Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings

CareEdge RATINGS AFRICA

A subsidiary of CARE Ratings Limited, India

Rating Outlook

CareEdge Africa (CRAF) rating outlook is an opinion on the likely direction of movement of the rating in the medium term which is typically about six months to two years. A rating outlook is assigned to all credit rating assignments undertaken by CRAF.

CRAF factors in projections of the issuer while assigning ratings and hence, the ratings build in the future prospects of the issuer. While ratings factor in the known future impact of any business, industry or regulatory changes at the point of assigning the ratings, the rating outlook would indicate the probable direction of the movement in ratings as a result of factors, the extent of impact of which, CRAF may not be fully certain of at the time of assigning/ reviewing the credit rating. The illustrative (but not exhaustive) factors include expected changes in the industry dynamics, business conditions, possible changes in the strategic decisions taken and the expected impact of any of the above on the business and financial risk profile of the rated entity. The rating outlook can be 'Positive', 'Stable' or 'Negative'.

A 'Positive' outlook indicates an expected upgrade in the credit ratings in the medium term on account of expected positive impact on the credit risk profile of the entity in the medium term.

A 'Negative' outlook would indicate an expected downgrade in the credit ratings in the medium term on account of expected negative impact on the credit risk profile of the entity in the medium term.

A 'Stable' outlook would indicate expected stability (or retention) of the credit ratings in the medium term on account of stable credit risk profile of the entity in the medium term.

A 'Positive' or 'Negative' outlook may not necessarily mean that a rating upgrade or downgrade will happen. For instance, a downgrade may not necessarily follow a negative outlook and on the same lines, an upgrade may not necessarily follow a positive outlook. It indicates a reasonable likelihood of such a rating transition taking place in the medium term. However, if any unforeseen or sudden events arise which may impact the credit worthiness of the rated entity beyond expectation, the rating action taken may also be contrary to the outlook assigned. Likewise, CRAF may effect a change in rating directly and this rating action need not always be preceded by a corresponding change in the outlook.

Applicability of outlook:

The Rating Outlook is applicable to all debt ratings except 'CARE MAU Ratings C' and 'CARE MAU Ratings D'. Earlier in line with regulatory requirements, only CARE MAU Ratings D ratings did not carry outlook. CRAF may assign outlook to ratings in category 'CARE MAU Ratings C' on a selective basis.

The Rating Outlooks shall not be applicable to:

- Short-term ratings
- Securitisation ratings
- All products other than debt ratings

Criteria for placing rating on Credit Watch

CRAF may consider assigning 'credit watch' to an outstanding rating in case of occurrence of events not envisaged earlier which are likely to impact credit profile of the issuer. Some examples (Illustrative but not exhaustive) of such events are announcement of a merger or acquisition, or de-merger of some business or change in regulatory framework.

Rating watch indicates that there is a probability of change in ratings assigned and also indicates the likely direction of change. Credit Watch is warranted when the impact of specific events on the credit profile cannot be accurately assessed at the point when they occur, and additional information may be necessary to fully evaluate their impact on rated instruments.

Ratings under 'Credit Watch' is assigned along with "Positive", "Negative" or "Developing" implications indicating the possible direction of movement of the rating consequent to the resolution of the credit watch event.

Rating Outlook vs Credit Watch

Outlook is typically applicable over six months to two years, whereas rating watch is resolved within shorter duration of about 90 to 180 days.

Outlook is applicable to long term ratings and usually credit watch is applicable to both long term and short term ratings. However, at times, depending on case specific circumstances, CRAF may decide to place only long term ratings on watch.

The probability of change in rating is relatively higher under 'credit Watch' vis-a-vis 'rating outlook'. The extent of a rating change under a 'Credit Watch' situation may be substantial i.e. more than one notch. However, outlooks are expected to lead to rating changes of much lesser degree.

Deciding factor: outlook or watch

The decision about assigning outlook or watch is driven mainly by degree of certainty and timeframe of the event which will impact the credit profile. In case of outlook, it is expected to take a longer time frame for the full impact on credit profile to be ascertained, as the impact is generally due to presence of multiple factors viz. business strategies or changing regulatory / industry environment etc. In case of watch, the event has already been announced, however, its exact impact on credit profile can be ascertained in a relatively shorter timeframe and only after getting additional detailed information to evaluate the same.

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CRAF (AFRICA) PRIVATE LIMITED
Corporate Office: 5th FLOOR, MTML SQUARE, 63, CYBER CITY, EBENE MAURITIUS
CIN: 127054 I BRN: C14127054 I FSC License No.: CR14000001

Connect:

Locations: Ebene

Saurav Chatterjee
Director & Chief Executive Officer
+ 230 5862 6551
+ 230 5955 3060

Vidhyasagar Lingesan, CFA, FRM
Chief Rating Officer
+ 230 5273 1406
+ 230 5955 3060

Naveen Kumar Dhondy
Rating Head
+ 230 5955 3060

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.