The Pakistan Credit Rating Agency Limited

Rating Report

Fatima Fertilizer Company Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
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	-
11-Nov-2016	AA-	A1+	Stable	Maintain	-
12-Nov-2015	AA-	A1+	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

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 sails around ~ 7.1mln MT of Urea and CAN and ~ 1.7mln MT of DAP, NP, and NPK. In 5MCY21, Urea’s offtake stood at 2.2mln MT. Meanwhile, DAP’s offtake stood at 423,000MT. The overall margins of the industry registered a healthy growth on the gross and net levels due to unchanged gas rates and effective cost controls despite inflationary pressures. In the local market, Urea's price has slightly decreased. Earlier, the GIDC charge was reduced on feed and fuel stock. Subsequently, the GIDC was made payable in full by all manufacturers in 48 installments, as per the ruling of the Supreme Court in Aug-20. In the international market, prices of Urea and DAP witnessed an upward trend supported by increased demand after due to high input cost. However, the expected Government subsidy scheme would reduce DAP prices. Going forward, industry’s outlook is expected to remain satisfactory.
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. Furthermore, after the acquisition of the Pakarab Fertilizer’s plants (Ammonia, Urea, Nitric Acid, Nitro Phosphate, Calcium Ammonium Nitrate, and Clean Development Mechanism) the Company has increased its overall market standing. The Company's topline comprising mainly of Urea and NP has seen a two-fold increase post the acquisition and is expected to witness growth on the back of operational efficiency. The Company has maintained healthy margins over the years owing to efficient operations and having a dedicated gas supply line from Mari fields. Lately, the Company has applied for provision of concessionary gas pertaining to the period of curtailment. 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. The Company’s financial profile is characterized by modestly leveraged capital structure, very strong coverages, and efficient management of working capital. Ratings draw comfort from business acumen from the sponsors and a 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-21),Criteria | Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria | Rating Modifiers(Jun-21)
Related Research	Sector Study | Fertilizer(Jan-21)
Rating Analysts	Faiqa Qamar | faiqa.qamar@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 CY20 the Company's combined actual production increased by 16% YoY and stood at 1.89 million MT (CY19: 1.63mln MT) and capacity utilization stood at 95%. During 1QCY21, the Company's actual production witnessed 48% QoQ due to increase in total capacity and stood at 0.55mln MT (1QCY20: 0.37mln MT) and capacity utilization stood at 86%.

Ownership

Ownership Structure Fatima Group holds 45% of the total shares through associated companies (23%) and individuals (22%), while Arif Habib Group holds 34% through associated companies (16%) and individuals (18%). Fazal Group holds 11% through associated company (3%) and individuals (8%). The remaining shareholding lies with Financial Institutions (4%) and General Public (6%).

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-20.

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 30 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 23 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 The production capacity of the country's fertilizer industry comprises 7.1mln MT of Urea and CAN and 1.7mln MT of DAP, NP, and NPK. Pakistan fulfills around ~84% of its fertilizer requirement through local production while the remaining is met through imports. In 5MCY21, Urea's offtake stood at 2.2mln MT. Meanwhile, DAP's offtake stood at 423,000MT. The overall margins of the industry registered a healthy growth on the gross and net levels due to unchanged gas rates and effective cost controls despite inflationary pressures. In the international market, prices of Urea and DAP witnessed an upward trend supported by increased demand after due to high input cost. However, the expected Government subsidy scheme would reduce DAP prices. 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 (34%), NP (34%), CAN (19%), DAP (12%), and Others (1%). In CY20 revenue decreased by 5% to PKR 71.3bln (FY19: PKR 74.9bln) due to decrease in prices of NP and DAP in 1HCY20. During 1QCY21, the Company's topline stood at PKR ~21.6bln (1QCY20: 14.4bln) up by ~50%, indicating an uptick in the prices NP and DAP and the increase in sales volume.

Margins In CY20, the Company's gross margins stood at 40%, up from 37% in CY19 due to reduction in cost of sales. Similarly, on operational level the margin increased to 30.2% (FY19: 28.4%) and on net level the margin increased to 18.6% (CY19: 16.1%) due to lower finance costs amidst the interest rate cut. In 1QCY21 The Company's gross margin dipped slightly and stood at 42.9% (1QCY20 45.6%) indicating the increased input costs. Similarly, operating margin dipped to 31.7% (1QCY20: 33.9%), however, net margin slightly increased to 17.5% (1QCY20: 17%) as the Company benefit from lower finance costs.

