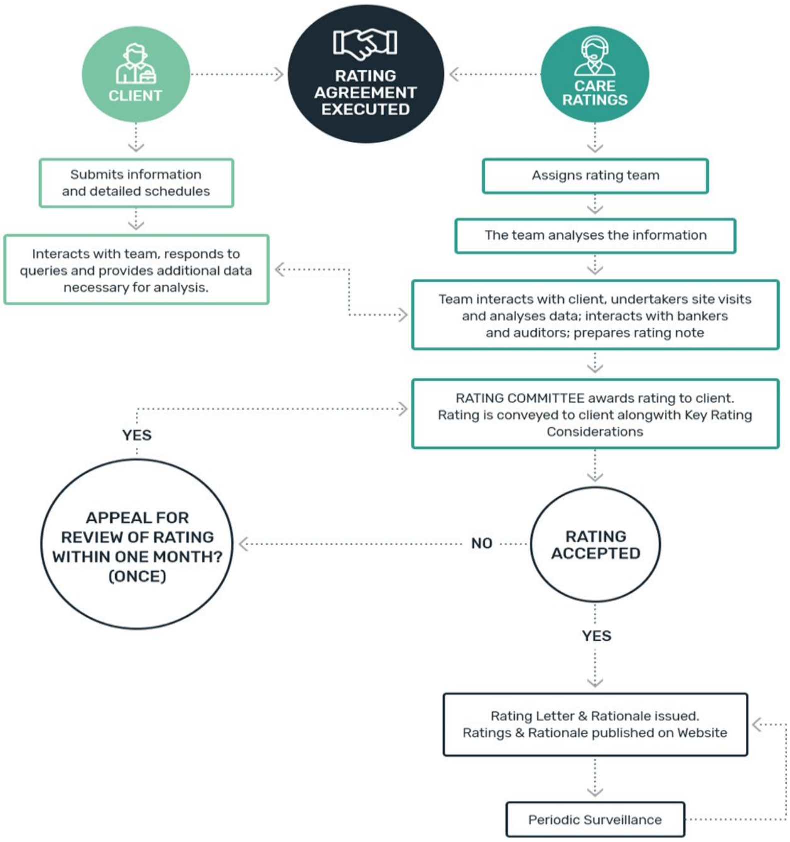
CRAF's Credit Rating Process

[Issued in November 2023]

CARE Ratings (Africa) Private Limited's (CRAF) credit rating process is pictorially given below:



The rating process is initiated once a rating agreement is signed between CRAF and the client/ on receipt of a formal request (or mandate) from the client. Once engaged, a rating team is formed with the expertise and skills required to evaluate the business of the client. The client is then provided with a list of information required and a broad framework for discussions.

The primary focus of the rating exercise is to assess the **future cash generation capability of the entity and its adequacy to meet debt obligations, even in adverse conditions.** The analysis attempts to determine the long-term fundamentals and the probabilities of change in these fundamentals. This requires extensive interactions with the client's management, a visit to the client's plant (in the case of manufacturing firms), and a study of various factors, including industry characteristics, the competitive position of the client, operational efficiency, management quality, funding policies and past and projected financials.

After understanding the business and level of operations, the rating team carries out business and financial risk analysis. The rating team undertakes an in-depth analysis of the client's past and projected financial statements to understand the client's business fundamentals, financial position, liquidity and flexibility and ability to service debt. CRAF also carries out a due diligence exercise by interacting with the client's auditors, bankers, financial institutions and other stakeholders, and also conducts a review of other secondary sources of information.

Audited financial statements given by the company along with the auditors' report form the main basis for understanding the current financial position of the company. CRAF also seeks various other operational and financial information from the client in order to better understand the various aspects of businesses/ financial statements. CRAF seeks bank statements for key operating accounts which commonly include Cash Credit and Term Loan. CRAF undertakes an examination of instances indicating delays, analysis of bank limit utilisation patterns and any other analysis where necessary and feasible. The above analysis is used as an input to determine the debt servicing capacity of the entities.

