



The Pakistan Credit Rating Agency Limited

## Rating Report

### Engro Corporation Limited

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
25-Jun-2021	AA+	A1+	Stable	Maintain	-
26-Jun-2020	AA+	A1+	Stable	Maintain	-
27-Dec-2019	AA+	A1+	Stable	Maintain	-
28-Jun-2019	AA+	A1+	Stable	Maintain	-
28-Dec-2018	AA+	A1+	Stable	Maintain	-
27-Jun-2018	AA+	A1+	Stable	Upgrade	-
17-May-2017	AA	A1+	Stable	Maintain	-
22-Dec-2016	AA	A1+	Stable	Maintain	-
22-Dec-2015	AA	A1+	Stable	Upgrade	-

#### Rating Rationale and Key Rating Drivers

The ratings reflect Engro Corporation Limited's ('Engro Corp' or "the Company") very strong risk profile and exceptional liquidity. The ratings incorporate established position of the Company as a conglomerate with a diverse pool of investments under four verticals: i) food and agriculture, ii) petrochemicals, iii) energy and related infrastructure, and iv) telecommunication infrastructure. Engro Corp's various investments in diversified sectors exhibit strong performance and profitability.

Respective businesses under the umbrella of the HoldCo continued growth trajectory despite challenging economic environment post COVID-19 outbreak, exhibiting resiliency and strength of HoldCo's investment philosophy. Engro Fertilizer, being the second largest in the fertilizer sector, increased its market share on the back of higher urea sales. Engro Eximp is consistently improving its market presence. Engro Polymer and Chemical has a fortified position in the local PVC industry with capacity enhancements and Hydrogen Per Oxide project on the cards. The subsidiary benefitted from high international PVC prices leading to significant improvement in margins. Engro Corp's sizeable investments in the energy chain, through Engro Energy, have progressed in a timely manner. Moreover, Engro PowerGen Thar is performing better than envisioned availability and efficiency benchmarks. Engro Enfrashare's telecom tower business is booming as the Company managed to grab considerable market share in such a short span of time. Engro Energy and Elengy Terminal announced higher dividends compensating for no dividend from FrieslandCampina. Engro Polymer and Engro Vopak remained cash producers, albeit relatively low. Lately, Engro Corp plans to enhance its footings in the petrochemical vertical by setting up a polypropylene facility. The Company has a low leveraged capital structure with very strong coverages and liquidity signifying its robust financial profile. Its ability to limit debt levels to fifty percent of its equity (excluding sovereign linked debt) at group level provides comfort to ratings. The ratings factor in HoldCo's strong organizational structure, designed to control the strategic direction of its subsidiaries, and strong governance framework.

The ratings are dependent on the management's ability to execute its envisaged strategy of growth and expansion amidst prevailing economic environment. Sustainability in the performance of subsidiaries, stable dividends and effective management of financial profile is important. Meanwhile, effective utilization of liquid assets to enhance investment portfolio is critical.

#### Disclosure

<b>Name of Rated Entity</b>	Engro Corporation Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Corporate Ratings(Jun-20),Methodology   Holding Company(Jun-20),Methodology   Correlation Between Long-Term And Short-Term Rating Scale(Jun-20),Criteria   Rating Modifier(Jun-20)
<b>Related Research</b>	Sector Study   Holding Company(Aug-20)
<b>Rating Analysts</b>	Faiqa Qamar   faiqa.qamar@pacra.com   +92-42-35869504



## Profile

**Legal Structure** Engro Corporation Limited ("Engro Corp" or "the Company") is a public limited company listed on the Pakistan Stock Exchange.

**Background** Engro Corp was established in 1965 under the name Esso Pakistan Fertilizer Company Limited following the discovery of Mari gas field. Post exit of its foreign partners, it was renamed as Engro Chemical Pakistan Limited. To capitalize on its diverse status, it was converted into a holding company, Engro Corporation Limited, in 2010.

**Operations** The principal activity of the Company is to make and manage investments in subsidiaries, associates and joint ventures. The group's business portfolio spans across various sectors including fertilizers, food, petrochemicals, energy, terminal services and telecommunication infrastructure.

