

JCR-VIS RATING METHODOLOGY

Corporates

Credit ratings inculcate transparency and invite investor confidence as they are a third party opinion on the credibility and financial strength of institutions signifying ability to service debt in a timely manner. Ratings facilitate borrower access to a large and diverse funding pool to provide greater leeway to match the nature of assets being financed. From the lenders point of view, borrower credit ratings can be an additional tool of risk management of their asset portfolios as well as serve as pricing benchmark.

Credit ratings of listed debt instruments are mandatory in Pakistan. JCR-VIS Credit Rating Company Limited (JCR-VIS) conducts local currency credit ratings in which sovereign risks are ignored and the Government of Pakistan is considered risk free i.e. AAA rated. In order to serve the varying needs of the industrial sector, JCR-VIS issues both entity and debt instrument ratings. Entity ratings reflect the capacity of the company to re-pay its senior unsecured creditors while debt instrument ratings also take into account the structure of that particular debt instrument and its priority in the capital structure which strengthens or weakens its recovery prospects in comparison with the unsecured creditors.

THE RATING SCALE & HORIZON



Ratings are not a guarantee against loss, rather are opinions on the timely payment of obligations and the rating bands denote the relative risk associated with the ratings.

Along the rating spectrum, all ratings of BBB- and above are investment grade. JCR-VIS evaluates credit risk over the medium to long term horizon incorporating an assessment of future events to the extent they are known or can be anticipated, hence, the ratings are prospective in nature. The present and the projected financial health and market position of the institution are analyzed in view of the management's long-term vision and strategy, available resources and industry prospects. Moreover, JCR-VIS also assigns short-term ratings with the time horizon of less than one year.

Ratings should be stable or at least predictable over the rating horizon unless the company demonstrates unexpected performance – either positive or negative. Temporary fluctuations in performance do not warrant a rating action if JCR-VIS does not expect a change in long-term performance.

The lowest rating 'D' stands for default and is the only rating which is based on the historical event when an interest and /or principal payment is due and is not paid. The condition of default is removed on clearance of the dues by any means including rescheduling or write-off by the lenders.

Rating outlooks highlight the potential direction of ratings over the intermediate to long term. An outlook is not necessarily a precursor of a rating change. Rather, the rating outlooks "Stable," "Positive" and "Negative" are used to qualify the potential direction of the rating, given changes in economic and/or business conditions. Stable outlook indicates that the company is performing as expected for the given rating, and no events are currently foreseen that would precipitate a rating change. Positive outlook indicates that the company is performing above expectations set for the given rating while Negative outlook indicates the contrary view. Generally, we expect outlooks to resolve within a period of one year. It should also be noted that these indicators are concerned only with the perceived change in credit risk involved, if any and should not be confused with expectations of the company's operational performance as a whole.

JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). A 'Rating Watch' announcement means that the status of the assigned rating(s) is uncertain and an event or deviation from an expected trend has occurred or is expected and additional

information is necessary to take any rating action. JCR-VIS also designates direction 'Positive', 'Negative' or 'Developing', to ratings placed under 'Rating Watch'. This shows JCR-VIS's opinion regarding the likely direction of a rating placed under the 'Rating Watch' status; this however does not bind JCR-VIS in any way to make a similar change once ratings are taken out of the 'Rating Watch' status. Developments in factors other than those that necessitated the 'Rating Watch' may result in a rating change, while the rating(s) continues to be under 'Rating Watch'.

We expect the ratings to be more stable in the upper rating bands due to the stronger protection factors present. The performance criteria become stricter as we move up the rating spectrum and the risk profile has to be maintained at significantly lower levels to remain eligible for that rating band. Highly rated companies may have to sacrifice aggressive growth opportunities to maintain their overall risk profile.

RATING METHODOLOGY

A host of major factors and sub-factors are examined to reach the overall rating to incorporate all factors in accordance with their importance, weakness in one area may be offset by strengths in another area or the vice versa may also hold true. JCR-VIS analyzes both qualitative and quantitative factors to determine the credit risk of a company. Qualitative factors include the nature of the industry that the company is operating in, the entry and exit barriers, the competitive profile of the industry and the company's position in it, size, strength and adequacy of operational systems, quality of management and regulatory framework governing the industry.