CRAF also seeks unaudited results for the recent period to understand the current performance and financial position. In the case of entities implementing projects, CRAF analyses factors like the rationale for implementing the project, size of the project vis-à-vis the current scale of operations and net worth of the company and the funding pattern of the project apart from project implementation risk and post implementation risk. The team also interacts with the top management of the company to take a view of business goals and future strategies and policies of the company.

After completing the analysis, the rating team prepares a rating note based on the information received from the client as well as other information received from other reliable sources and management evaluation. CRAF does not conduct an audit or investigation exercise while doing the rating exercise. The rating note is based on CRAF's rating criteria as also sector-specific methodologies. CRAF reviews the Rating Criteria/Methodologies at least once in two financial years**.** For CRAF's **Rating Criteria and Rating Methodologies** please www.careratingsafrica.com. The rating note is subjected to a multi-tiered review mechanism to ensure that high-quality standards are met. The final rating (including rating outlook) is assigned by the Rating Committee.

CRAF conveys the rating to the client over email/letter. Once the client accepts the rating, CRAF issues Rating Letter, Press Release and detailed Rating Rationale to the client wherever applicable.

The rating and the rationale for the rating are released to the public through a Press Release on CRAF's website, which also publishes a monthly list of outstanding ratings on its website. CRAF monitors all accepted ratings over the tenure of the rated instrument unless it is withdrawn as per our laid down policy.

1. **Policy for appeal in case of Initial Rating**

   If the client does not accept the initial rating, it may appeal to CRAF to review the rating within a period of one month. While representing, the client may give additional information for undertaking the review. Such representation is placed before the Rating Committee, which considers the same and reviews the rating. The decision of the committee is again conveyed to the client over email/ letter, who has the right to accept or not accept the rating.

2. **Policy for unaccepted ratings**

   If an initial rating is not accepted within one month, the rating is categorised as 'unaccepted' internally. An unaccepted rating can be converted into an accepted rating if the client so desires; subject to a review process prior to that.

   Additional details about the unaccepted ratings would be disclosed by CRAF and its employees only to Government/regulatory authorities, if required by law and formally requested by the agencies or in case of misrepresentation by the rated entity. Such disclosure of ratings in exceptional circumstances is provided for in the rating mandate obtained from the rated entity. **CRAF does not monitor unaccepted ratings.**

3. Validity of credit ratings

Rating letters for short-term debt instruments have a validity period of two months, while those for long-term/medium-term debt instruments are valid for six months. However, once the instrument has been placed, ratings are valid for the life of the instrument, unless the rating is withdrawn. Withdrawal of the rating is suitably communicated to the public through CRAF's website.

4. Policy regarding review/ surveillance of ratings

CRAF regularly reviews the ratings which have been accepted by clients. The review is carried out on an ongoing basis till the maturity of the instrument. A comprehensive surveillance of accepted ratings is carried out at least once a financial year unless regulatory requirements require it to be done more frequently. For structured finance products, at least once in every six months, CRAF discloses the performance of the rated pool, i.e., collection efficiency, delinquencies and detailed description of the underlying pools including ageing, credit enhancements, such as liquidity supports, first and second loss guarantee.

Apart from this, a review may also be triggered by a major development in the company or in the industry, which may have a significant bearing on the creditworthiness of the company.

The rating may be upgraded, downgraded, reaffirmed or placed on 'rating watch' by the Rating Committee on periodic reviews, including annual surveillance. Similarly, the Rating Outlook may or may not be changed on periodic reviews, including annual surveillance. All rating actions are at the discretion of CRAF, without the concurrence of the client.

5. Policy for appeal in case of reviews/ surveillances

As a matter of courtesy, CRAF provides the client with a reasonable opportunity to seek a review on the rating action taken by it at the time of the review/surveillance. The appeal process should be concluded within the stipulated PR publication period. Such representation is placed before the rating committee, which considers the same and reviews the rating. However, once such a reasonable opportunity is provided by CRAF, the decision in respect of the revision/ reaffirmation/ withdrawal of the rating or revision in the outlook or placing on 'rating watch' is final and is binding upon the client and is made public by CRAF.

6. Policy for assigning Provisional rating

When a rating is assigned pending execution of certain critical documents or steps to be taken, the rating is a 'Provisional' rating indicated by prefixing 'Provisional' before the rating symbol. On execution of the critical documents to the satisfaction of CRAF, the final rating is assigned.

