

Mehran Sugar Mills Limited

RATING REPORT | APR-26



Rating History

| Dissemination Date | Long-Term Rating | Short-Term Rating | Outlook | Action | Rating Watch |
|--------------------|------------------|-------------------|---------|----------|--------------|
| 03-Apr-26 | A- | A2 | Stable | Maintain | - |
| 04-Apr-25 | A- | A2 | Stable | Maintain | - |
| 05-Apr-24 | A- | A2 | Stable | Maintain | - |
| 06-Apr-23 | A- | A2 | Stable | Maintain | - |
| 06-Apr-22 | A- | A2 | Stable | Maintain | - |

About the Entity

Mehran Sugar Mills Limited is principally engaged in the manufacturing and commercialization of sugar and related by-products. The enterprise boasts a daily sugarcane processing capability of 12,500 metric tons. The Hasham Family holds a predominant ownership stake, accounting for 75% of the shareholding. The governance of the Board is presided over by Mr. M. Hussain Hasham, while the executive leadership is steered by Mr. Ahmed Ebrahim in the capacity of Chief Executive Officer

Rating Rationale

The assigned ratings continue to reflect Mehran Sugar Mills Limited's (MSML) established market position and its strong sponsorship profile through the Hasham Group. During the period, the industry underwent a structural shift as provincial governments moved toward a market-driven pricing mechanism for sugarcane, withholding traditional support price notifications. While this deregulation introduces potential volatility, it allows MSML to align procurement costs with market supply-demand dynamics, fostering greater operational efficiency. However, the Company remains exposed to inherent agricultural risks, including fluctuations in sugarcane yield and sucrose recovery rates influenced by climatic conditions. Management's ability to navigate this deregulated landscape through proactive supply chain and cost management remains a key rating driver.

On the financial front, MSML demonstrated a sharp turnaround in MY25, characterized by a return to profitability and strengthened cash flow generation. The Company's topline grew by ~23.5% to PKR 13.57bn, supported by improved price realizations and effective inventory management. Gross margins recovered significantly to ~14.8% (MY24: ~8.1%), reflecting the transition to a more manageable procurement environment and higher selling prices. Net profitability was further bolstered by a doubling of other income to PKR 1.83bn—primarily from capital gains in the short-term investment portfolio—and a substantial reduction in finance costs as monetary policy began to ease. The financial risk profile is deemed moderate, supported by improved debt coverage ratios and a conservative capital structure. Working capital remains reliant on short-term borrowings in line with industry cycles. The restoration of dividends (PKR 5.50/share) underscores management's confidence in the Company's liquidity profile and future fiscal trajectory

Key Rating Drivers

The company's credit ratings are predicated on its ability to fortify business margins, sustain robust cash flows, and uphold financial coverages through unwavering financial discipline. An intensified commitment to the meticulous management of working capital is paramount. Any substantive erosion in margins and/or financial coverages would precipitate an adverse recalibration of the company's credit ratings.

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METHODOLOGY

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- Methodology | Corporate Rating | Jul-25



RELATED RESEARCH

- Sector Study | Sugar | Aug-25



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Mehran Sugar Mills Limited

RATING ANALYSIS



Profile

Legal Structure Mehran Sugar Mills Limited ('Mehran Sugar' or 'the Company') is a public limited company incorporated in December, 1965. The Company is listed on Pakistan Stock Exchange.

Background The company commenced operations in 1968 with an initial cane crushing capacity of 1,500 TCD. Over time, it has significantly enhanced its operational scale, expanding capacity to 12,500 TCD through strategic Balancing, Modernization, and Replacement (BMR) initiatives. In addition to its core sugar business, the company has pursued diversification through strategic joint ventures. It has established an ethanol production facility in partnership with United Ethanol Industries, manufacturing both food-grade and industrial ethanol. Furthermore, the company has collaborated with Mehran Energy to develop a bagasse-based power generation plant, contributing to its energy integration strategy. The company has also broadened its footprint into the FMCG and energy sectors through its joint ventures with UniFoods Industries and Mehran Energy, respectively, thereby strengthening its overall business portfolio and revenue streams.

Operations The Company is a leading producer of sugar and its by-products. The mill is situated in District Tando Allahyar. Over the years, the Company managed to increase its crushing capacity to 12,500 TCD through capacity enhancement initiatives. Mehran Sugar entered in strategic partnership with other sugar companies in 2004 to establish a jointly operated distillery under the banner 'Unicol Limited' which has ethanol production capacity of 200,000 liters/day. In terms of production performance, Mehran recorded sugar production of 72,643 Tons during the fiscal year MY25. This marks a decrease of ~25.4% compared to the 97,384 tons produced in MY24, demonstrating a steady improvement in operational efficiency and output. The mill's capacity utilization remained at ~55.2% during MY25. Additionally, the sugar recovery rate, which measures the amount of sugar extracted from the sugar cane stood at ~10.2%.