Quantitative factors include an appraisal of the historic and projected financials, risk entailed by the capital structure, level of profitability, capacity utilization levels, capital expenditure requirements, adequacy of cashflows to meet operational requirements and debt servicing obligations etc. Financial statements may also be recasted to assess the company's performance over a timeline. The projected financials are studied for their reflection of the current and expected economic realities and are also sensitized on different risk scenarios to judge the company's ability to bear operational and financial risk. While review of history is important to judge the company's track record of performance, it is the potential for future performance which primarily drives the ratings.

Industry Risk Assessment



Rating analysis begins with an assessment of the environment in which the company operates. JCR-VIS analyzes the dynamics of the business to determine the degree of operating risk in a given business. The analysis focuses on the strength of industry prospects, as well as competitive factors affecting that industry. The many factors assessed include industry prospects for growth, stability and the pattern of business cycles. It is critical to determine vulnerability to technological change, stability of labor and/or regulatory interference. Industries that have long lead times or that require operating fixed asset of a specific type encounter relatively higher risk. The insinuation of heightened competitive forces is critically analyzed. Knowledge of investment plans, in terms of capital expenditure, of the major players in any industry is important to assess competitive prospects. While any particular aspect can be the overriding rating factor, the industry risk assessment sets the starting platform for assigning the rating of a particular entity. The industry risk assessment also sets the stage for analyzing more specific company risk factors and establishing the priority of these factors in the overall evaluation. For example, if an industry is determined to be highly competitive, careful assessment of its market position is stressed. If the industry has huge capital requirements, sponsors' financial strength alongwith adequacy of financial package for the project and inspection of projected operational cash flow adequacy assumes high importance.

The regulatory framework governing the industry may place the company at a significant advantage or disadvantage vis-à-vis its competition through tax incidence, price regulations, industry protection, environmental regulations etc. The degree of regulatory support the industry receives is also a function of its contribution to economic growth which will determine its importance to the economy and to policy makers. For instance, oil and gas industry is generally supported by the local governments worldwide due to its strategic nature. Similarly energy and infrastructure development projects are generally of high economic importance.

The performance of different industries is affected by trend of various economic variables including GDP, interest and exchange rates and the nature of the industry (cyclical, commodity, value-added).

The other industry factors which are considered include level and patterns of demand growth and elasticity of demand, level of profitability and ability to maintain margins, capital intensive nature and flexibility in the timing of capital outlay and degree of cyclical. Vulnerability to technological change may also be a hazard in certain industries such as information technology, telecom or consumer durables. For industries / companies dependent upon foreign markets for input supply or for sales, the timely access and fluctuations in exchange rate pose major risks. The competitive nature of industry is also critical including nature and size of competition versus the size of the market and the entry and exit barriers to competition.

Business Risk Assessment



Assessing the industry risk is fundamental to evaluating a company's business risk. The industry risk rating broadly determines the median rating for companies in that industry. Industry risk along with operational risk of a specific company determines business risk of an entity. Business risk is often categorized into systematic risk and unsystematic risk. Systematic risk refers to the general level of risk associated with any business enterprise, the basic risk resulting from fluctuating economic, political and market conditions. Systematic risk is an inherent business risk that companies usually have little control over, other than their ability to anticipate and react to changing conditions.

Unsystematic risk, however, refers to the risks related to the specific business in which a company is engaged. A company can reduce its level of unsystematic risk through good management decisions regarding costs, expenses, investments and marketing.

The business risk of a company to a large extent dictates the extent of financial risk it can afford by affecting the level and predictability of cashflows that the companies operating in that industry are likely to generate. Higher and predictable cash flow streams will lower the business risk.

The company's product lines and its market share for each determine its ability to govern the market supply and, hence, output prices and may render it an advantage over other market players. Serving niche markets may also be an advantage or disadvantage depending upon the elasticity of demand for the limited target market. Generally, there are better margins and greater stability and control over output prices and hence, cashflows for companies positioned higher up on the value-chain. Vertical integrations also provide greater control of costs and prices.

The quality and concentration of trade debtors and the credit terms extended to them are also analyzed for the past track record of payment, diversification to mitigate exposure risk and the impact on the length of cash cycle of the company, a positive cash cycle indicates the market strength of the company and is accordingly recognized. Similarly, the supply and price risk of raw materials is assessed including the availability and nature of market of raw materials including foreign markets, supplier relationships and available substitutes.

The location and number of independent plant facilities reduces the vulnerability of the company to geographical risks which may pertain to demand, or availability of raw materials or labor problems. For instance, geographical dispersion is necessary for any hotel chain to mitigate regional downturns and provide certain stability to cashflows through economic and real estate cycles. Similarly, for the sugar industry factors such as easy availability of sugarcane and recovery rates are important considerations for location.

