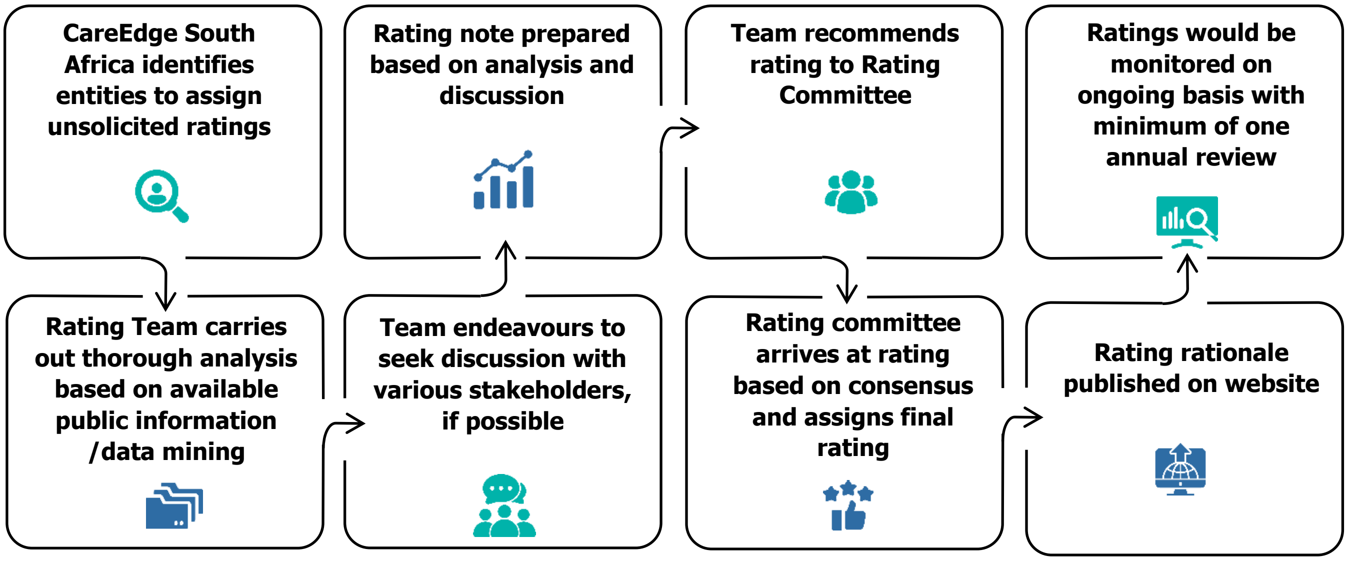
Credit Rating Process

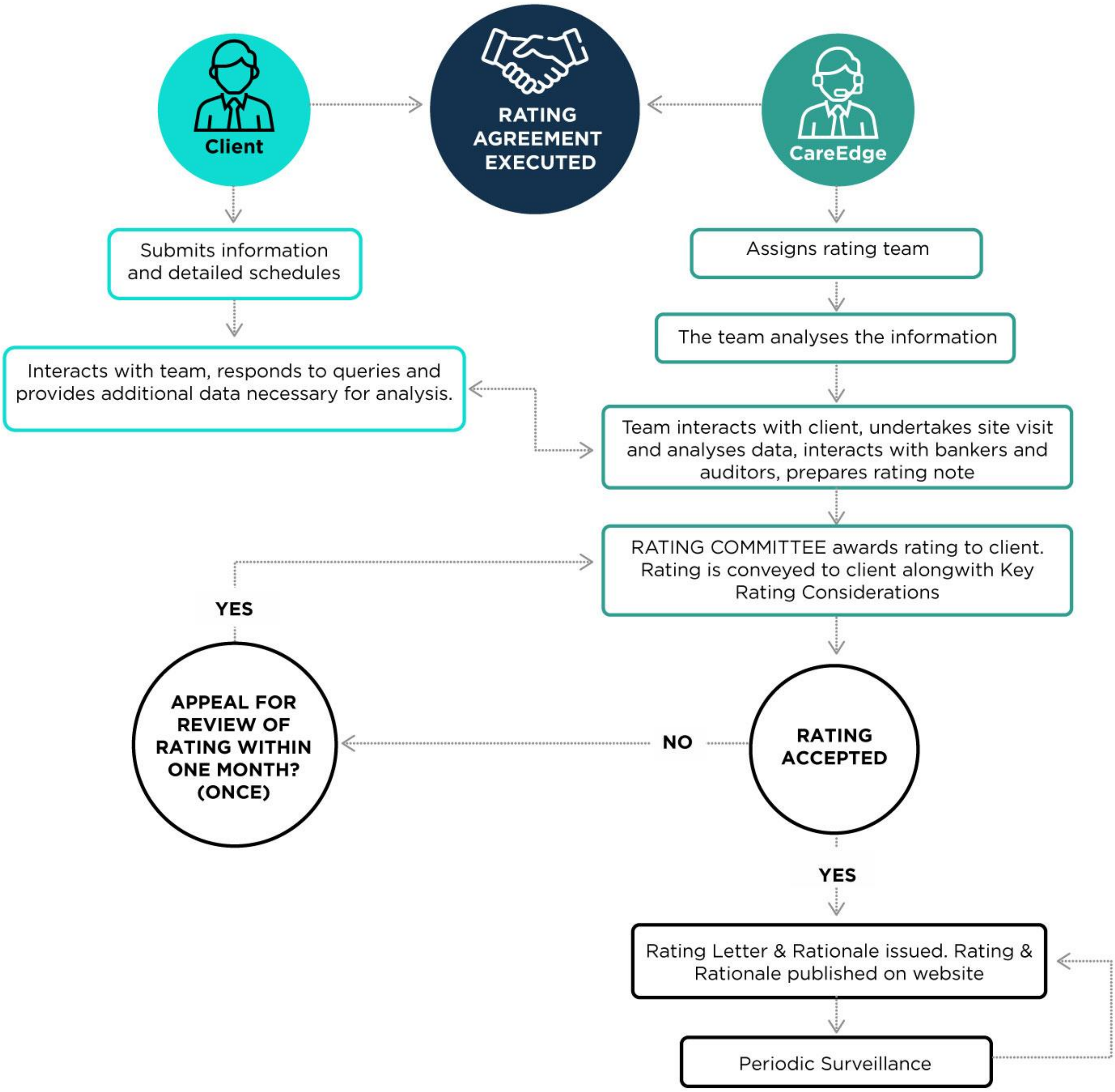
CARE Ratings South Africa (Pty) Limited's (CareEdge South Africa) credit rating process for Unsolicited and Solicited Rating are pictorially given below:

Unsolicited Ratings Process



The unsolicited rating process is initiated by CareEdge South Africa through identification of entities for rating, without any formal mandate or agreement with the issuer. A rating team is constituted to undertake the evaluation, primarily based on publicly available information, data mining, and other reliable secondary sources. The team may also endeavour to engage with management and other stakeholders, wherever possible, to gain additional insights. Based on the analysis, a rating note is prepared and presented to the Rating Committee. The Rating Committee, after due deliberation, assigns the final rating based on consensus. The assigned rating and its rationale are published on CareEdge South Africa's website without requiring acceptance from the rated entity. However, if the rated entity believes that the rating does not adequately reflect its credit profile, it may submit a formal appeal supported by new or material information for consideration. The rating is subsequently monitored on an ongoing basis, with at least one annual review.

Solicited Rating



The rating process is initiated once a rating agreement is signed between CareEdge South Africa 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 the broad framework for discussions.

The primary focus of the rating exercise is to assess **future cash generation capability of the entity and its adequacy to meet debt obligations, even in adverse conditions.** The analysis, which includes quantitative and qualitative assessment, attempts to determine the long-term fundamentals and the probabilities of change in the fundamentals.

The **qualitative assessment** includes analysis of management quality in terms of its experience and track record, transparency and responsiveness during interactions, corporate governance practices etc. The qualitative assessment also includes industry and business risk analysis in terms of industry characteristics (e.g., cyclicality, regulatory environment), market position of the client and its competitive advantage over the peers, operational efficiency, diversification and expansion plans and project implementation risks.