Ownership

Ownership Structure Majority shareholding rests with individuals of Hasham Family (~75%) ('Hasham Group'). Shareholding is divided among families of three brothers, Mr. M. Kasim Hasham (~16%) and Mr. Khurram Kasim (~11%), Mr. M. Ebrahim Hasham (~14%) and Mr. Ahmed Ebrahim Hasham (11%), and Mr. M. Hussain Hasham (15%). The remaining shareholding belongs to general public and other corporations.

Stability The company's controlling interests vests with one group and each family within the group holds a defined share. The ownership of the Company is seen as stable.

Business Acumen The company demonstrates strong business acumen, supported by the strategic vision of the Hasham family, which has consistently identified and capitalized on opportunities while effectively navigating industry challenges. The sponsors have undertaken targeted BMR initiatives to enhance production capacity and improve product quality, while also pursuing diversification to reduce reliance on the cyclical nature of the sugar sector. Additionally, the group has cultivated long-standing relationships with key stakeholders, including customers, suppliers, and financial institutions. This has enabled the company to sustain operational stability, while reinforcing its market reputation and brand positioning.

Financial Strength The financial strength of the sponsoring family remains strong, as the sponsors have prominent business ventures in operations aside from the Mehran Sugar Mills Limited. The sponsors have shown commitment of support in time of need,

Governance

Board Structure The Board of Directors comprises of seven individuals, which include two executive directors, three non-executive directors, and two independent Directors. The board has a balanced mix of skills, experience, and diversity, and oversees the strategic direction and performance of the company.

- Members' Profile** Sponsoring family has a strong presence on the Board. However, members have significant experience in the sugar industry which is balanced by an adequate mix of business, finance, and legal experts. Mr. Mohammed Hussain Hasham has Bachelor Degree in Business from Chapman University, California USA. He has more than 48 years of practical experience in sugar industry.
- Board Effectiveness** In order to maintain effective oversight, the Board of Directors have formed two committees, namely, the Audit Committee and the Human Resource and Remuneration Committee. During MY24, four meetings of the Audit Committee and two meetings of the Human Resources and Remuneration Committee were conducted. Board election was also held during the aforementioned year.
- Financial Transparency** The external auditors of the Company, M/s Grant Thornton Anjum Rahman is a QCR rated firm and in SBP's panel of auditors with "A" category. The auditors has expressed unqualified opinion on the Company's financial statements for the year ended 30th September 2025

Management

- Organizational Structure** The Company is headed by the Chief Executive Officer. The Company's Chief Financial Officer, Resident Director, and Director Cane report directly to the CEO. Internal Audit, HR & IT are headed by separate managers and they report functionally to CEO and CFO. However, the head of Internal Audit and HR functionally reports to the Board Audit Committee and Board HR & Remuneration Committee and the Company Secretary functionally reports to the Board's Chairman.
- Management Team** Management has a long association with Mehran Sugar, adding the required experience in the sugar industry and their respective fields. Mr. Ahmed Ebrahim Hasham is a Bachelor Arts in Economics and IR from Tufts University, Medford, MA, USA. He has more than 21 years of practical experience in various sectors.
- Effectiveness** The Company has instituted an Executive Committee comprising all heads of departments. The Committee is headed by the CEO and meets on a monthly basis to review performance and enable short-term decision making.
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- Control Environment** The company has outsourced its internal audit function to BPO Resources at Work, ensuring an independent and objective evaluation of its internal controls, risk management, and compliance processes. This outsourcing enhances efficiency, provides specialized expertise, and strengthens the overall governance framework.

Business Risk

- Industry Dynamics** Pakistan's sugar industry stands as the second-largest agro-based sector in the country, comprising approximately 90 mills with an annual crushing capacity of 80-90 million MT. The national sugar crop for MY 2024-25 was estimated at approximately 5.83 million metric tons against domestic consumption of approximately 6.4-6.5 million metric tons, necessitating TCP imports of approximately 0.30 million MT to bridge the supply gap. Looking ahead to Season 2025-26, the national crop is estimated between 6.6-7.2 million metric tons, with early recovery data pointing to sucrose recovery rates trending higher by 0.5-1.0 percentage points year-on-year — a development that could yield incremental sugar output of 5-10% on equivalent cane crushed. However, the larger crop is expected to keep sugarcane and sugar prices under pressure, presenting challenges for the Company as it navigates a long sugar market.
- Relative Position** The Company accounted for approximately 0.59% of the country's total sugar production as of MY25, indicating a relatively modest contribution to the national output. In the broader context of the sugar industry, this reflects a limited market share and a comparatively small operational scale. Consequently, the Company holds a minor position within the industry landscape, with its performance and strategic influence having minimal impact on overall market dynamics.