Product/service diversification in most contexts is looked at favorably as it mitigates business risk to the company. Diversification within the industry including variety in product lines and target markets is encouraged as it provides cushion to the revenue base in case demand declines for a particular product or a segment.

Larger well diversified companies generally have greater resilience due to their extensive resource base and stronger shields in terms of economies of scale, reserves, broader market access or customer base, large number of products, franchise value which may enable them to better withstand economic downturns. They generally have a greater number of peripheral assets as well to sell off or place as collateral to raise funds. It is seen that since lending

institutions have larger exposure to these companies, they are more willing to extend support in difficult times and to reschedule and restructure their borrowings or even extend additional funds.

Smaller companies in the growth stage generally lack the above strengths, a weak financial structure would add to their vulnerability in times of economic or business downturn.

Management & Organization



The credibility of the management is judged by the convergence of the management strategy and established business goals and its performance against objectives. Management is assessed for its operational effectiveness and for its risk tolerance. The stability of the management team and the relevance of their credentials to their tasks are also important considerations.

Organizational structure depicts the overall management philosophy and determines operational efficiency and success. Over-dependence on just a few individuals, absence of successor planning, heavy orientation towards family versus professional management, indistinct management structure, too much interference by the board in the day-to-day operations, absence of delegation etc. become rating constraints.

The formulation of a vision by the top management and its communication to all levels is also a pre-requisite for organization building. Employee awareness of the overall goals and objectives of the company and the short-term and long-term strategy towards achievement of those goals is important for business growth.

FINANCIAL RISK ASSESSMENT

Capital Structure & Access to Funds



The financial policy of the management is assessed to determine the degree of flexibility in the capital structure of the company as compared to its business risk. Common shares provide the greatest cushion to creditors, as they do not entail any fixed obligations. Preference shares, depending upon their features, also have greater flexibility in payments than pure debt instruments as the dividend payments are made out of available profits, although they pose a greater strain on cashflows as compared to common equity.

While the definitions of equity and debt remain standardized, certain adjustments are at times necessary to evaluate the capital structure of the company on the basis of the structure and intent of the instrument. Preference shares may bear greater characteristics of debt if they are cumulative and carry a redeemable option which has high probability of being exercised. Debt instruments may also carry options for conversion into equity; however, such is not accounted for until the event takes place as the interest payments are fixed and payable by the company till conversion.

Any un-provided losses or provisions are also netted off including dead investments or lending with little likelihood of repayment. On the other hand, a company is given the benefit of hidden reserves, if any, in the form of high value assets not reflected on the books. Revaluation surpluses on fixed assets are generally treated as illiquid unless they are occurring from easily marketable assets.

Leverage translates into higher returns enhancing shareholder's value, however, at the same time, increases the risk level as fixed obligations increase. An analysis of the source of funding, tenor and the associated costs with respect to the assets being financed is conducted to assess the re-financing risk of the balance sheet. The level of unencumbered assets to total assets is also considered to determine room for additional leverage. A higher leverage would generally be considered risky and viewed with caution in rating analysis.

JCR-VIS also examines the company's access to funds under stress. A company's experience with different financial instruments and debt and capital markets gives it several options in case funds from a particular source dry up for any reason.

Often access to borrowings at favorable terms for weak companies is also achieved through obtaining guarantees from the stronger group companies. On the opposite note, it is entirely possible that the other group companies are weaker and require support from the company being rated. The prospective burden is assessed in light of past instances and future potential including currently outstanding guarantees or commitments on behalf of weaker associated concerns and is accordingly reflected in the ratings.

Profitability & Cash flow Generation



Strong profitability over time, coupled with judicial retention, is able to attract external capital as well as withstand weak business cycles. Historical trends and the current and expected market situations are examined to project future profitability to form a broad idea of stable, improved or deteriorating profitability position in the intermediate to the long-term.

Sales stabilize and gross margins improve generally as a company moves towards value-addition, develop a differentiated product or a market niche, operate at higher capacity utilization and develop economies of scale. For commodities, there is risk of both price and off take as may be observed in the sugar and cotton spinning sectors. Global supply and demand risk is also evaluated for companies with significant exports or imports.

The capital structure of the company will also affect the profitability through the burden of debt servicing costs. As the risk associated with the capital structure increases, lenders demand greater compensation for their exposure. A rough measure to evaluate the degree of benefit awarded by the level of leverage maintained by the company is ROAE / unleveraged ROAA (adjusted for financial expenses). If the ratio is above 1.0x, then the company is benefiting from leverage while the trend indicates improving or declining level of benefit.