On the other hand, for **quantitative assessment**, CareEdge South Africa analyses historical and projected cash flows to assess financial position, liquidity and debt servicing capacity. The assumptions for projected cash flows are based on historical performance, industry trends, and management guidance. Various financial ratios such as growth ratios, profitability ratios, leverage and coverage ratios, turnover and liquidity ratios are used by CareEdge South Africa to make a holistic assessment of the operational and financial performance of an entity, and in evaluating the entity's standing vis-à-vis its peers within the industry. CareEdge South Africa also carries out stress testing to evaluate the performance of the client under various adverse conditions to test resilience.

The above analysis requires extensive interactions with the client's management, visit to the client's plant (in case of manufacturing firms), and a study of many factors, including industry characteristics, 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 its ability to service debt. CareEdge South Africa 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. CareEdge South Africa also seeks various other operational and financial information from the client in order to better understand the various aspects of businesses/ financial statements. CareEdge South Africa seeks bank statements for key operating accounts which commonly include Working Capital and Term Loan accounts at the time of initial rating exercise for preceding six months and at the time of subsequent reviews, for the preceding six months, provided more than six months have passed since last rating. CareEdge South Africa undertakes examination of instances indicating delays, analysis of bank limit utilization patterns and any other analysis which are necessary and feasible. The above analysis is used as an input to determine the debt servicing capacity of the entities.

CareEdge South Africa also seeks unaudited results for recent period to understand the current financial position. In case of entities implementing projects, CareEdge South Africa analyses factors like the rationale for implementing the project, size of the project vis-à-vis the current scale of operations and networth 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 understand and evaluate business goals, future strategies and policies of the company.

After completing the analysis, the rating team prepares a rating note based on the information received from client as well as other information received from other reliable sources and management evaluation. CareEdge South Africa does not conduct an audit or investigation exercise while doing the rating exercise. The rating note is based on the CareEdge South Africa's rating criteria and sector specific methodologies approved by the **Criteria Committee of CareEdge Group**. The Criteria Committee regularly reviews these Rating Criteria / Methodologies and updates them as and when required, keeping in mind the changes in regulations and sector dynamics, among other things. These Rating Criteria / Methodologies are reviewed at least once in a financial year. For CareEdge South Africa's Rating Criteria and Rating Methodologies please visit www.careedgesouthafrica.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.

CareEdge South Africa conveys the rating to the client over email/letter. Once the client accepts the rating, CareEdge South Africa issues Rating Letter, Press Release and detailed Rating Report to the client.
The rating and the rationale for the rating is released to the public through a Press Release on CareEdge South Africa website, which also publishes list of outstanding ratings on its website. CareEdge South Africa monitors all accepted ratings over the tenure of the rated instrument unless it is withdrawn as per our laid down policy.

The above rating process followed by CareEdge South Africa is common across all the market segments such as corporates, infrastructure, banking & financial services and structured finance.

1. **Policy for appeal in case of Initial Rating**
   If the client does not accept the initial rating, it may appeal to CareEdge South Africa 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 from assignment, the rating is categorised as 'unaccepted' internally. An unaccepted rating can be converted into an accepted rating within a period of 1 year, if the client so desires; subject to a review process prior to that.

   Additional details about the unaccepted ratings would be disclosed by CareEdge South Africa and its employees only to Government/regulatory authorities, if required by law. Such disclosure of ratings in exceptional circumstances is provided for in the rating mandate obtained from the rated entity. CareEdge South Africa does not monitor unaccepted ratings.

3. **Validity of credit ratings**

Rating letters issued by CARE SA for instruments and facilities that are yet to be placed or utilised shall be subject to defined validity periods, as set out below:

- Short-term instruments: Valid for a period of two (2) months from the date of issuance if they are yet to be placed;

- Long-term instruments: Valid for a period of six (6) months from the date of issuance if they are yet to be placed.

If the rated instrument or facility is not placed or utilised within the applicable validity period, the rating shall cease to be valid upon expiry of that period. In such cases, the client shall be required either to:

- submit a formal request to CARE SA for revalidation of the rating, subject to updated information and analytical review; or
- submit a written request for withdrawal of the rating, confirming that the instrument or facility has not been placed or utilised.

Where a valid request for withdrawal is received, the rating shall be withdrawn in accordance with CARE SA's Rating Withdrawal Policy.