Mehran Sugar Mills Limited

RATING ANALYSIS



- Revenues** The primary source of the Company's revenue is derived from the sale of refined sugar. A geographical split of revenue indicates that ~98% is generated from the local market, while the remaining ~2% originates from exports. During MY25, the Company's topline increased by ~23.5%, reporting to PKR 13,573 million compared to PKR 10,989 million in the corresponding period of the previous year, MY24, driven by improved sugar price realizations and a drawdown of accumulated carry-over inventory.
- Margins** The Company's margins witnessed an overall improvement as the gross profit margin increased to ~14.8% (MY24: ~8.1%). This incline was primarily driven by a lower cost of production driven by the drawdown of accumulated carryover inventory, which had a direct positive impact on the margins. This translated into an inclined Operating profit margin (~10.3%, up from ~3.7%). Moreover, during MY25, the net profit margin sizably improved to ~16.0% from -7.3%. This is primarily driven by the Company's income from non core operations. The Company reported a net profit of PKR 2,174mln, a significant reversal from the net loss of PKR 799mln in MY24, largely attributable to a sharp reduction in finance costs, as easing monetary policy and disciplined working capital management reduced the Company's borrowing burden.
- Sustainability** The company operates in a volatile sugar industry with multiple external risks and uncertainties. However, the Company has maintained a strong investment book,

Financial Risk

- Working capital** The Company's working capital management has shown signs of operational efficiencies during MY25. Inventory days, averaging 40 days compared to 53 days in MY24, are driven by low levels of finished goods. Trade receivables remain at 11 days on average, underscoring the Company's efficient receivables collection practices. However, trade payables averaged 8 days, from 4 days in MY24, indicating improved utilization of supplier credit. Resultantly, the Gross Working Capital cycle lengthened to 50 days (MY24: 66 days), resulting in a Net Working Capital cycle of 42 days compared to 62 days in the previous period. During MY25. The short-term trade leverage stood at ~1.6% (MY24: ~10.6%), depicting adequate room for borrowing.
- Coverages** The Company's coverage indicators reflect an improved performance during MY25, providing comfort in its financial risk profile. The EBITDA-to-Finance Cost ratio has increased to 3.2x (MY24: 0.6x). The Company's FCFO clocked at PKR 1,241mln(MY24: PKR 521mln). Similarly, the FCFO-to-Finance Cost ratio has improved to 2.9x from 0.4x, indicating room in cash flow coverage to pay off financial obligations. Going forward, coverages are further expected to ease, resulting in lower finance costs.
- Capitalization** The leveraging of Mehran Sugar Mills is sizably declined, currently operating at ~15.2% during MY25, down from ~53.8% in MY24. This is due to the significant decline in the short term borrowings. The Company's equity base stood at 4,768mln (MY24: PKR 2,781mln), highlighting improved equity base.

Mehran Sugar Mills Limited

FINANCIAL SUMMARY



(PKR mln)