The projected profitability levels are subject to various stress tests including reduced volumes, unfavorable change in input and output prices, unfavorable change in exchange rates if there is currency risk involved and increased burden of financial costs.

While profitability levels are considered, the quantum of free cashflows available for debt servicing is pivotal for meeting timely debt obligations, hence an important rating determinant. The current and projected level of debt and debt servicing requirements with respect to the cashflows generated annually are examined to determine the projected risk profile of the company.

The Funds flow From Operations (FFO) level reflects the capacity of the cash generated from operations to meet working capital, capital expenditure and debt servicing requirements. The sensitivity of revenues from core operations to business cycles is evaluated to determine the precision of the cash flow forecasts.

Cashflow From Operations (CFFO) incorporates the impact of stress created by working capital changes. At the level of Free Cash Flow (FCF), company's capability to service both regular and strategic expenditures is considered. Since the assumption is that of a going concern, JCR-VIS evaluates the company's ability to internally generate funds to modernize / maintain its assets as well as to obtain external funds for expansions. An interesting measure to determine adequate level of capital expenditure for modernization is the capital expenditure to depreciation ratio. The dividend paying capacity is evaluated at the level of Discretionary Cash Flow (DCF).

The crux of the cash flow analysis is to determine the ability of the company to produce sufficient funds from operations to meet debt servicing requirements and incur capital expenditure. For higher-grade companies where long-term viability is more assured, there is greater emphasis on the level of cashflows from operations and its relation to the outstanding debt level which will determine the time period required to pay-off the entire debt. Focusing on debt servicing coverage from cash flow becomes more important as we go down the rating spectrum.

High cash flow coverage ratios may not necessarily constitute strength if they are arising from low level of capital expenditure or decline in debt levels which can indicate complacency on the part of the management and shall affect future growth.

A company with stable and predictable cashflows can undertake a comparatively aggressive capital structure without largely compromising creditworthiness. For example, the cashflows of the oil and gas exploration industry are dependent upon the quantum of present proven reserves which will go into production; therefore, it continually invests significant capital in exploration activities to build up reserves. However, since a successful hit is not assured, cashflows tend to be volatile and low debt leverage is preferable for the sector. On the other hand, the pharma industry exhibits comparatively stable demand patterns, and hence, stable cashflows, and can afford comparatively higher debt leverage.

For industries dependent upon seasonal agricultural crops for production, like the sugar and cotton spinning industry, debt leverage peaks during the production season with seasonal borrowing to finance inventories and then declines. For such industries, the average liquidity position is assessed through the cycle as well as the maximum stress on the financials during the peak production time. The marketable nature of the inventories is taken into consideration in rating assessments.

Rating Cyclical Industries



A cyclical company is defined as one whose sales in volume and / or price, move closely with major macroeconomic indicators and / or aggregate business activity. Generally, these companies sell non-differentiated products, are price takers in a volatile market and fixed capital intensive with high capital spending cycles. Examples of cyclical companies in the manufacturing sector are sugar; cotton spinning, automobiles, paper and machinery while non-manufacturing include lodging / hoteling, recreation and airlines.

JCR-VIS rates such industries through the cycle. The maximum downturn potential in the industry has to be analyzed for how bad the results can be and how well the company is equipped to weather any downturn. In the rating through the cycle, when the industry is going through a boom period, the ratings would appear to be depressed while when the industry is going through a trough, the ratings would appear to be optimistic.

Financial flexibility and liquidity are important considerations as cash can accumulate and be consumed very rapidly in cyclical industries. Generally, the companies in cyclical industries accumulate cash during the boom cycle to provide a buffer during the downturn.

The strength of the cashflows from year to year is hard to determine due to volatility, especially if it is in both input and output prices and volumes, and large capital expenditures spread variably across the cycle. Relative cost position then becomes a competitive strength in the industry as in a downturn the lowest cost producer has the room to cut prices upto his breakeven level to maintain or increase market share which may result in unsustainable losses for the higher cost producers. For instance, for spinning companies the prices of yarn move in line with the international prices while the prices of raw cotton depend upon domestic production factors. Since increase in raw material prices cannot be passed on to the customer entirely this affects gross margins in which case only the low cost producers with high volumes can perform.