## Ownership

**Ownership Structure** Dawood Group holds ~46% stake in Engro Corp, through Dawood Hercules Corporation Limited (~37%), related corporate entities (~6%), and individuals of Dawood family (~3%). Around 21% is held by general public and remaining shares are held by corporate entities, financial institutions and others.

**Stability** Ownership of the business is seen as stable as its major shareholding vests with the sponsors (Dawood Family) and its HoldCo structure.

**Business Acumen** Dawood Group is a conglomerate with over three generations of experience in commercial and social enterprises. Currently, the Group has interests in various sectors. Strong affiliation and technical track record with international JVs have added to the success of companies within the Group

**Financial Strength** Dawood Group's main holding companies are DH Corp and Dawood Lawrencepur Limited. The Group's main investments in Engro Corp are consolidated in DH Corp. Engro Corp has a strong consolidated asset base of ~PKR 580bln supported by an equity base of ~PKR 220bln in CY20. Consolidated revenue stood at ~PKR 249bln and profit after tax at ~PKR 44bln in CY20.

## Governance

**Board Structure** The BoD comprises ten members. All members, except the CEO, are non-executive. The BoD has four members from the Dawood family and four independent directors.

**Members' Profile** The Board is chaired by Mr. Hussain Dawood, the patriarch of Dawood Family. He is a businessman and philanthropist and chairs an array of profit and not-for-profit ventures. All members are seasoned professionals with experience in energy, chemical, technology and financial sectors, bringing a diverse range of requisite skills.

**Board Effectiveness** The BoD has three committees to assist in governing the affairs of the Company. These comprise: a) Board People's Committee, b) Board Audit Committee, and c) Board Investment Committee. The BoD met sixteen times during the year with close to full participation whereas as the Audit Committee met four times, People's committee thirteen times and Investment committee twelve times.

**Financial Transparency** Engro Corp's external auditor, A.F. Ferguson & Co, has issued an unqualified auditor's report on CY20's financial statements.

## Management

**Organizational Structure** The Company has instituted a well-designed organisational structure to cater to its needs as a HoldCo. It comprises separate departments for Finance, Strategy, Information Systems, Internal Audit, Human Resources, Engro Central and Technical, Corporate Communication, Legal and Public Affairs.

**Management Team** Mr. Ghias Khan took over as CEO in Dec-16. He has been associated with Dawood Group for over fifteen years and has an overall experience of almost two decades.

**Effectiveness** Engro Corp has an Executive Committee, which includes CEOs of all its' subsidiary companies, Engro Corp's CFO, Chief HR Officer and Chief Secretary Officer. This is chaired by the CEO for efficacious management of the Group as a whole. Further, Engro Corp has established a CFO Forum chaired by the CFO of Engro Corp and includes CFOs of all subsidiaries to discuss various finance related matters

**MIS** Engro Corp generates a standardized MIS report for its Board members on quarterly basis. This provides a structured breakdown of information on predetermined key indicators (including business performance evaluation, significant business related events, health and safety statistics for each subsidiary and human resource utilization) for the Company as a whole as well as the Group.

**Control Environment** Internal Audit Department has been established at all group companies, which reports to the Board Audit Committee of their respective boards as well as Engro Corp.

## Business Risk

**Industry Dynamics** Holding companies are an emerging phenomena in Pakistan. Some operating companies that held strategic investments for the purpose of diversification and growth, eventually de-merged from their operations and structured into holding companies to concentrate their investments for the purpose of business growth.

**Relative Position** Engro Corp has an established position in the universe of Holding Companies. The fertilizer business is the second largest producer in its sector in Pakistan. The PVC business is the sole producer of PVC. The dairy business is the market leader in Pakistan's UHT market and among the biggest dairy dessert brands serving over 12 million consumers. The Company also operates Pakistan's first LNG receiving terminal and an integrated bulk liquid chemical & LPG terminal. The energy side of the Company is operating Pakistan's first 217MW power plant on permeate gas. The mining business in a JV with the Government of Sindh and CMEC. The Company is also developing Pakistan's first open-pit coal mine.

