

The Pakistan Credit Rating Agency



Debt Instrument Rating Criteria Methodology

Table of Contents

Introduction	2
Rating Debt Instruments	2
Rating Sukuks	5
Rating Banking Facilities	6
Rating Basel III Compliant Debt Instruments	7
Additional Considerations for Short-Term Instruments	8
Rating Green Bonds/Sukuks	9
Role of Trustee/Investment Agent	10
Surveillance.....	10

Summary

PACRA's methodology documents lay out the umbrella framework guiding its credit ratings. This document describes PACRA's approach to rating various types of long-term and short-term debt instruments including Islamic debt instruments (Sukuk), conventional bonds, green bonds (conventional or Islamic), term finance certificates, Basel III compliant debt instruments and commercial paper. Banking facilities availed by borrowers are also covered in this methodology. A debt instrument rating provides an opinion on the issuing entity's (hereon referred to as "issuer") ability to meet the financial obligations pertaining to the debt instrument on a timely basis.

Analyst Contacts:

Momin Farooque

momin.farooque@pacra.com

+92 42 3586 9504

The Pakistan Credit Rating Agency:

Head Office

FB 1 Awami Complex

Usman Block, New Garden Town

Lahore

Phone: +92 42 3586 9504

Karachi Office

169/1, Street No 21.

Khayaban-e-Qasim, DHA Phase 8

DHA, Karachi

Phone: +92 346 2578624

Disclaimer: PACRA has used due care in preparation of this document. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA shall owe no liability whatsoever to any loss or damage caused by or resulting from any error in such information. Contents of PACRA documents may be used, with due care and in the right context, with credit to PACRA. Our reports and ratings constitute opinions, not recommendations to buy or to sell

Introduction

Debt Instrument Market

Pakistan has a relatively small debt instrument market. Financing through bank loans is the preferred route for corporates and utilization of capital markets to raise funding through debt instruments like bonds remains low. While the debt instrument market has shown near twofold growth in size over the past decade, it still mainly comprises plain-vanilla instruments secured by assets (usually fixed assets of the issuer), and is dominated by Sukuk issues (~80%) of which majority comprise public sector issues. Generally, investment in debt instruments is the domain of institutional investors in Pakistan while instrument denominations and tenor also remain on the lower side. Given a relatively small base and held to maturity stance of most investors, secondary market is yet to evolve in a meaningful manner. Historically, in addition to a weak valuation mechanism for real estate, legal challenges faced by investors in exercising their right to collateral have been one of the major impediments in development of bond market. However, the rising number of commercial paper issues in recent years, setup of electronic trading platform for debt instruments and inclusion of banks as eligible market makers for debt instrument issues are some of the indicators of the debt instrument market's improvement trajectory.

Types of Debt Instruments

Debt instruments can be differentiated on the basis of: (i) maturity (money market vs. capital market), (ii) markets in which they are issued (conventional vs. Islamic), (iii) marketability (listed vs. privately-placed), and (iv) structure (secured, unsecured or subordinated). This methodology covers various types of instruments including debentures stock, loan stock, bonds, notes, commercial paper, term finance certificates, sukuk, Basel III compliant debt instruments, green bonds (conventional or Islamic), and other conventional or Islamic debt instruments. Meanwhile, structured finance and preference shares are covered under separate dedicated methodologies.

SECP - Structuring of Debt Securities Regulations 2020

"Debt securities trustee" means a person licensed by the Commission under the [Securities] Act [2015] and appointed as Debt securities trustee by an Issuer through execution of Trust deed.

"Trust deed" means a trust deed executed by an issuer in accordance with the provisions of the Trust Act.

"Investment agent" means an entity that holds a valid license to act as Consultant to the Issue under the Securities Act, 2015 and is appointed by the issuer through execution of issuance agreement.

"Issuance agreement" means an agreement executed between the issuer and the investment agent for issuance of debt securities.

Rating Debt Instruments

A debt instrument rating is an assessment of a specific debt issue of an entity and provides an opinion on the issuing entity's ability to meet the financial obligations pertaining to the debt instrument, on a timely basis. For the purpose of the rating assessment, both the payment of interest and repayment of principal are considered "contractual obligations" by PACRA.

