's board is chaired by a seasoned professional Mr. Ghias Khan. He is the CEO of the parent company i.e., Engro Corp, with a long association with Engro Group. All members on the BoD have diversified experience and have been associated with the Company's BoD from a long span of time.

Board Effectiveness The Board has two sub committees to assist in relevant matters, namely – Audit Committee and People Committee. Both committees are chaired by an independent director. Attendance of member in Board meetings during the year remained strong. Minutes of these meetings were well documented.

Financial Transparency A.F Ferguson & Co., Chartered Accountants, classified in category 'A' by the SBP and having the satisfactory QCR rating by ICAP, are the external auditors of the Company. The auditor has given an unqualified opinion as at Dec-22.

Management

Organizational Structure The Company has a well-defined organizational structure that is divided into thirteen main departments. . Each Departmental Head reports to the Chief Executive Officer (CEO). However, the Head of Internal Audit reports for the administrative matters to the CEO of the Company. Head of Board Audit Committee has an indirect reporting to the Head of Corporate Audit of the parent company i.e., Engro Corporation Limited.

Management Team Mr. Ahsan Zafar Syed has been appointed as Chief Executive Officer of EFert and is effective from July 2022.

Effectiveness The Company has formed four committees i.e., Management Committee, Pricing Committee, Corporate HSE Committee and Capex Committee. Meetings of the committee are held on periodic basis to ensure efficiency and strategic planning.

MIS EFert utilizes completely integrated and real time ERP solution – developed by SAP AG Malaysia – with technical services provided by IBM Global Services. The ERP enables high level of integration between functions to ensure smoother data flow amongst related business process.

Control Environment EFert maintains an effective control environment with clear reporting lines, predefined authority limits and well defined policies and procedures. The review and accountability function runs through the entire organizational structure.

Business Risk

Industry Dynamics Pakistan has an agrarian economy, thus fulfills around ~ 84% of its fertilizer requirement through local production while the remaining is met through imports. The Country's total fertilizer production capacity stands at around ~ 7.1mln MT of Urea and CAN and ~ 1.7mln MT of DAP, NP, and NPK. In CY21, Urea's offtake stood at ~6.3mln MT. The availability of urea was estimated on the basis of ECC decision to allow urea plants to operate on subsidized LNG up to Mar-22. Unavailability of LNG has created supply uncertainty of urea for the Rabi Season 2021-2022 and the Federal Government has decided to import 0.1mln MT of urea from China. Meanwhile, DAP's offtake stood at 2.5mln MT. The overall margins of the industry remained healthy despite increase is gas prices mainly due to the increase in prices of fertilizer products. In the international market, prices of Urea and DAP witnessed an upward trend supported by increased demand due to high input cost.

Relative Position Engro has been significantly contributing in the urea market and takes the liberty of being the second largest player in the fertilizer industry.

Revenues In Jul 2023, Urea's MRP was increased to PKR 6700/ bag, also increasing dealers' margin by PKR 50/bag due to rising urea prices and increasing cost of doing business for the dealers. The Company's urea production stood at 1.9MT CY22, 2.2MT CY21. In CY22, revenue stood at PKR 157bln versus PKR 90.5bln during the same period last year achieving a sales growth of 42%.

Margins In CY22, the gross profit of the Company increased to ~PKR 30.7bln (CY21: ~PKR 25.8bln) owing to higher urea sales translating into gross margin of ~27.3% (CY21: ~39.2%). Moreover, the operating expenses witnessed a steep hike to ~PKR 12.1bln (CY21: ~PKR 9.6bln). In 1QCY23, the gross margin reduced by ~17.6% because of increased price of cost of sales(1QCY23: PKR ~33bln, 1QCY22: PKR ~17.5bln) Further on increase in operating expenses, the operating margin reduced to ~42% due to trickle-down effect. The Company has received significant dividend of ~PKR 522mln from Engro Agritrade in 1QCY23. Moreover, the finance cost was decreased to ~PKR 435mln. Resultantly, the net margin decreased to ~16%.

Sustainability The Company continues to explore new avenues particularly in pesticides and agri farming sectors, these are expected to yield positive results in the long run. Moreover, the Company is actively evaluating alternate sources of gas with the Government to mitigate the risk depleting gas reserves.

Financial Risk

Working Capital In CY22, the inventory days increased to 26 days (CY21: 24 days) because of higher sales. The receivable days slightly reduced (CY22: 7 days, CY21: 8 days). The trade payable days witnessed a fall to 12 days (CY21: 25 days). Moreover, the gross and net working capital days slightly increased to 33 days (CY21: 32 days) and 20 days (CY21: 8 days), respectively. In 1QCY22, the net working capital days increased to 25 days. Moreover, the Company posted short-term trade leverage (1QCY23: ~35.6%, CY21: ~-136.5%).

Coverages In CY22, the Company's FCFO decreased to ~PKR 21.5bln (CY21: ~PKR 2bln) due to higher taxes paid. Meanwhile, the finance cost surged to ~PKR 2.6ln in CY22 (CY21: ~PKR 1.5bln) and borrowings stood at (CY22: ~PKR 20.4bln, CY21: ~PKR 21.3bln). Interest coverage decreased to CY22 8.2x (CY21: 14.9x). In 1QCY23, the interest coverage surged to 11.9x due to low profitability.