For more details in this regard, please refer to our Policy on Assignment of Provisional rating on CRAF's website www.careratingsafrica.com

7. Criteria for placing rating on 'rating watch'

CRAF may place a rating on 'Rating Watch' in case of occurrence of events not envisaged earlier which are likely to impact the credit profile of the issuer, and additional information may be necessary to fully evaluate their impact on the rated instruments. For example (illustrative but not exhaustive), the issuer may be placed on Rating Watch as a result of announcement of its merger with another entity or changes in the regulatory framework or any other unanticipated operating developments.

Rating Watch also indicates the expected rating trajectory, consequent to the resolution of the 'rating watch' event. At the same time, placing a rating on Rating Watch does not always mean that a rating change is inevitable. However, in some cases, it is certain that a rating change will occur and only the magnitude of the change is unclear.

CRAF places a rating on 'Rating Watch' with "Positive", "Negative" or "Developing" implications, indicating the possible direction of the movement of the rating consequent to the resolution of the rating watch event.

For more details in this regard, please refer to our Policy on Rating watch and Rating outlook on CRAF's website www.careratingsafrica.com

8. Policy in respect of non-cooperation by issuer

Assigning and monitoring a rating requires adequate and timely information and cooperation from clients. In the absence of the same, it is not possible, in a reasonable manner, to arrive at the credit quality of an instrument/facility being rated. In case the issuer does not provide the information sought for monitoring the rating in a timely manner, despite adequate efforts, CRAF categorises the issuer as 'noncooperating'. CRAF also construes non-payment of fees by the issuer for conducting the surveillance as a form of non-cooperation.

In the case of non-cooperating clients, CRAF reviews the rating of the instrument(s)/facilities on the basis of the 'best available information'. This includes any information shared by the client with CRAF, any publicly available information including the report published by the debenture trustees from time to time, feedback from bankers/auditors/debenture trustees, etc.

CRAF discloses the aspect of non-cooperation in its PR along with the reasons for non-cooperation, details of follow-up done by CRAF for getting the information, etc. In such cases, CRAF uses the suffix "ISSUER NOT COOPERATING" with the credit rating symbol, which is followed by an asterisk mark. The asterisk mark is explained and reads as 'Issuer did not cooperate; Based on best available information'.
For more details in this regard, please refer to our Policy in respect of Non-cooperation by issuers on CRAF's website www.careratingsafrica.com

9. Policy on Withdrawal of ratings

The ratings assigned by CRAF are not a one-time exercise and they are kept under surveillance till the time the obligations under such facilities/instruments are fully extinguished (exceptions explained below). It may be noted that CRAF does not withdraw its rating due to rated entity's non-cooperation in the rating process.

In case required documents for withdrawal viz NOC from all lenders are not in place, CRAF may decide to put ratings in Issuer Not cooperating (INC) category.

Further, CRAF may suitably revise the ratings based on available information before withdrawing the assigned ratings.

In light of the above, the situations under which CRAF withdraws a credit rating are highlighted below:

(a) On full redemption of the rated instrument/facility i.e. on confirmation by the rated entity and lender/trustee to CRAF that the full maturity value of the instrument/facility has been paid-off and there is no amount outstanding on the rated instrument/facility.

(b) On receipt of confirmation from the rated entity that rating awarded by CRAF has not been used for mobilizing funds and as such no amount is outstanding against the rated instrument/facility.

(c) On expiry of the validity period of the initial rating during which funds have not been mobilized using the rating. In such circumstances the rating stands withdrawn automatically.

(d) On completion of restructuring of the rated instrument/facility, wherein after restructuring, the characteristics of the instrument/facility have substantially changed.

(e) Rating may be withdrawn subject to the following conditions:

  - CRAF has received an undertaking from the Issuer that a rating is available on that instrument from another CRA and No Objection certificate from Investor/ Investor representative/Note Holders Representative specifically mentioning that the investor has no objection to withdraw the rating from CRAF

(f) Ratings of all types of bank loans/facilities can be withdrawn at the request of the issuer, subject to receipt of No Objection Certificate (NOC) from the lending bank. NOC from the bank should be on Bank's official letter head, duly signed and stamped and specifically mentioning that the NOC is being issued for such withdrawal of rating for the facility being availed from the bank.