PACRA undertakes debt instrument ratings for all kinds of short-term and long-term instruments. For any given debt instrument rating, the entity rating of the issuer is used as a baseline (also called issuer rating). In case the issuer is unrated, PACRA first arrives at a baseline rating. The debt instrument rating is then “notched” either higher or lower compared to its corresponding issuer rating

Issuer Profile

While forming an opinion on an issuer, PACRA evaluates the underlying entity as per the specific methodology applicable to it. For instance, for an industrial corporate issuer, Corporate Rating Methodology would apply, while, for an independent power producer, IPP Rating Methodology would be used to arrive at entity rating of the issuer. Broadly, the rating criteria applied is as follows:

Qualitative Factors for Issuer
Qualitative risk profile is assessed by soliciting information from client and direct interaction with sponsors, management, and/or directors and conducting a visit to plant site and head offices.
Profile: Studying the historical evolution of an entity and the nature, scale and diversity of its operations.
Ownership: Analyzing the legal structure and shareholding mix of an entity to determine the man at the last mile. Determining the skillset of the sponsor and sponsor’s willingness and ability to support the entity financially, if needed.
Governance: Studying the structure, quality, effectiveness and transparency of governance practices of an entity.
Management: Studying structure, quality, effectiveness and soundness of management personnel and systems of an entity.

Quantitative Factors for Issuer
Quantitative risk profile is assessed by looking at economic conditions, industry dynamics, and standalone performance of the issuer relative to peers – through financial statements, projections, financial strategy and cash flow analysis. This is very much numbers driven.
Business Risk: Study of the macroeconomic environment within which an entity operates, its current standing and level of competitiveness. Looking at the scale, stability and diversification of revenues, as well as key costs. Analyzing the impact of the aforementioned factors on financial performance and profitability of the entity and how it is likely to behave, going forward.
Financial Risk: Analyzing an entity’s financial profile with respect to working capital management, coverages and capitalization with the key objective of understanding the nature, volume and quality of the entity’s financial assets and liabilities and how well it is managing them.

Instrument Rating Considerations

The factors impacting notching of the debt instrument, relative to the issuer profile, are: (i) relative seniority of the instrument compared to the issuer’s other obligations, and (ii) presence of credit enhancement features. An instrument that carries a claim equal or superior to the issuer’s other obligations, is viewed positively from a rating perspective, compared to subordinated instruments. Notching impact may be negative, in case of the latter. The extent

of negative notching for subordinated instruments (unless government-issued) is typically restricted to minus one notch.

Credit Enhancements

Presence of certain features may enhance the rating of a particular debt instrument relative to its issuer or its issuer's other debt instruments. Some common examples of credit enhancement features include collateralization, cash collection mechanisms, and third-party guarantees.

Between the various types of credit enhancements, third party guarantees are generally likely to result in the highest positive notching impact. This is because other forms of credit enhancement, including collateralization and cash collection mechanism cannot fully be isolated from the issuer and remain vulnerable to changes in issuer's operational viability and credit profile. Explicit third-party guarantees, meanwhile, provide supplementary support completely delinked from the issuer.

i. Collateralization

The collateral underlying a debt instrument may influence the extent of notching, provided that the terms of the issue allow for the liquidation of the collateral to making the missed payment/installment before an event of default is recognized. In such cases, PACRA looks at the following features of the collateral:

- **Extent of coverage:** the higher the coverage offered by the collateral compared to the debt obligation, the more favorable the notching impact. This is viewed in conjunction with the volatility in collateral value.
- **Liquidity/marketability:** the higher the likelihood of the collateral being monetized in a timely manner with minimal premium, the more favorable the notching impact.
- **Nature of charge:** exclusively held, earmarked collateral (preferably in favor of an independent third party usually the trustee/investment agent) is likely to lead to favorable notching impact.

