The Pakistan Credit Rating Agency Limited

Rating Report

Fatima Fertilizer Company Limited

Report Contents

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
24-Jul-2023	AA+	A1+	Stable	Maintain	-
20-Jan-2023	AA+	A1+	Stable	Upgrade	-
25-Jan-2022	AA	A1+	Stable	Upgrade	-
30-Jul-2021	AA-	A1+	Stable	Maintain	-
19-Aug-2020	AA-	A1+	Stable	Maintain	-
21-Aug-2019	AA-	A1+	Stable	Maintain	-
19-Feb-2019	AA-	A1+	Stable	Maintain	-
01-Nov-2018	AA-	A1+	Stable	Maintain	-
08-Aug-2017	AA-	A1+	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

Pakistan's economy is predominantly agrarian, with approximately 88% of its fertilizer requirement being fulfilled through local production, while the remaining portion is imported. The country has a total fertilizer production capacity of approximately 7.1mln MT for Urea and CAN, and 1.7mln MT for DAP, NP, and NPK. In CY22, Urea's offtake reached around 6.6mln MT, while DAP's offtake stood at 1.1mln MT. During 3MCY23, Urea offtake remained stable at approximately 1.6mln MT, with DAP offtake at 0.2mln MT. In CY22, Pakistan imported approximately 0.26mln MT of Urea due to demand, supply, and LNG shortage for the production. Despite lower demand, the industry maintained healthy margins, and its future outlook is expected to remain satisfactory. During 1QCY23, international market prices declined due to reduced demand, leading sellers to offload barges in crowded markets to address liquidity concerns.
The ratings reflect Fatima Fertilizer Company Limited's ('Fatima' or 'the Company') association with strong business Groups, Fatima Group and Arif Habib Group. The Company holds the highest market share in NP and CAN fertilizers. The Company has the highest nameplate capacity (2.57mln MT), in the fertilizer sector of the country, after amalgamation with Pakarab Fertilizers Limited. During CY22, the Company's topline, mainly comprising of Urea, NP, and CAN, experienced a remarkable 35% growth, attributed to the rise in fertilizer product prices. The current utilization of the company by product is Urea ~106%, CAN ~100%, and NP ~130%. During CY22, the Company has maintained noteworthy cost structure with a gross margin of ~34% (CY21: ~38%) and net profit margin of ~10% (CY21: ~16.4%), owing to efficient operations and having a dedicated gas supply line from Mari fields. The completion of the project with Mari Petroleum to maintain gas pressures will further strengthen the business risk profile. Subsequent to the Company's sterling financial performance, the management is evaluating investment opportunities and materialization of the projects is anticipated to amplify the Company's prime position in the fertilizer sector. The Company has continuously invested in optimizing its production plants and reaps the benefits of having increased utilization and higher run time of its production facilities. Moreover, income from the trading portfolio provides limited support to the Company's bottom line. At CY22, the Company’s financial profile is established on a low leveraged capital structure, of ~19.2%, strong coverages, and efficient management of working capital. Ratings draw comfort from business acumen from the sponsors and strong governance framework.

The ratings are dependent on the Company's ability to sustain its margins and healthy coverages while maintaining cushion and adherence to strong financial discipline. Substantial deterioration in margins and profitability would adversely impact the ratings.

Disclosure

Name of Rated Entity	Fatima Fertilizer Company 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 Fatima Fertilizer Company Limited ('Fatima Fertilizer' or 'the Company') was incorporated in Dec-03 as a public company under the repealed Companies Ordinance, 1984 (now Companies Act. 2017). The Company got listed on the Pakistan Stock Exchange (PSX) in 2010.

Background The Company was formed by a joint venture between two major business groups in Pakistan namely, Fatima Group and Arif Habib Group. The Company's first venture, a fully integrated fertilizer production facility, was initiated in 2006 in Sadiqabad, Punjab. The facility commenced operations in 2011. The Company later acquired productions plants in Sheikhupura and Multan.

Operations The Company is primarily involved in manufacturing and selling variants of fertilizers and chemicals. The production facilities are all located in Punjab, Pakistan. The Company mainly produces Urea, CAN, and NP. In CY22, the Company's combined actual production increased by ~17% compared to the same period from last year and stood at 2.8mln MT (CY21: 2.4mln MT) and capacity utilization stood at ~110% (CY21: ~94%).