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 64 days during CY20 (CY19: 40 days). Similarly, receivable days increased slightly to 30 days (FY19: 23 days). However, payable days increased significantly to 70 days (CY19: 38 days). The overall net cash cycle of the Company stood at 24 days in CY20 (CY19: 26 days). During 1QCY21, inventory days decreased and stood at 58 days (1QCY20: 72 days). Similarly, receivable days and payable days stood at 16 days and 61 days, respectively (1QCY20: 56 days and 90 days). The Company's borrowing cushion against trade assets remains limited with short-term trade leverage standing at ~8% and short-term total leverage standing at ~17% as of 1QCY21 (1QCY20: -20%, and -1%).

Coverages Free cash flows stood at ~PKR 18.6bln in CY20 (CY19: ~PKR 16.7bln) and finance cost stood at PKR 3.1bln in CY20 (CY19: PKR 3.4bln). Interest cover improved to 6.0x during CY20 (CY19: 4.9x) due to higher free cash flows and lower finance costs. Moreover, core and total interest cover stood at 2.0x each in CY20 (CY19: 1.3x each). Debt payback period stood at 0.7x in CY20 (CY19: 1.2x). In 1QCY21, interest cover stood at 15.3x (1QCY20: 4.2), core and total interest cover stood at 3.7x each (1QCY20: 1.5x each), and debt payback period stood at 0.4x (1QCY20: 1x).

Capitalization The Company has low leveraging with debt-to-debt + equity ratio standing at 21% in CY20 (CY19: 27%). Total debt of the Company decreased to ~PKR 22.8bln (CY19: ~PKR 29.5bln). The decrease represents the repayment of debt during CY20. As of 1QCY21, the leveraging ratio of the Company stands at 14% (1QCY20: 27%).