Once an instrument or facility has been placed or utilised within the validity period, the associated rating shall remain valid for the life of the instrument or facility, subject to ongoing surveillance, periodic reviews, and continued availability of requisite information from the client, unless the rating is withdrawn in accordance with applicable policies or regulatory requirements.

All rating withdrawals, whether arising from non-placement, client request, or other permitted circumstances under policy, shall be appropriately disclosed to the public through CARE SA's website (www.careedgesouthafrica.com), in line with regulatory and transparency requirements.

4. **Policy regarding review/ surveillance of ratings**

CareEdge South Africa 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, CareEdge South Africa 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 credit-worthiness of the company.

The rating may be upgraded, downgraded or reaffirmed by the Rating Committee on periodic reviews, including annual surveillance. Similarly Rating Outlook may or may not be changed on periodic reviews, including annual surveillance. A rating action is at the discretion of CareEdge South Africa without concurrence of the client.

5. **Policy for appeal in case of reviews/ surveillances**

As a matter of courtesy, CareEdge South Africa 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 CareEdge South Africa, 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 CareEdge South Africa.

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 CareEdge South Africa, the final rating is assigned.

7. **Criteria for placing rating on 'rating watch'**

   CareEdge South Africa 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.

   CareEdge South Africa 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.

8. **Policy on Withdrawal of ratings**

The ratings assigned by CareEdge South Africa are not a one-time exercise and are kept under surveillance till the time the obligations under such facilities/instruments are fully extinguished or the ratings are withdrawn, in the situations explained in detail in this document.

CareEdge South Africa withdraws a credit rating under the following situations:

- **Full redemption:** On full redemption of the rated instrument/facility, i.e., on confirmation by the rated entity that the full maturity value of the instrument/facility has been paid off and there is no amount outstanding on the rated instrument/facility.
- **Proposed debt rated but not placed:** On receipt of confirmation from the rated entity to CareEdge South Africa that the rating awarded has not been used for mobilising funds, and as such, no amount is outstanding against the rated instrument/facility.
- **Merger/Amalgamation/Liquidation:** On merger/amalgamation/liquidation of the rated entity, wherein it may no longer be useful or necessary for CareEdge South Africa to maintain a rating on the rated entity's obligations.
- **Withdrawal in case of provisional ratings:**

  If funds are not raised within one year from the assignment of the provisional rating and there are no fundraising plans in the next six months, then CareEdge South Africa withdraws the rating on receipt of confirmation from the rated entity that the provisional rating awarded has not been used for mobilising funds, and as such, no amount is outstanding against the rated instrument / facility.

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

- **Withdrawal in case of ratings based on credit enhancement:**
  For ratings based on credit enhancement, if during the tenure of the instrument, the credit enhancement ceases to exist or there is a change in terms (in concurrence with the lender), CareEdge South Africa would review the ratings for withdrawal of the same and simultaneously assign a new rating based on the changed terms. However, the practice of withdrawal and simultaneous reassignment of the rating would not be followed if the credit enhancement fails to work as anticipated. In such cases, CareEdge South Africa would take an appropriate rating action.

For example, if CareEdge South Africa has relied on a corporate guarantee and assigned a 'SO rating' to an issue and the corporate guarantee ceases to exist, the rating would be reviewed for withdrawal and a new standalone rating would be assigned simultaneously. On the other hand, if CareEdge South Africa has relied on a corporate guarantee and assigned a 'SO rating' to an issue and there is a missed payment without the guarantee being invoked, the rating would be revised downwards in accordance with CareEdge South Africa' 'Policy on Default Recognition' available on www.careedgesouthafrica.com

Apart from the above, CareEdge South Africa would withdraw the ratings of specific instruments/facilities as mentioned below:

- **Instruments/ Facilities:** The ratings of all types of bank loans/facilities can be withdrawn at the request of the issuer. The ratings would be placed on 'Notice of Withdrawal' for 30 days before being withdrawn at the end of such notice period for withdrawal.
- **Fund Rating:** The ratings of Funds being perpetual in nature and having no specified maturity can be withdrawn upon the receipt of the request for withdrawal from the asset management company (AMC). The ratings would be placed on 'Notice of Withdrawal' for 30 days before being withdrawn at the end of such notice period for withdrawal.
- **Issuer Ratings:** Issuer ratings can be withdrawn upon receipt of the request for withdrawal from the rated entity. The ratings would be placed on 'Notice of Withdrawal' for 30 days before being withdrawn at the end of such notice period for withdrawal.