| | Dec-25 3M | Sep-25 12M | Sep-24 12M | Sep-23 12M |
|--|--------------|---------------|---------------|---------------|
| A. BALANCE SHEET | | | | |
| 1. Non-Current Assets | 2,690 | 2,453 | 2,489 | 2,467 |
| 2. Investments | 3,894 | 2,431 | 627 | 914 |
| 3. Related Party Exposure | 1,300 | 1,233 | 1,126 | 1,804 |
| 4. Current Assets | 2,373 | 1,291 | 3,561 | 1,419 |
| a. Inventories | 1,367 | 368 | 2,599 | 593 |
| b. Trade Receivables | 363 | 309 | 479 | 289 |
| 5. Total Assets | 10,257 | 7,408 | 7,804 | 6,603 |
| 6. Current Liabilities | 2,426 | 1,034 | 1,110 | 1,326 |
| a. Trade Payables | 987 | 477 | 140 | 105 |
| 7. Borrowings | 2,089 | 857 | 3,235 | 570 |
| 8. Related Party Exposure | 0 | 0 | 0 | 0 |
| 9. Non-Current Liabilities | 777 | 750 | 679 | 828 |
| 10. Net Assets | 4,965 | 4,768 | 2,781 | 3,879 |
| 11. Shareholders' Equity | 4,965 | 4,768 | 2,781 | 3,879 |
| B. INCOME STATEMENT | | | | |
| 1. Sales | 1,351 | 13,573 | 10,989 | 10,984 |
| a. Cost of Good Sold | (1,042) | (11,563) | (10,094) | (8,620) |
| 2. Gross Profit | 309 | 2,010 | 895 | 2,364 |
| a. Operating Expenses | (112) | (617) | (488) | (396) |
| 3. Operating Profit | 197 | 1,393 | 407 | 1,968 |
| a. Non Operating Income or (Expense) | 102 | 1,627 | 171 | 948 |
| 4. Profit or (Loss) before Interest and Tax | 299 | 3,020 | 578 | 2,916 |
| a. Total Finance Cost | (23) | (443) | (1,253) | (635) |
| b. Taxation | (78) | (403) | (124) | (838) |
| 6. Net Income Or (Loss) | 197 | 2,174 | (799) | 1,443 |
| C. CASH FLOW STATEMENT | | | | |
| a. Free Cash Flows from Operations (FCFO) | 173 | 1,241 | 521 | 1,951 |
| b. Net Cash from Operating Activities before Working Capital Changes | 146 | 586 | (465) | 1,275 |
| c. Changes in Working Capital | 445 | 2,324 | (2,564) | 637 |
| 1. Net Cash provided by Operating Activities | 590 | 2,910 | (3,029) | 1,912 |
| 2. Net Cash (Used in) or Available From Investing Activities | (1,730) | (557) | 865 | 211 |
| 3. Net Cash (Used in) or Available From Financing Activities | (25) | (379) | (460) | (866) |
| 4. Net Cash generated or (Used) during the period | (1,165) | 1,974 | (2,624) | 1,257 |
| D. RATIO ANALYSIS | | | | |
| 1. Performance | | | | |
| a. Sales Growth (for the period) | -60.2% | 23.5% | 0.0% | 59.2% |
| b. Gross Profit Margin | 22.9% | 14.8% | 8.1% | 21.5% |
| c. Net Profit Margin | 14.6% | 16.0% | -7.3% | 13.1% |
| d. Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales) | 45.8% | 26.3% | -18.6% | 23.6% |
| e. Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)] | 16.2% | 57.6% | -24.0% | 43.5% |
| 2. Working Capital Management | | | | |
| a. Gross Working Capital (Average Days) | 81 | 50 | 66 | 42 |
| b. Net Working Capital (Average Days) | 32 | 42 | 62 | 38 |
| c. Current Ratio (Current Assets / Current Liabilities) | 1.0 | 1.2 | 3.2 | 1.1 |
| 3. Coverages | | | | |
| a. EBITDA / Finance Cost | 12.1 | 3.2 | 0.6 | 3.5 |
| b. FCFO / Finance Cost+CMLTB+Excess STB | 3.9 | 2.3 | 0.4 | 2.6 |
| c. Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost) | 0.6 | 0.5 | -0.8 | 0.4 |
| 4. Capital Structure | | | | |
| a. Total Borrowings / (Total Borrowings+Shareholders' Equity) | 29.6% | 15.2% | 53.8% | 12.8% |
| b. Interest or Markup Payable (Days) | 57.6 | 21.3 | 78.0 | 16.1 |
| c. Entity Average Borrowing Rate | 2.4% | 10.9% | 25.7% | 19.2% |

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 | 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. |

| 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) | Rating Watch | Suspension | Withdrawn | Harmonization |
|--|--|---|--|---|
| 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'. | 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. | 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. | 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. | 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 |

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Mehran Sugar Mills Limited

REGULATORY DISCLOSURE



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II. 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)]**
- iv. Explanation: for the purpose of the 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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- ii. PACRA uses due care in the 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 verify or validate information received in the rating process or in preparing this Rating Report. **(Clause 11-A-(p))**
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- ii. PACRA reviews all the outstanding ratings periodically on an annual basis. Provided that public dissemination of annual review and in an instance of change in rating will be made. **(Chapter III; 17-(b))**
- iii. PACRA initiates an 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; 17-(c))**
- iv. 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; 17-(d))**

6. Probability of Default

- i. 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, the actual transition of rating may not follow the pattern observed in the past. **(Chapter III; 14-3(f)(vii))**

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