(g) On completion of 3 months of 'notice of withdrawal' in case of Issuer Ratings.

(h) On merger / amalgamation / bankruptcy / liquidation of the rated entity, where in it may no longer be useful or necessary for CRAF to maintain a rating on the rated entity's obligations.

(i) In case of one time rating exercise with a pre-specified validity period of rating(s), the rating(s) may be withdrawn at the end of the validity period. (Typically such assignments are undertaken at the behest of government bodies/departments like Municipal corporations etc.)

(j) Withdrawal of rating in case of **Fixed Deposits** raised by corporates:

Sr. No.	Scenario	Procedure for Withdrawal
a)	**If no funds have been mobilized** by the corporate using CRAF 's FD rating and as such no amount is outstanding against the rated FD.	CRAF withdraws the rating after receiving the confirmation from the company to this effect
b)	If the funds mobilized by the corporate using CRAF's FD rating have been **repaid** by the company	CRAF withdraws the rating after receiving the withdrawal request from the company AND certificate from the auditor that all investors have been paid off (in case of unsecured FD)/ a certificate from the trustee that all investors have been paid off (in case of secured FD)
c)	If the funds have been mobilized by the corporate using CRAF's FD rating but have **not been repaid** by the corporate	CRAF withdraws the rating after receiving the withdrawal request from the company, Auditor certificate certifying the list of investors and the amount due to them AND NOC* from all the investors (in case of unsecured FD) /trustee (in case of secured FD).

*Note: The NOC should specifically mention that the investor has no objection to withdrawal of the rating

- **<u>Withdrawal Policy in case of transfer of bank facilities/ debt instruments from one entity to another entity (due to mergers, takeovers or other reason)</u>**

In case bank facilities or debt instruments are transferred from one entity (say Entity A) to another entity (say Entity B) (due to mergers, takeovers or other reasons) the following process has to be followed:

a) Withdraw the rating for these facilities/instruments in the name of Entity A
b) Assign the rating for these facilities/instruments in the name of Entity B (This would be applicable after receiving rating mandate from Entity B to this effect)

- **<u>Withdrawal Policy for Issuer Ratings</u>**

On receipt of request from the rated entity for withdrawal of Issuer Rating, CRAF shall place the rating on notice of withdrawal for a period of 3 months. The 3 months' notice period is effective from the date of issue of communication to client about the same (on which date, CRAF shall also issue a press release). On completion of the notice period CRAF shall withdraw its rating.

10. Standard operating procedure for monitoring and recognition of defaults

In line with the regulatory guidelines, CRAF have put together this SOP for tracking and timely recognition of default. Recognition of defaults in a timely and consistent manner helps achieve the following objectives:

1. Present accurate performance statistics like default rates.
2. Help investors and other stakeholders compare the performance of CRAF's using objective metrics and consistent default monitoring/recognition practices.

Following practices are adopted by CRAF towards ensuring consistency and uniformity in tracking and recognition of defaults.

i. **Communication with bankers:** CRAF shall write to the bankers to take feedback at the time of the initial rating and at periodic intervals (at least once every quarter) to ascertain timeliness in debt servicing. In cases where bankers do not respond in writing, the discussions shall be documented (through email/ letter to the banker).

ii. **No default statement** (NDS) to be sought on a quarterly basis from the Issuer in line with the FSC regulations.

iii. **Tracking confirmation from debenture trustee** on timely debt servicing on specific ISINs rated by the CRAF. For securities, the withdrawn rating shall be included in the computation of default rates till the completion of the 3-year cohort or the maturity of the instrument, whichever is earlier. Accordingly, CRAF shall continue to track the confirmation received from the debenture trustees on the status of debt servicing on securities even after rating withdrawal, wherever applicable.

iv. **Monitoring of Exchange website:** CRAF shall also monitor the Exchange website for disclosures made by issuers with listed securities (either debt or equity) in respect of timely debt servicing.