Collateralization over and above the outstanding instrument value, with assets that can be monetized before the due date for debt servicing by the issuer or trustee/investment agent in case the issuer misses a payment/installment, is considered superior and likely to result in higher notching. Provision of any upfront liquid asset/cash collateral may also warrant higher notching impact.

ii. Cash Collection Mechanism

Debt instruments may be secured by a cash collection mechanism, whereby cash flows generated by the issuer are used to fund a debt service reserve, typically monitored by the trustee/investment agent. These cash flows may or may not emanate from earmarked assets (also referred to as "escrow mechanism"). In determining the impact of the cash collection mechanism on the credit rating of the instrument (if any), key factors to assess include:

- **Cash Source:** greater comfort would be derived if the source of the cash is identified/earmarked.
- **Extent of Coverage:** a cash collection mechanism covering both principal and markup, and the longer the period of debt servicing covered by the cash collection mechanism, the higher the notching impact.
- **Replenishment Mechanism:** timely restoration of the reserve once it is utilized to make a payment and source of replenishment, is important. PACRA looks at the cushion in number of days between the date of replenishment and payment date.

iii. Third-Party Guarantees

The debt instruments that carry third party guarantee to make good the amount obligated to the lenders by the issuer may provide additional support to its rating. In determining the impact of a guarantee on the credit rating of the instrument (if any), key factors to assess include:

- **Invocation of the guarantee:** a pre-default guarantee invocation mechanism must be in place; PACRA does not consider post-default guarantees to be a credit enhancement from rating perspective.
- **Legal clauses:** strong legal clauses pertaining to enforceability, irrevocability and unconditionality are expected.
- **Financial profile of the guarantor (or its credit rating, where available) having incorporated the burden of the guarantee into its debt profile:** if the guarantors' financial profile/credit rating is weaker than that of the issuer, it is unlikely to result in notching benefit.¹
- **Extent of coverage:** a guarantee which does not cover all obligations of the instrument (partial guarantee), for its entire duration, is likely to result in limited notching benefit.

Overall, the strongest form of guarantee is considered where the guarantee covers all obligations of an instrument for its entire tenure, with strong legal clauses and a well-defined invocation mechanism. In such cases, given that the financial profile/credit rating of the guarantor is stronger than that of the issuer, notching impact may constitute multiple positive notches and may also result in equalization of instrument rating with the credit rating of the guarantor.

Rating Sukuks

Sukuk (plural of sakk – legal instrument), frequently referred as “Islamic bonds”, are certificates with each sakk representing a proportional undivided ownership right in tangible assets or business venture (Accounting and Auditing Organization for Islamic Financial Institutions - AAOIFI). Sukuk may take any mode of financing – Musharaka, Mudaraba, Murabaha, Waqala, Salam, Istisna, Ijarah. Sukuk are either asset-based or asset-backed. Rating criteria differs for each type of Sukuk.

Distinguishing between Asset-based and Asset-Backed Structures		
Sukuk Structure	Asset-Based	Asset-Backed
Transaction	Assets are sold by issuer to the Sukuk holders with a promise to buy back.	Identified assets are transferred to a separate entity that makes the sale to Sukuk holders and raises funds
Ownership of Asset	Beneficial ownership of asset with liquidation rights at par with other creditors	Legal ownership of assets with exclusive rights
Source of Repayments	Issuer's cash flows	Cash flows from underlying assets
Asset Location	Asset stays on issuer's balance sheet	Separate entity carries the asset

¹ Notching guidelines may vary across guarantees issued by corporate entities and financial institutions. For more detail on the same, please refer to PACRA's [Parent and Subsidiary Rating Linkage Methodology](#)

Credit Risk	Performance of issuer	Value and performance of underlying assets
Event of Default	Recourse to issuer and underlying security if it is explicitly earmarked in favor of Sukuk holders	No recourse to issuer
Recovery	Sukuk holders' rights are similar to unsecured creditors; subject to security structure	Claw back/liquidation of identified assets

Asset-Based Sukuks

In an asset-based Sukuk issue, the issuer sells certain assets to Sukuk holders with a promise to buy these back in an agreed manner. Although an asset is used in the structure, it may not drive the return to Sukuk holders and the issuer's promise is not entirely dependent on the performance of the underlying asset. The credit risk in an asset-based Sukuk terminates into the issuer of the Sukuk. This type of Sukuk is also commonly referred to as "issuer-backed Sukuk". Globally, asset-based Sukuk structure is most preferred owing to ease in structuring of such instruments and expertise available to structure and market these Sukuk. Majority of Sukuk issued globally are asset-based.