**Revenues** On standalone basis, the Company's top-line comprises dividend income from its investments, posting an increased of ~7% (CY20: PKR 13.9bln, CY19: ~PKR 13bln). Highest share of dividend is mainly received from Engro Fertilizers, however, growth in dividend stream was due to the increased dividends from Engro Energy, Elengy Terminal and Engro Vopak. Royalty income received from Engro Fertilizers remain stable (CY20: ~PKR 1.1bln, CY19: ~PKR 1.2bln). In 1QCY21, dividend income a significant jump and stood at ~PKR 3.4bln (1QCY20: ~PKR 270mln) owing to dividend of ~PKR 4/share from Engro Fertilizers. On consolidated basis, Engro posted a revenue of PKR 249bln in CY20 and PKR 71bln in 1QCY21 posting an increase of ~10% and ~58%, respectively.

**Margins** The Company's profitability improved in CY20 aided by higher dividend income and effective cost management. Moreover, income from money market instruments and lower tax charges supported the bottom line (CY20: ~PKR 7bln, CY19: ~PKR 7.7bln). In 1QCY21, the net profit of the Company saw a significant jump to ~PKR 3.6bln (1QCY20: ~PKR 780mln) primarily attributable to higher dividend income from Engro Fertilizers. On a consolidated basis, the gross margin remained stable at 30.6% in CY20 (CY19: 30.4%). Effective control at operating expenses and lower finance cost resulted in improved operating (CY20: 21.8%, CY19: 20.9%) and net margin (CY20: 17.8%, CY19: 13.4%).

**Sustainability** The Company has a diversified and resilient investment portfolio to sustain potential shocks in economy. The Company is keeping a close watch on its needs to stay agile and proactive. Lately, Engro Corp plans to enhance its footings in the petrochemicals vertical by setting up a polypropylene facility. The Board has approved \$31.4mln (~PKR 49bln) for front end engineering design (FEED) study. However, in the low interest rates scenario, income from debt bearing instruments will be lower.

## Financial Risk

**Working Capital** On standalone basis, the Company holds sizeable liquid investment of ~PKR 50bln in 1QCY21 (CY20: ~PKR 47.8bln, CY19: ~PKR 57.3bln) in the form of money market instruments. Currently, Engro Corp has no short-term borrowings on its books, exhibiting very strong liquidity position.

**Coverages** Engro Corp has sizeable liquid resources of ~PKR 47.8bln in CY20 (CY19: ~PKR 57.3bln) and ~PKR 50bln in 1QCY21 (1QCY20: ~PKR 59.7bln), which provide cushion against any unforeseen contingency. This is in addition to stable cash flows in the form of dividends.

**Capitalization** Engro Corp has largely an equity-based capital structure and the leveraging stood at ~1% in 1QCY21 (CY20: ~1%, CY19: ~1%). Long-term borrowings mainly comprise of lease liabilities of ~PKR 364mln. In 1QCY21, Engro Corp's consolidate borrowings stood at ~PKR 216bln (CY20: ~PKR 226bln, CY19: ~PKR 229bln) which translates into the leveraging of ~48% (CY20: ~51%, CY19: ~54%).