PKR mln

Fatima Fertilizer Company Limited	Mar-21	Dec-20	Sep-20	Jun-20	Mar-20	Dec-19	Sep-19	Jun-19	Dec-18
Agriculture and Allied	3M	12M	9M	6M	3M	12M	9M	6M	12M
A BALANCE SHEET									
1 Non-Current Assets	110,853	111,042	110,020	107,412	106,685	106,776	81,594	81,710	78,595
2 Investments	3,237	3,280	3,137	2,140	1,549	1,158	653	672	711
3 Related Party Exposure	6,449	6,442	6,437	6,431	6,422	6,416	12,473	12,473	10,225
4 Current Assets	37,779	36,792	34,061	32,160	44,754	40,767	24,062	21,890	20,420
a Inventories	*13,971*	*13,531*	*13,367*	*12,820*	*11,261*	*11,518*	*6,667*	*5,038*	*5,028*
b Trade Receivables	*3,252*	*4,450*	*3,589*	*2,301*	*10,453*	*7,207*	*1,753*	*3,226*	*2,397*
5 Total Assets	158,318	157,557	153,656	148,143	159,410	155,116	118,783	116,746	109,951
6 Current Liabilities	28,153	23,363	22,685	27,934	28,703	27,511	20,507	19,591	13,981
a Trade Payables	*15,805*	*13,217*	*11,708*	*12,152*	*14,531*	*13,962*	*1,911*	*1,748*	*1,561*
7 Borrowings	15,053	22,804	30,191	22,683	30,191	29,594	16,319	18,469	17,852
8 Related Party Exposure	-	-	-	-	-	-	-	-	-
9 Non-Current Liabilities	24,235	24,288	20,530	20,139	20,049	20,004	16,311	16,158	15,856
10 Net Assets	90,876	87,103	80,249	77,388	80,468	78,008	65,646	62,528	62,261
11 Shareholders' Equity	90,876	87,103	83,372	80,971	80,468	78,008	69,914	66,116	62,261
B INCOME STATEMENT									
1 Sales	21,604	71,267	46,448	24,833	14,433	74,964	39,380	26,808	45,964
a Cost of Good Sold	*(12,339)*	*(42,473)*	*(25,074)*	*(9,648)*	*(7,852)*	*(47,065)*	*(16,595)*	*(11,466)*	*(19,483)*
2 Gross Profit	9,265	28,795	21,375	15,185	6,581	27,899	22,785	15,341	26,481
a Operating Expenses	(2,411)	(7,259)	(5,185)	(3,125)	(1,682)	(6,579)	(4,433)	(3,013)	(5,728)
3 Operating Profit	6,853	21,535	16,190	12,060	4,899	21,320	18,352	12,328	20,754
a Non Operating Income or (Expense)	*(393)*	*677*	*348*	*182*	*(125)*	*(366)*	*(319)*	*(368)*	*(793)*
4 Profit or (Loss) before Interest and Tax	6,460	22,212	16,538	12,242	4,774	20,954	18,034	11,959	19,961
a Total Finance Cost	*(543)*	*(3,469)*	*(2,902)*	*(2,185)*	*(1,248)*	*(3,761)*	*(2,067)*	*(1,340)*	*(1,450)*
b Taxation	*(2,144)*	*(5,468)*	*(4,073)*	*(2,896)*	*(1,066)*	*(5,124)*	*(4,637)*	*(3,088)*	*(5,238)*
6 Net Income Or (Loss)	3,773	13,275	9,563	7,161	2,459	12,070	11,329	7,532	13,272
C CASH FLOW STATEMENT									
a Free Cash Flows from Operations (FCFO)	*6,651*	*18,576*	*14,685*	*10,285*	*4,290*	*16,741*	*16,055*	*10,895*	*19,866*
b Net Cash from Operating Activities before Working Capital Changes	*6,084*	*14,841*	*11,516*	*8,019*	*3,328*	*13,582*	*14,507*	*9,689*	*17,620*
c Changes in Working Capital	*1,860*	*1,718*	*(313)*	*2,737*	*(2,622)*	*(6,704)*	*(3,531)*	*(2,452)*	*(1,912)*
1 Net Cash provided by Operating Activities	7,944	16,559	11,202	10,756	706	6,879	10,976	7,237	15,708
2 Net Cash (Used in) or Available From Investing Activities	(536)	(3,489)	(2,230)	(2,773)	(898)	(10,322)	(5,595)	(5,154)	(10,644)
3 Net Cash (Used in) or Available From Financing Activities	(7,815)	(13,029)	(8,798)	(7,238)	361	3,241	(5,252)	(2,028)	(5,336)
4 Net Cash generated or (Used) during the period	(407)	41	174	745	169	(203)	129	56	(272)
D RATIO ANALYSIS									
1 Performance									
a Sales Growth (for the period)	21.3%	-4.9%	-17.4%	-33.7%	-23.0%	63.1%	14.2%	16.6%	22.2%
b Gross Profit Margin	42.9%	40.4%	46.0%	61.2%	45.6%	37.2%	57.9%	57.2%	57.6%
c Net Profit Margin	17.5%	18.6%	20.6%	28.8%	17.0%	16.1%	28.8%	28.1%	28.9%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	39.4%	28.5%	30.9%	52.4%	11.6%	13.4%	31.8%	31.5%	39.1%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	16.6%	15.4%	15.2%	17.3%	12.4%	18.1%	22.4%	23.5%	22.4%
2 Working Capital Management									
a Gross Working Capital (Average Days)	74	94	105	124	128	64	55	53	52
b Net Working Capital (Average Days)	13	24	30	28	38	26	43	42	41
c Current Ratio (Current Assets / Current Liabilities)	1.3	1.6	1.5	1.2	1.6	1.5	1.2	1.1	1.5
3 Coverages									
a EBITDA / Finance Cost	16.4	7.6	7.0	6.8	5.2	6.8	10.2	10.6	17.3
b FCFO / Finance Cost+CMLTB+Excess STB	3.7	2.0	1.6	1.3	1.5	1.3	2.5	1.7	2.6
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.4	0.7	1.0	1.0	1.0	1.2	0.7	0.8	0.7
4 Capital Structure									
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	14.2%	20.7%	26.6%	21.9%	27.3%	27.5%	18.9%	21.8%	22.3%
b Interest or Markup Payable (Days)	79.1	53.5	46.8	63.0	99.7	89.5	0.0	0.0	0.0
c Entity Average Borrowing Rate	7.2%	11.4%	13.1%	16.1%	18.2%	17.3%	14.9%	14.4%	8.1%

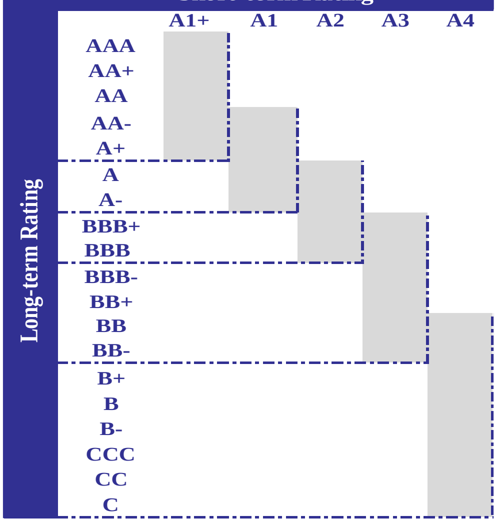
Credit Rating

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

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.

Short-term Rating



**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):

Entities
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

Instruments
a) Basel III Compliant Debt Instrument Rating
b) Debt Instrument Rating
c) Sukuk Rating

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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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(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)

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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)

(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.

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(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)

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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

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(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)

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(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)

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(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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