In case of default of an asset-based Sukuk, Sukuk holders have recourse to the issuer and not the asset. Therefore, Sukuk holders would not have any preferential position and would stand along other unsecured creditors in case of default. This structure is similar to that of conventional debt instruments, and PACRA's assessment process and considerations for Sukuks are the same as for conventional debt instruments. PACRA's starting point of assessment is the issuer's credit profile, under the applicable methodology, following which the instrument rating is notched higher or lower based on (i) relative seniority among other obligations, (ii) presence of credit enhancement features.

Asset-Backed Sukuks

This type of Sukuk provides separately identified ring-fenced assets to Sukuk holders and commitments to Sukuk holders are met through cash flows emanating from these assets. In case of deficiency in cash flows, Sukuk holders retain complete recourse to underlying assets but have no recourse beyond those assets to the issuer. Asset-backed Sukuk are rated under PACRA's Structured Finance Rating Methodology.²

Rating Banking Facilities

PACRA's approach to rating banking facilities availed by borrowers is aligned with its debt instrument rating approach outlined previously. For long-term and short-term banking facilities, the assessment of the issuer's credit profile acts as the baseline rating. Facility rating considerations are then taken into account for notching. As elaborated earlier, these include seniority of claim and credit enhancements including collateralization and guarantees.

² Methodology: [Structured Finance Rating](#)

PACRA considers the latest facility documentation to govern its analysis. If a borrower has requested restructuring or rescheduling of a facility, it must be formally approved by the bank for PACRA to consider the revised repayment schedule in its analysis. Until such request is fulfilled, a borrower is expected to continue to meet interest payment and principal repayment obligations on time in accordance with the original schedule. Failure to do so is considered a default on the rated facilities. This is in line with PACRA's approach to default recognition covered in greater detail in PACRA's Recognition of Default Criteria.

Rating Basel III Compliant Debt Instruments

Basel III debt instruments are issued by banks to enhance their capital adequacy. Basel III (BPRD circular #06 of 2013)³ stipulates two main categories of capital: (1) Tier 1 (going concern capital), and (2) Tier 2 (gone concern capital). Tier 1 capital further consists of (i) Common Equity Tier 1 (CET-I) and (ii) Additional Tier 1 (ADT-1). For the purpose of debt instrument rating, Additional Tier 1, and Tier 2 debt instruments are relevant.

Basel III Instrument Rating Considerations

As in case of other instrument ratings, PACRA first arrives at the entity rating of the issuer, in this case, using the Financial Institution Rating Methodology. In case the issuer is unrated, PACRA first arrives at a baseline rating. PACRA then evaluates the risks associated with the instrument in line with its unique and respective criteria as per BPRD guidelines, the structure of the instrument and its intended purpose when forming a view on the rating.

Priority Order

PACRA takes into account the priority and level of subordination of the instrument, and incorporates the same into its rating opinion. The conditions specified in BPRD circular #06, amongst others, indicate that Tier 2 instruments are inferior to issuer ratings, while Tier 1 instruments are inferior to both Tier 2 instruments and issuer ratings. This is termed "priority order" and hence forms a crucial part in determining the final rating of the instrument.

Non-Performance Risk Assessment

Non-performance risk is the risk that the issuer will not be able to meet the contractual obligations and hence other related clauses would kick in. PACRA opines non-performance as the prime risk because non-performance on the contractual obligations essentially means that "priority order" would not be triggered. PACRA believes that the futuristic performance of the issuer, and the bank's management and planning play a crucial role in performance risk, and hence, sustainability of the risk profile of the instrument. Hence, apart from assessing the credit profile of the issuing bank, PACRA considers:

- Future profitability of the bank, providing internal capital and cushion to the risk absorption capacity of the bank
- Cushion that a bank maintains in its CET-I (including capital conservation buffer) on a sustainable basis over the regulatory requirement prescribed by State Bank of Pakistan.
- Management plan to maintain and adhere to the cushion in its CET-I ratio.