Ownership

Ownership Structure Fatima Group holds 46% of the total shares through associated companies (24%) and individuals (22%), while Arif Habib Group holds 36% through associated companies (17%) and individuals (19%). Fazal Group holds 11% through associated company (6%) and individuals (5%). The remaining shareholding lies with Financial Institutions and General Public (7%)

Stability Ownership of the business is stable. The second generation has been inducted into the business as well.

Business Acumen The sponsors have very strong business acumen. Fatima Group is one of the leading corporate groups in Pakistan, engaged in trading of commodities, manufacturing of fertilizers, textiles, sugar, mining and energy. Arif Habib Group ranks amongst the prominent financial services groups and holds interests in financial advisory, investment management, commercial banking, commodities, private equity, cement and fertilizer industries.

Financial Strength The Company's sponsors, Fatima Group and Arif Habib Group, have substantial financial strength.

Governance

Board Structure The Company's Board comprises of seven members. The Board includes two members each from Fatima Group and Arif Habib Group, CEO of the Company and two independent directors.

Members' Profile The Board's Chairman, Mr. Arif Habib, has very strong business acumen and is also the Chief Executive Officer of Arif Habib Corporation Limited, the holding company of Arif Habib Group

Board Effectiveness The Board is assisted by the Board Audit Committee, Human Resource and Remuneration Committee, and Nomination and Risk Management Committee. The committees meet on need basis and minutes are adequately documented.

Financial Transparency The External Auditors of the Company are Deloitte Yousaf Adil, Chartered Accountants rated 'A' on the SBP panel. They have expressed an unqualified opinion on the financial statements for the year ended Dec-22.

Management

Organizational Structure The organizational structure has been optimized as per the operational needs. The Company operates through eight functions: Production, Finance, Marketing and Sales, Internal Audit, Business Development, Administration, Supply Chain, and Human Resource. All functional managers' report to the Company's CEO except the Head of Audit who reports to the Audit Committee, and HR Director who reports to HR & Remuneration Committee

Management Team Mr. Fawad Ahmed Mukhtar is the CEO of the Company. He has 32 years of experience in industrial management. He is assisted by a team of experienced professionals. Mr. Asad Murad is the Chief Operating Officer of the Company and has over 25 years of experience.

Effectiveness Management's effectiveness and efficiency is ensured through the presence of Executive Committee, Project Review Committee, and Enterprise Risk Management Committee.

MIS The Company uses an upgraded Oracle based ERP system which has been optimized as per the needs of the business.

Control Environment To ensure operational efficiency, the Company has setup an internal audit function, which implements and monitors the policies and procedures of the Company.

Business Risk

Industry Dynamics Pakistan has an agrarian economy, thus fulfills around ~ 88% 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. Heavy monsoon spell observed in Jul-22 / Aug-22 resulted in inundation of areas in Sindh, Baluchistan and Southern Punjab damaging 4.5mln acres of agricultural land. In CY22, despite floods the nitrogen (primarily Urea) industry in Pakistan has grown by ~ 4% whereas the phosphates industry has declined by ~ 38%. Growth in Urea for demand has been made possible with operation of all the fertilizer plants as domestic Urea production stood at ~ 7mln MT as compared to ~ 6.5mln MT produced in same period last year. The Government also imported ~ 0.26mln MT of Urea during CY22. This year observed delayed buying for DAP as demand only materialized in Dec-22 owing to an increase in the support price of wheat and resulted in DAP offtake being plunged by 36% YoY to settle at 1.1mln MT. Despite the increase in gas prices, overall margins of the industry remained healthy 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. Going forward, industry's outlook is expected to remain satisfactory.