It is also important to understand the management discretion in incurring capital expenditure and the timing and level of such capital expenditure. Generally, increase in capacity comes near the peak of the cycle on an industry-wide basis. Also, the capacity increases tend to be large to generate economies of scale. Since it takes time for the new capacity to come online and generate full efficiency, it is hard to predict supply conditions which can result in price swings. Often the capacity increase may hit the trough of the cycle which can further exacerbate supply conditions. Such is also the case with lodging / hotel industry since hotel construction takes time, any additions in capacity including setting up of a new hotel is risky as economic conditions may not be so robust by the time it comes online.

Cyclical industries do not afford high debt levels as they carry high business risks. Hence, a conservative debt profile is viewed favorably as cashflows become significantly stressed in times of low economic activity.

NOTCHING CRITERIA

Entity ratings are notched up from the standalone ratings in case of significant explicit external support available to the entity. Notching relationships for debt instruments combine considerations of asset protection and ranking i.e. material advantage or disadvantage of a given debt instrument which may arise due to its positioning in the capital structure of the company, presence of security etc. Notching also takes into account the level and mechanism for cashflow entrapment for debt servicing, if any. This leads to differentiation in ratings of specific issues from entity ratings.

While timeliness is the primary issue for investment grade ratings, the potential for ultimate recovery also becomes important for lower grade ratings which have higher probability of default. Therefore, based on similar security ensuring ultimate recovery, the degree of advantage or disadvantage given to a below investment grade rating may be greater as compared to an investment grade rating.

External Support to Entity

Entity ratings may be enhanced on the basis of the extent of support from sponsors / shareholders, associated companies, etc. JCR-VIS takes into account how important the company is to the group, the relative financial health of the group and any explicit or implicit support to the company being rated. JCR-VIS seeks to analyze the particular instances in which assistance was required by the company being rated and the degree of support provided by the sponsors. Evaluation of the financial strength of the group then becomes important to give any benefit in credit ratings including its franchise value, access to funds and diversification element.

Any institution holding an external guarantee will be rated equivalent to the guarantor if the guarantee is explicit and provides full coverage to obligations. However, in other cases where the guarantee is present but timeliness is not ensured, notching down from the guarantor is usually the practice. The ultimate sponsor / guarantor will be the government which is rated risk free or AAA where LCY rating is concerned. In the event that a company / obligation is supported by two entities carrying independent credit risks, then the support provided is generally superior as compared to the situation in which only the stronger entity was supporting the company being rated. This concept arises from the viewpoint that the probability of both the supporting entities defaulting at the same time is lower than the probability of either one defaulting. Limited benefit of joint support is given to associated / group companies or companies in the same sector to ensure independent risk drivers.

Notching Relationships of Debt Instruments

Debt instruments may be notched up or down based on their recovery prospects particularly important here would be the existence or otherwise of a cashflow entrapment mechanism for debt servicing, vis-à-vis the unsecured creditors. Notching relationships on the basis of security alone, however, may not hold for AA band rated companies with high probability of timely payment, unless secured by some very strong collateral or dedicated future cash flows.

Subordinated unsecured debt can be notched below the entity rating and the number of notches depends upon the degree of subordination.

Notching up is done on the basis of security determined by the quality of security and degree of coverage provided to principal. Further notching up is also possible through establishing a strong structure which gives significant additional enhancement to the debt recovery prospects. This could be achieved through credit enhancement features such as creation of a reserve or sinking fund, dedicated liquidity support or strong external higher rated guarantors, in the last case, the debt issue rating will be rated equivalent to the guarantors rating if the guarantee is explicit and provides 100% coverage to the obligations.

Cash Flow & Coverage Ratios

- Funds Flow from Operations (FFO): profit before financial expenses and taxes + adjustment for impact of non-cash items – payment for financial expenses and taxes
- Cash Flow from Operations (CFFO): FFO +/- changes in working capital requirements
- Free Cash Flow (FCF): CFFO – impact of capital expenditure undertaken and disposal of fixed assets
- Discretionary Cash Flow (DCF): FCF – dividends paid during the period
- Debt Coverage Ratios:
 - FFO / Total Debt
 - FFO / Long-term Debt
- Debt Servicing Coverage Ratios: (FFO + financial charges paid) / (Periodic principal repayment + financial charges paid)

Liquidity Ratios

- Current Ratio: Current Assets / Current Liabilities
- Net Working Capital: Current Assets – Current Liabilities
- Days to Sell Inventory: Days of Raw Material Inventory Turnover + Days of WIP Inventory Turnover + Days of Finished Goods Inventory Turnover
- Collection Period: (Average Trade Debtors / Net Sales)*365
- Payable Cycle: [Average Creditors / (Cost of Goods Manufactured – Depreciation & Amortization)]*365
- Net Cash Cycle: Days to Sell Inventory + Collection Period - Payable Cycle