Meanwhile, PACRA also takes into account entity's projections for growth vis-à-vis regulatory capital adequacy:

³ Link to BPRD Circular # 6 of 2013: https://www.sbp.org.pk/bprd/2013/Basel_III_instructions.pdf

- Capital Adequacy Ratio (CAR) of the bank
- Composition of the CAR including the CET-I, ADT-I and Tier 2
- The rate of consumption of the CAR along with future forecasts.

The following table outlines the typical notching impact for Tier 1 and Tier 2 instruments. In certain cases, PACRA's ratings may differ from the notching guidance specified in the table. This is possible in cases where "non-performance" is deemed to be essentially non-existent, especially in case of "AAA" (Triple A) rated financial institutions. Such high-rated banks typically have a history of strong equity base and steady profitability. Thereby, the risk of non-performance decreases inversely proportionate to their rating at the higher end of the spectrum, reducing the riskiness of their instruments. Thus, in these cases, PACRA is not strict on priority. Meanwhile, such comfort may also be available whereby PACRA is able to establish that some form of credit enhancement would avert "non-performance". Conversely, in case of lower rated financial institutions, with greater pressure on equity base and related ratios, instruments may be rated more than 2 notches below the issuer rating due to the greater non-performance risk.

Notching Impact on Basel III Instruments	
Instrument Type	Likely Notching Impact
ADT-1	0, -1, -2
Tier 2	0, -1

As per SBP's instructions, an ADT-I instrument must be perpetual, unsecured, and permanently available to absorb losses. ADT-I instruments also contain a conversion feature, which would allow the issuer to convert the instrument into ordinary shares. The issuer also has full discretion over the timings and amounts of coupon or dividend distribution, which should only be paid from current year earnings. Due to these risks and the lower priority order, ADT-1 instruments are rated lower than Tier 2 instruments. Invocation of conversion clause due to any regulatory requirement, or any other trigger is considered a credit event by PACRA resulting in rating action.

Tier 2 capital contains the point of non-variability (PONV) provision at the discretion of the regulator, along with a "lock-in" clause. The "lock-in" clause stipulates that neither interest, nor principal of the instrument shall be paid (even at maturity) if this will result in a shortfall in the bank's minimum capital requirements (MCR) and/or CAR. In case either of these is triggered, PACRA considers it as a credit event and downgrades the instrument. The entity rating may also be downgraded given limited room in CAR or MCR. Although these features are part of the investor/issuer agreement, they represent material weakening in the issuer's credit profile and hence warrant a rating action.

Additional Considerations for Short-Term Instruments

PACRA's approach to rating short-term debt instruments is similar to that used for long-term debt instruments. However, two factors are given more emphasis when rating short-term debt instruments, namely: (i) short-term liquidity position, and (ii) financial flexibility of issuer.

Short-term Liquidity Position

When assessing liquidity, PACRA focuses mainly on the cash flow and working capital management of the entity to assess repayment ability. In addition to this, availability of unencumbered liquid investments and/or other liquid

current assets ensures a cushion for urgent cash in stressed times. Meanwhile, in case of rollover instruments, a longer-term view is incorporated into the rating opinion.

Financial Flexibility

Financial flexibility allows an entity the latitude to meet its debt service obligations and manage stress without eroding credit quality. While one aspect of financial flexibility is an entity's capital structure (thoroughly assessed during long-term rating assignment), alternative sources include support available from sponsor (in the form of a line of credit, or otherwise) and commercial credit lines available to the entity.

Linkage between Long-term and Short-term Instruments

When assessing an issuer's liquidity profile, some temporary features may appear to skew the short-term rating for an issuer due to cyclicity or seasonality within a given industry or sector. Thus, PACRA focuses on the sustainable liquidity profile of an issuer and cushion available in period of low liquidity. Herein, long-term credit quality plays a key role, thus creating a linkage between short-term and long-term ratings. This is due to two main reasons. Firstly, an entity with higher long-term credit quality has a stronger ability to refinance, and/or gain access to other sources of funding. Secondly, many short-term instruments tend to get rolled over and, therefore, call for a longer-term rating view. Thus, long-term ratings cannot be disregarded when assigning short-term ratings.

