Ratings Methodology – Policy on Assignment of Provisional Ratings

CareEdge RATINGS AFRICA

A subsidiary of CARE Ratings Limited, India

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 by CareEdge Africa (CRAF).

This document explains in detail the process followed by CRAF while assigning provisional ratings and also further review, and finalization/ confirmation of the same.

When are Provisional ratings assigned?

Provisional ratings shall be assigned when the ratings are contingent upon occurrence of the following steps / documents as applicable:

a) execution of letter of comfort, corporate guarantee, or other forms of explicit third-party support;
b) execution of documents such as debenture trust deed/ debenture trustee agreement, legal agreements/ opinions, representations and warranties, final term sheet;
c) assignment of loan pools or finalisation of cash flow escrow arrangements;
d) setting up of debt service reserve account;
e) opening of escrow account;

CRAF would assign provisional rating when the documents that are 'central' / 'critical' to the rating are pending execution e.g. letter of comfort, corporate guarantee, or such other forms of explicit third-party support or cash flow cover pool mechanisms like in securitization transactions, covered bonds.

Provisional ratings are generally valid for the period of 6 months and can be extended for another 6 months based on the progress of execution of requisite documents.

On review of the case at the end of the stipulated period, the Rating Committee shall consider the following aspects and decide in its analytical judgement whether extension of time period can be given and the rating may be maintained as 'provisional' :-

- If funds are not raised, then the status of fund-raising plan with respect to the rated instrument/facility and likelihood of funds being raised in the next six months;
- If funds have been raised, then the likely timeframe within which the said documentation would be made available; a maximum time-limit to provide documents for placed instruments would be 180 days from date of issuance. Post this time-limit, in the absence of documents the rating would be appropriately reviewed by the Rating committee for withdrawal of the same. Simultaneously a fresh rating would be assigned, wherever applicable, based on the documentation on record and both the withdrawal and the fresh rating would be communicated by a single press release.

In case of material changes in the terms of the transaction:

- If funds have been raised and there are material changes in the terms of the transaction after assignment of initial provisional rating, then the initial provisional rating would be withdrawn and simultaneously a fresh rating would be assigned to the transaction depending on the revised terms of the transaction and both the withdrawal and the fresh rating would be communicated by a single press release.

- If funds have not been raised and there are material changes in the terms of the transaction after assignment of initial provisional rating, then the initial provisional rating would be withdrawn. Also, on request of client, a fresh provisional rating can be assigned based on the revised terms of the transaction.

In case the issuer has raised only a part of the rated debt instrument or the pending actions/ documentation is completed for only a part of the rated amount, the rating for such part-amount can be converted to final and will be subject to the validity period mentioned for placed instruments.

Disclosures

All communications for 'Provisional' rating explicitly mention the conditions and steps/documents pending, which form the basis for assigning a provisional rating. Communications include provisional communication, rating letter(s), Rating Rationales, wherever applicable. The

The rating rationale made consequent to confirmation of all provisional ratings i.e. conversion to final rating, all the details of execution of appropriate documentation on the basis of which the rating has been confirmed would be disclosed.

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About:

CareEdge is a knowledge-based analytical group that aims to provide superior insights based on technology, data analytics and CRAF (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, CRAF (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 CRAF 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 CRAF Limited on an ongoing basis. CRAF Limited, with an established track record of rating companies over almost three decades, follows a robust and transparent rating process that leverages its domain and analytical expertise backed by the methodologies congruent with the international best practices.

CRAF's Rating Committee consist of full-time members comprising of Senior Rating officials from CRAF 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.

Disclaimer:

CRAF (Africa) Private Limited ("CRAF")'s ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CRAF's ratings do not convey suitability or price for the investor. CRAF's ratings do not constitute an audit on the rated entity. CRAF has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CRAF does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CRAF have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CRAF may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CRAF is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CRAF is not responsible for any errors and states that it has no financial liability whatsoever to the users of CRAF's rating. CRAF's ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.