Capitalization EFert has a moderately leveraged capital structure with a leveraging ratio of ~32.3% in CY22 (CY21: ~36.9%). The Company has increased its reliance on short-term borrowings and currently it is ~36.4% (CY21: ~15.5%). In 1QCY23, the leveraging reduced to ~22.3%.

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

Engro Fertilizers	Mar-23	Dec-22	Dec-21	Dec-20
Fertilizers	3M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	84,181	83,374	78,393	70,891
2 Investments	12,893	11,873	14,097	25,075
3 Related Party Exposure	1,264	1,280	8,132	837
4 Current Assets	41,753	48,887	28,188	31,463
a Inventories	*11,421*	*16,868*	*5,176*	*6,720*
b Trade Receivables	*4,007*	*3,772*	*2,152*	*2,028*
5 Total Assets	140,091	145,413	128,811	128,265
6 Current Liabilities	74,342	67,089	37,499	35,875
a Trade Payables	*6,636*	*5,105*	*5,318*	*6,944*
7 Borrowings	12,299	20,496	21,333	23,880
8 Related Party Exposure	162	1,179	5,200	1,066
9 Non-Current Liabilities	10,506	11,596	19,461	22,458
10 Net Assets	42,781	45,053	45,318	44,986
11 Shareholders' Equity	42,781	45,053	45,318	44,986
B INCOME STATEMENT				
1 Sales	43,991	157,017	90,585	75,056
a Cost of Good Sold	*(33,216)*	*(114,170)*	*(55,087)*	*(45,994)*
2 Gross Profit	10,775	42,847	35,498	29,062
a Operating Expenses	(3,022)	(12,103)	(9,649)	(9,168)
3 Operating Profit	7,753	30,745	25,849	19,893
a Non Operating Income or (Expense)	*(527)*	*(1,561)*	*3,742*	*2,302*
4 Profit or (Loss) before Interest and Tax	7,225	29,184	29,591	22,196
a Total Finance Cost	*(435)*	*(2,622)*	*(1,680)*	*(3,278)*
b Taxation	*(2,386)*	*(10,558)*	*(6,841)*	*(2,103)*
6 Net Income Or (Loss)	4,404	16,003	21,069	16,815
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*5,190*	*21,589*	*25,067*	*22,695*
b Net Cash from Operating Activities before Working Capital Changes	*5,199*	*21,094*	*31,857*	*22,396*
c Changes in Working Capital	*5,203*	*8,363*	*(8,280)*	*8,469*
1 Net Cash provided by Operating Activities	10,402	29,457	23,577	30,865
2 Net Cash (Used in) or Available From Investing Activities	(3,645)	(18,927)	5,977	(8,456)
3 Net Cash (Used in) or Available From Financing Activities	(2,717)	(27,004)	(19,599)	(22,436)
4 Net Cash generated or (Used) during the period	4,040	(16,474)	9,955	(27)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	12.1%	73.3%	20.7%	-5.3%
b Gross Profit Margin	24.5%	27.3%	39.2%	38.7%
c Net Profit Margin	10.0%	10.2%	23.3%	22.4%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	23.6%	19.1%	18.5%	41.5%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholde*	40.1%	35.4%	46.7%	38.3%
2 Working Capital Management				
a Gross Working Capital (Average Days)	37	33	32	54
b Net Working Capital (Average Days)	25	20	8	21
c Current Ratio (Current Assets / Current Liabilities)	0.6	0.7	0.8	0.9
3 Coverages				
a EBITDA / Finance Cost	18.6	12.6	16.4	7.8
b FCFO / Finance Cost+CMLTB+Excess STB	0.8	0.9	3.4	1.7
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	1.7	1.5	1.0	1.3
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	22.3%	32.3%	36.9%	35.6%
b Interest or Markup Payable (Days)	96.8	72.4	56.5	29.0
c Entity Average Borrowing Rate	8.5%	11.3%	7.3%	11.7%

Credit Rating

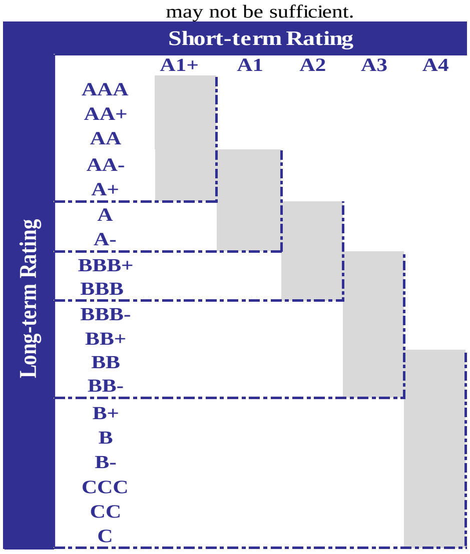
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+ 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.
A+ 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.
BBB+ 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.
BB+ BB 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.
B+ 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.
CCC CC C	**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.
D	Obligations are currently in default.

Short-term Rating

Scale	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
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 surveill 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

Regulatory and Supplementary Disclosure

(Credit Rating Companies Regulations,2016)

Rating Team Statements

(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) **Conflict of Interest**

i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

Restrictions

(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
(4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
(5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

(6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
(7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report | 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)

Independence & Conflict of interest

(12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA´s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
(13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
(14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
(15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
(16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
(17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
(19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

Probability of Default

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

Proprietary Information