Profitability Ratios

- Gross Margin: Gross Profit / Net Sales
- Cash Margin: Gross Profit + Depreciation & Amortization / Net Sales
- Operating Profit Margin: Operating Profit / Net Sales
- Net Margin: Net Profit / Net Sales
- ROAA: Net Profit / Average Total Assets
- ROAE: Net Profit / Average Net Worth
- Effective Interest Rate: Financial Charges / Average Total Debt
- Effective Tax Rate: Taxation / Profit before Tax

Capitalization

- Gearing: Borrowings / Net Worth
- Debt Leverage: Total Liabilities / Net Worth

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

Medium to Long-Term

AAA

Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-

High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-

Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-

Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-

Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-

Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC

Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC

A high default risk

C

A very high default risk

D

Defaulted obligations

Rating Watch: JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.jcrvis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. www.jcrvis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

Short-Term

A-1+

Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1

High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2

Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3

Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B

Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C

Capacity for timely payment of obligations is doubtful.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.



Faheem Ahmad

President & CEO, JCR-VIS Credit Rating Company Limited

Founder, VIS Group

Chairman, Association of Credit Rating Agencies in Asia

Mr. Ahmad possesses 30+ years experience in financial risk assessment with focus on Islamic finance, venture capital and general management. He has top level management experience at international level in the fields of credit ratings, Islamic and conventional financial risk assessment modeling, industrial management and construction engineering. Mr. Ahmad is an active participant at international forums on Credit Ratings. He obtained his B.S in Civil Engineering from NED University of Engineering and Technology, Karachi. He also has Masters Degrees in Engineering and Business Administration from USA.

Maimoon Rasheed

Director Methodology & Criteria Development

Maimoon possesses 12+ years experience in financial risk assessment with focus on credit ratings, conventional finance, and general management. He possesses management experience in the fields of financial risk modeling, asset management and brokerage. He has been actively involved in both buy and sell side capital market research.

Maimoon's overall experience comprises ratings of entities across a range of sectors including financial – commercial banks, investment banks, asset management companies, leasing companies, modarabas, securities houses and insurance companies – and corporates in different industries. He obtained his B.S in Applied Geology from Punjab University, Lahore. He also has Masters Degrees in Business Administration with majors in Finance.

Jahangir Kothari Parade (Lady LLOYD Pier)

Inspired by Her Excellency, The Honorable Lady Lloyd, this promenade pier and pavillion was constructed at a cost of 3 Lakhs and donated to the public of Karachi by Jahangir Kothari to whose generosity and public spirit the gift is due. Foundation stone laid on January 5, 1920. Opened by Her Excellency, The Honorable Lady Lloyd on March 21, 1921.

Dome: A roof or vault, usually hemispherical in form. Until the 19th century, domes were constructed of masonry, of wood, or of combinations of the two, frequently reinforced with iron chains around the base to counteract the outward thrust of the structure.

Origins: The dome seems to have developed as roofing for circular mud-brick huts in ancient Mesopotamia about 6000 years ago. In the 14th century B.C. the Mycenaean Greeks built tombs roofed with steep corbeled domes in the shape of pointed beehives (tholos tombs). Otherwise, the dome was not important in ancient Greek architecture. The Romans developed the masonry dome in its purest form, culminating in a temple built by the emperor Hadrian. Set on a massive circular drum the coffered dome forms a perfect hemisphere on the interior, with a large oculus (eye) in its center to admit light.



Jahangir Kothari
Parade

National Excellence, International Reach

JCR-VIS Credit Rating Company Limited is committed to the protection of investors and offers a blend of local expertise and international experience to serve

the domestic financial markets. With its international reach, JCR-VIS is positioned to aim for an international mark. In this regard, the global experience of our principal, Japan Credit Rating Agency, Ltd. has been invaluable towards adding depth to our ongoing research endeavors, enriching us in ways, that enable us to deliver our responsibilities to the satisfaction of all investors.

The edifice of the Jahangir Kothari Parade has stood proudly through the years and is a symbol of our heritage. Its 'Dome' as the most stable of building structures, exemplifies architectural perfection. Committed to excellence, JCR-VIS continues its endeavor to remain an emblem of trust.

JCR-VIS Credit Rating Company Limited

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