Engro Corporation Limited Holding Company	Mar-21	Dec-20	Mar-20	Dec-19
	3M	12M	3M	12M
	Management	Audited	Management	Audited
<b>A BALANCE SHEET</b>				
1 Investments	50,020	47,840	59,755	57,267
2 Related Party Investments	44,308	42,572	32,045	30,757
3 Non-Current Assets	1,284	1,251	1,515	1,517
4 Current Assets	4,702	5,322	1,839	4,625
<b>5 Total Assets</b>	<b>100,314</b>	<b>96,986</b>	<b>95,154</b>	<b>94,166</b>
6 Current Liabilities	9,145	9,324	7,956	7,990
7 Borrowings	572	630	1,272	1,029
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	10	31	49	50
<b>10 Net Assets</b>	<b>90,587</b>	<b>87,001</b>	<b>85,876</b>	<b>85,097</b>
<b>11 Shareholders' Equity</b>	<b>90,587</b>	<b>87,001</b>	<b>85,876</b>	<b>85,097</b>
<b>B INCOME STATEMENT</b>				
1 Total Investment Income	4,573	20,959	2,362	20,614
a Cost of Investments	(21)	(62)	(36)	(156)
<b>2 Net Investment Income</b>	<b>4,552</b>	<b>20,897</b>	<b>2,326</b>	<b>20,459</b>
a Other Income	328	1,091	40	1,278
b Operating Expenses	(539)	(4,879)	(1,332)	(4,968)
<b>4 Profit or (Loss) before Interest and Tax</b>	<b>4,341</b>	<b>17,109</b>	<b>1,034</b>	<b>16,769</b>
a Taxation	(754)	(807)	(254)	(2,465)
<b>6 Net Income Or (Loss)</b>	<b>3,586</b>	<b>16,301</b>	<b>780</b>	<b>14,303</b>
<b>C CASH FLOW STATEMENT</b>				
a Total Cash Flow	4,487	10,908	(322)	14,104
b Net Cash from Operating Activities before Working Capital Changes	4,482	10,892	(333)	13,956
c Changes in Working Capital	(1,291)	2,364	(133)	453
<b>1 Net Cash provided by Operating Activities</b>	<b>3,191</b>	<b>13,256</b>	<b>(466)</b>	<b>14,409</b>
<b>2 Net Cash (Used in) or Available From Investing Activities</b>	<b>1,000</b>	<b>(1,318)</b>	<b>5,869</b>	<b>3,093</b>
<b>3 Net Cash (Used in) or Available From Financing Activities</b>	<b>(77)</b>	<b>(14,725)</b>	<b>(96)</b>	<b>(15,626)</b>
<b>4 Net Cash generated or (Used) during the period</b>	<b>4,114</b>	<b>(2,787)</b>	<b>5,306</b>	<b>1,876</b>
<b>D RATIO ANALYSIS</b>				
1 Performance				
a Asset Concentration (Market Value of Largest Investment / Market Value of	43.6%	38.9%	39.4%	34.8%
b Core Investments / Market Value of Total Investments	13.9%	13.8%	20.4%	18.0%
c Marketable Investments / Total Investments	38.2%	44.6%	62.1%	62.1%
2 Coverages				
a TCF / Finance Cost	271.6	221.8	-9.8	99.8
b TCF / Finance Cost + CMLTB	65.5	33.9	-3.2	33.9
c Loan to Value (Funding / Market Value of Total Investments)	0.0	0.0	0.0	0.0
3 Capital Structure (Total Debt/Total Debt+Equity)				
a Leveraging [Funding / (Funding + Shareholders' Equity)]	0.6%	0.7%	1.5%	1.2%
b (Funding + Off Balance Sheet Exposure) / Shareholders' Equity	1.3%	1.2%	3.7%	3.4%

**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.

Scale	Long-term Rating Definition
AAA	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	<b>Very high credit quality.</b> 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	<b>High credit quality.</b> 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	<b>Good credit quality.</b> 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+	<b>Moderate risk.</b> 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	<b>High credit risk.</b> 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	<b>Very high credit risk.</b> 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><b>Entities</b></p> <ul style="list-style-type: none"> <li>a) Broker Entity Rating</li> <li>b) Corporate Rating</li> <li>c) Financial Institution Rating</li> <li>d) Holding Company Rating</li> <li>e) Independent Power Producer Rating</li> <li>f) Microfinance Institution Rating</li> <li>g) Non-Banking Finance Companies (NBFCs) Rating</li> </ul>	<p><b>Instruments</b></p> <ul style="list-style-type: none"> <li>a) Basel III Compliant Debt Instrument Rating</li> <li>b) Debt Instrument Rating</li> <li>c) Sukuk Rating</li> </ul>
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(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.
- (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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