v. **Publishing of press release in case of payment default:** In case of confirmation of any delay in servicing of the debt obligation, the press release shall be published within the timelines as prescribed under regulations.

vi. **Disclosure in case of non-confirmation of timely debt servicing:** In case no confirmation regarding servicing of debt obligation on the listed security is received by CRAF from the Debenture Trustee within one day post the due date, CRAF shall immediately follow-up with the Issuer for confirmation of the payment. In case no response is received from the Issuer within 2 days of such communication, CRAF shall publish a Press Release as per FSC-prescribed format on its website and send to all stock exchanges where the security is listed.

vii. **Rating agreements:** Rating agreements shall be suitably modified to incorporate the Issuers' responsibility to provide consent to CRAF to obtain details of the existing and/ or future borrowing of the issuer, its repayment and any delay or default in servicing of such borrowing, either from the lender or any other statutory/ non-statutory organization maintaining any such information. Such right to access to information shall be made clear to the said external parties while seeking information.

viii. **Factoring in past defaults:** In rare circumstances, if CRAF becomes aware of the delays that have occurred in the past and have not been recognised by way of a 'D' rating, the delay shall be recognised by downgrading the rating to 'D'. The rating can be simultaneously upgraded to a non-D rating, in line with the FSC guidelines and CRAF's policy on curing period available on CRAF's website www.careratingsafrica.com

ix. **Default on instruments not rated by CRAF:**

In case an issuer defaults on an unrated instrument having same seniority as CRAF rated instrument

a) CRAF shall recognise the default in its default statistics from the rating level of the rated instrument. The rating of the rated instrument which has not defaulted may be appropriately reviewed by CRAF.

b) For the sake of ample clarity, it is highlighted that a default on an unrated instrument may not mean and shall not be construed as a default for computation of default statistics, if the rated instrument is credit enhanced or there is a structure around the cash flows.

c) CRAF in its default studies shall also give out a list of all companies where the ratings may not have been downgraded 'D', but the issuer has been included in the default study due to default on unrated debt.

x. **Curing period post defaults:** The curing period principle for default category ratings should apply to fresh rating assignment as well as surveillance assignments and usually at an issuer level. For the sake of ample clarity, if CRAF is rating an issuer afresh, a non-default rating would not be assigned if the curing period post an earlier default on any instrument of similar seniority has not lapsed.

However, for ratings on subordinated or hybrid bonds, curing period should apply at instrument level since a default on such instruments may not necessarily imply a default by the issuer for senior instruments. In case of default on subordinated or hybrid instruments, the ratings on senior instruments may not be upgraded during the curing period for subordinated and hybrid instruments.

If rated instruments is credit enhanced or there is a structure around the cash flows, the curing period will apply at instrument level, as default by issuer on other instruments may not imply or lead to default on such instrument. For more details with regard to curing period, please refer our Policy on curing period on CRAF's website www.careratingsafrica.com

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About Us:

CARE Ratings (Africa) Private Limited (CRAF) is the first credit rating agency to be licensed by the Financial Services Commission of Mauritius in May 2015. It is also recognized by Bank of Mauritius as External Credit Assessment Institution (ECAI) from May 2016. CRAF is also licensed by Capital Markets Authority of Kenya to operate as a Credit Rating Agency in Kenya. CRAF intends to expand across other geographies in Africa with Mauritius as its hub of operations. With an equitable position in the Mauritius capital market, CARE Ratings (Africa) Private Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.

CRAF's shareholders are CARE Ratings Limited, African Development Bank, MCB Equity Fund and SBM (NFC) Holdings Limited.

CRAF gets its technical support in the areas such as rating systems and procedures, methodologies, etc. from CARE Ratings Limited on an ongoing basis. CARE Ratings Limited, with an established track record of rating companies for over three decades, follows a robust and transparent rating process that leverages its domain and analytical expertise backed by methodologies congruent with international best practices.

CRAF’s Rating Committee consist of full-time members comprising Senior Rating officials from CARE Ratings Limited and a panel of experienced professionals from Mauritius and African Development Bank.

CRAF has had a pivotal role to play in developing bank debt and capital market instruments including MMIs, corporate bonds and structured credit.