Rating Green Bonds/Sukuks

PACRA's debt instrument rating methodology encompasses coverage of green bonds. Green bonds are a relatively new and rapidly growing phenomenon in Pakistan with considerable growth potential. Green bonds are unique financial instruments (can be issued as conventional bonds or sukuks) whose proceeds are exclusively used for 'green' or environmentally sustainable projects. Green projects are aimed at protecting the environment by reducing pollution, lowering fossil fuel consumption, and using sustainable energy resources, among multiple other benefits. Examples of projects that a green bond can, by definition, finance or refinance include: renewable and sustainable energy projects, energy efficiency, pollution prevention/control, environmentally sustainable management of living natural resources and land usage, sustainable water management, climate change adaptation, eco-efficient or circular economy adapted products, green buildings, and any other project that could be classified as 'green'.

SECP issued Guidelines for the issuance of green bonds in Pakistan in June 2021. Under these guidelines, issuers are recommended to appoint external reviewers before issuing these bonds. The four type of external reviews of green bonds are: (i) consultant reviews, which can help issuers with establishing or reviewing their green bond framework as independent experts in environmental sustainability; (ii) certifications, where the green bond or its framework is assessed and certified by qualified third-party certifiers against an external green assessment standard; (iii) verifications, where independent auditors verify the bond or framework, focusing on either external standards or internal claims of the issuer; and (iv) ratings, where the green bond and its framework are rated by a licensed rating agency, with the ratings disclosed in the offer document.

PACRA's approach to rating green bonds is similar to its approach for rating other debt instruments. PACRA analyzes the structure, credit enhancement, collateral and other features to come up with an opinion on the creditworthiness of the green bonds. PACRA considers various elements specific to the green bond, including any of the aforementioned external reviews of the green bond or its framework. PACRA relies on the information provided by the issuer and its

rating opinion does not reflect the quality of green bond framework and other modalities as outlined in the SECP guidelines

Role of Trustee/Investment Agent

Trustees and/or investment agents play key roles and duties in the monitoring of debt instruments, comprehensively covered in the Structuring of Debt Securities Regulations 2020. Trustees' and investment agents' responsibilities include: (i) overseeing payments to investors, (ii) ensuring arrangement and maintenance of security/collateral (if applicable) throughout the tenure of the issue, (iii) ensuring information symmetry between the issuer and investors, (iv) ensuring compliance with the terms and covenants of the trust deed/issuance agreement, and (v) initiating legal proceedings in the event of default, among other responsibilities. When looking at the trustee/investment agent, PACRA evaluates: (i) independence, and (ii) terms/covenants of the trust deed/issuance agreement.

Surveillance

Once a debt instrument is issued, PACRA undertakes a formal review once every twelve months. Surveillance frequency may be higher depending on payment terms, frequency of payments, and other unique characteristics of a particular issue. PACRA also establishes a relationship with the trustee/investment agent and/or issuer of the debt instrument to remain updated on all information pertaining to the rating of the instrument.

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
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 D	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. Obligations are currently in default.

Scale	Short-Term Rating
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.

Rating Modifiers | Rating Actions

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. Rating actions may include "maintain", "upgrade", or "downgrade".

Note: This scale is applicable to the following methodology(s):

a) Broker Entity Rating	e) Holding Company Rating
b) Corporate Rating	f) Independent Power Producer Rating
c) Debt Instrument Rating	g) Microfinance Institution Rating
d) Financial Institution Rating	h) Non-Banking Finance Company

Disclaimer: PACRA has used due care in preparation of this document. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA shall owe no liability whatsoever to any loss or damage caused by or resulting from any error in such information. Contents of PACRA documents may be used, with due care and in the right context, with credit to PACRA. Our reports and ratings constitute opinions, not recommendations to buy or to sell