Relative Position After the acquisition of the Pakarab Fertilizer's plants, the Company has increased its overall market share to 24% in terms of sales

Revenues The Company's revenue comprises of Urea (26%), NP (55%), CAN (16%), DAP (2%), and Others (1%). During CY22, the Company's revenue witnessed similar trend and clocked in at PKR 152bln, up by ~36%, compared to the same period from the prior year (CY21: PKR 112bln). The increase is mainly due to increase in the prices of fertilizer products and the increase in demand. Going forward, the Company's revenues are expected to further improve owing to the amalgamation of Pakarab Fertilizers with and into the Company

Margins During CY22, the Company's gross margin declined to ~34.1% (CY21: ~ 38.3%) due to higher gas prices and higher volumes being generated from the Company's RNLG based plant. Operating margin stood at ~25% (CY21: ~30.3%) due to increased costs. Similarly, amidst higher costs, the Company's net income dipped and stood at PKR 14.3bln (CY21: 18.4bln) decrease in net profit is due to super tax implementation and, subsequently, net profit margin stood at 9.3% (CY21: 16.4%). Going forward, despite the increase in costs, margins are expected to remain strong owing to the increased prices of fertilizer products.

Sustainability The Company is actively evaluating alternate sources of gas with the GoP to mitigate the risk of depleting reserves.

Financial Risk

Working Capital The Company's inventory days increased to 61 days during CY22 (CY21: 52 days) due to increase in production in anticipation of the increased demand. Receivable days witnessed slight increase to 100 days (CY21: 52 days) in line with the increase in the revenue. Payable days witnessed similar trend and increased to 47 days (CY21: 31 days). Subsequently, the overall net cash cycle of the Company stood at 114 days in CY22 (CY21: 96 days). The Company's short-term trade leverage and short-term total leverage stood at ~30.2% and ~23.7% as at CY22 indicating room to borrow against trade assets and total current assets, respectively.

Coverages Free cash flows of the Company stood at ~PKR 30.7bln during CY22 (CY21: ~PKR 34.5bln). The Company's finance cost stood at PKR 2.27bln during CY22 (CY21: PKR 2.0bln) increasing slightly amidst higher interest rates. Subsequently, the coverages remained less strong than previous year the interest coverage ratio (CY22: 13.5x, CY21: 19.7x) and Debt Coverage Ratio (CY22: 6x, CY21: 8.5x). Moreover, debt payback period stood at 0.4x (CY21: 0.3x). Going forward, the Company's lower FCFO combined with relatively higher finance cost is expected to keep the coverages less high.

Capitalization The Company has leveraging with debt-to-debt + equity ratio standing at ~19% as at CY22 (CY21: 13.7%). Total debt of the Company increased to ~PKR 25.4bln as at CY22 (CY21: ~PKR 15.4bln). The increase represents an uptick in the short-term and long-term borrowings. For working capital requirements amidst increase in production volumes. Going forward, the capital structure of the Company is expected to remain strong owing to high equity-base (CY22: PKR 111.3bln, CY21: PKR 100.3bln).

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Fatima Fertilizer Company Limited	Mar-23	Dec-22	Mar-22	Dec-21	Mar-21	Dec-20
Fertilizer	3M	12M	3M	12M	3M	12M
A BALANCE SHEET						
1 Non-Current Assets	116,167	114,832	111,162	109,550	110,853	111,042
2 Investments	4,244	4,233	3,524	3,018	3,237	3,280
3 Related Party Exposure	14,638	13,268	11,552	10,794	6,449	6,442
4 Current Assets	83,269	90,168	62,692	61,531	37,779	36,792
a Inventories	*28,922*	*32,488*	*16,700*	*18,332*	*13,971*	*13,531*
b Trade Receivables	*21,069*	*22,831*	*10,702*	*9,654*	*3,252*	*4,450*
5 Total Assets	218,317	222,501	188,931	184,893	158,318	157,557
6 Current Liabilities	62,468	64,480	45,363	45,528	28,153	23,363
a Trade Payables	*25,703*	*26,294*	*13,078*	*12,973*	*7,196*	*6,252*
7 Borrowings	19,060	25,358	14,158	15,404	15,053	22,804
8 Related Party Exposure	-	-	-	-	-	-
9 Non-Current Liabilities	25,526	25,736	23,456	23,697	24,235	24,288
10 Net Assets	111,263	106,926	105,953	100,263	90,876	87,103
11 Shareholders' Equity	111,263	106,926	105,953	100,263	90,876	87,103
B INCOME STATEMENT						
1 Sales	33,519	152,231	29,114	112,488	21,604	71,267
a Cost of Good Sold	*(19,367)*	*(100,289)*	*(16,863)*	*(69,404)*	*(12,339)*	*(42,473)*
2 Gross Profit	14,152	51,943	12,251	43,084	9,265	28,795
a Operating Expenses	(4,364)	(13,849)	(2,561)	(8,948)	(2,411)	(7,259)
3 Operating Profit	9,787	38,094	9,690	34,136	6,853	21,535
a Non Operating Income or (Expense)	*(1,440)*	*(4,378)*	*(1,020)*	*(3,944)*	*(393)*	*677*
4 Profit or (Loss) before Interest and Tax	8,347	33,715	8,670	30,192	6,460	22,212
a Total Finance Cost	*(1,000)*	*(2,929)*	*(417)*	*(2,007)*	*(543)*	*(3,469)*
b Taxation	*(3,011)*	*(16,647)*	*(2,563)*	*(9,711)*	*(2,144)*	*(5,468)*
6 Net Income Or (Loss)	4,337	14,139	5,690	18,474	3,773	13,275
C CASH FLOW STATEMENT						
a Free Cash Flows from Operations (FCFO)	*6,453*	*30,708*	*9,125*	*34,500*	*6,651*	*18,576*
b Net Cash from Operating Activities before Working Capital Ci	*5,209*	*28,312*	*8,662*	*32,537*	*6,084*	*14,841*
c Changes in Working Capital	*6,128*	*(19,396)*	*(4,817)*	*(6,239)*	*1,860*	*1,718*
1 Net Cash provided by Operating Activities	11,338	8,916	3,845	26,299	7,944	16,559
2 Net Cash (Used in) or Available From Investing Activities	(4,779)	(14,391)	(4,691)	(8,359)	(536)	(3,489)
3 Net Cash (Used in) or Available From Financing Activities	(5,823)	(2,299)	(3,026)	(11,153)	(7,815)	(13,029)
4 Net Cash generated or (Used) during the period	736	(7,775)	(3,872)	6,787	(407)	41
D RATIO ANALYSIS						
1 Performance						
a Sales Growth (for the period)	-11.9%	35.3%	3.5%	57.8%	21.3%	-4.9%
b Gross Profit Margin	42.2%	34.1%	42.1%	38.3%	42.9%	40.4%
c Net Profit Margin	12.9%	9.3%	19.5%	16.4%	17.5%	18.6%
d Cash Conversion Efficiency (FCFO adjusted for Working Cap	37.5%	7.4%	14.8%	25.1%	39.4%	28.5%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Tota*	15.9%	13.6%	22.1%	19.7%	17.0%	16.1%
2 Working Capital Management						
a Gross Working Capital (Average Days)	143	100	87	75	74	94
b Net Working Capital (Average Days)	73	53	46	43	46	42
c Current Ratio (Current Assets / Current Liabilities)	1.3	1.4	1.4	1.4	1.3	1.6
3 Coverages						
a EBITDA / Finance Cost	12.5	18.2	30.6	21.5	16.4	7.6
b FCFO / Finance Cost+CMLTB+Excess STB	4.5	6.0	9.8	8.5	3.7	2.0
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finar	0.5	0.4	0.3	0.3	0.4	0.7
4 Capital Structure						
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	14.6%	19.2%	11.8%	13.3%	14.2%	20.7%
b Interest or Markup Payable (Days)	49.9	114.8	60.4	64.0	79.1	53.5
c Entity Average Borrowing Rate	17.4%	12.9%	8.5%	9.9%	7.2%	11.4%

Credit Rating

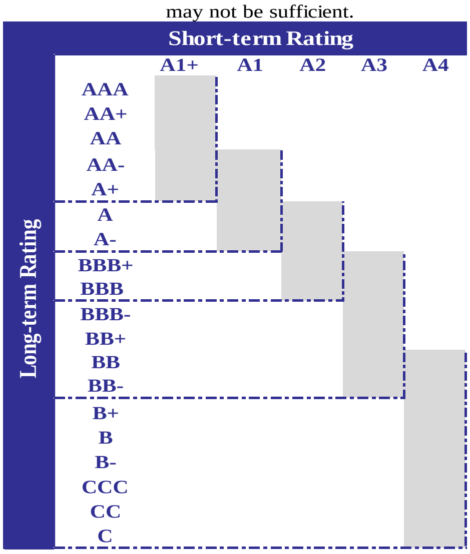
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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

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(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)

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