Withdrawal of Ratings Due to Non-Cooperation

When CareEdge South Africa determines that:

1. Information available is insufficient in terms of quality, quantity, or reliability to support an informed and credible credit opinion; and
2. Such information is unlikely to be made available within a reasonable timeframe despite repeated follow-ups and reasonable efforts by CareEdge South Africa,

3. Persistent non-payment of rating fees or other contractual dues to CareEdge South Africa, after reasonable follow-up, reminders, and notice, resulting in CareEdge South Africa being unable to continue the rating engagement and surveillance process.

CareEdge South Africa may, after following its internal analytical and governance processes, withdraw the outstanding rating(s).

In such circumstances, CareEdge South Africa may place the rating under appropriate internal review, convene a rating committee where deemed necessary, and communicate the reasons for the withdrawal through a public rating action, clearly stating that the action has been taken due to non-cooperation by the rated entity and inadequacy of information.

Principles Governing Withdrawal

- The decision to withdraw a rating due to non-cooperation does not imply a view on the willingness or ability of the issuer to meet its financial obligations, but reflects CareEdge South Africa's inability to maintain a credible rating opinion in the absence of sufficient information.
- CareEdge South Africa shall balance the interests of the capital markets, investors, and other stakeholders while ensuring adherence to regulatory requirements, internal policies, and international best practices.
- Once withdrawn, a rating shall not be monitored. Any future rating assignment would require a fresh rating process, subject to receipt of adequate information and execution of applicable agreements.

Communication and Disclosure

CareEdge South Africa shall clearly disclose:

- The date of withdrawal;
- The last rating action taken prior to withdrawal, where applicable; and
- The explicit reason for withdrawal, including reference to non-cooperation or insufficiency of information.

CareEdge South Africa shall maintain appropriate records of all communications, follow-ups, and actions undertaken in relation to the withdrawal of the rating.

9. Standard operating procedure for monitoring and recognition of defaults

In line with these regulatory guidelines, CareEdge South Africa 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 performance of CareEdge South Africa using objective metrics and consistent default monitoring / recognition practices

Following practices shall be consistently adopted by CareEdge South Africa towards ensuring consistency and uniformity in tracking and recognition of defaults.

i. **No default statement (NDS)** to be sought on a quarterly basis from the Issuer.

ii. **Tracking confirmation from trustee** on timely debt servicing on specific ISINs rated by the CareEdge South Africa in line with regulations. 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, CareEdge South Africa shall continue to track the confirmation received from the trustees on the status of debt servicing on securities even after rating withdrawal, where applicable.

iii. **Communication with bankers:** CareEdge South Africa shall write to the bankers to take feedback at the time of 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).

iv. **Monitoring of Exchange website:** The CareEdge South Africa 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, press release shall be published within timelines as prescribed under regulations.

vi. **Rating agreements:** Rating agreements shall be suitably modified to incorporate the Issuers' responsibility to provide consent to CareEdge South Africa 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.

vii. **Factoring in past defaults:** In rare circumstances, if CareEdge South Africa becomes aware of the delays that have occurred in the past and have not been recognized 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 and CareEdge South Africa's policy on curing period available on CareEdge South Africa's website www.careedgesouthafrica.com.

viii. **Default on instruments not rated by CareEdge South Africa:**

In case an issuer defaults on an unrated instrument which has same seniority as CareEdge South Africa rated instrument

a) CareEdge South Africa 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 CareEdge South Africa.

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

ix. **Curing period post defaults:**

a) 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 clarity, if

CareEdge South Africa 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.

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

c) If rated instruments is credit enhanced or there is a ring fenced 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 www.careedgesouthafrica.com.

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About Us:

CARE Ratings South Africa (Pty) Limited (CareEdge South Africa) is incorporated in 2023 to provide credit ratings and related services in South Africa. CARE SA is a wholly owned subsidiary of CARE Ratings Africa (Private) Limited (CareEdge Africa), which is a part of CareEdge Group based in India. In October 2024, CareEdge South Africa has received its license from the Financial Sector Conduct Authority (FSCA) of South Africa, allowing it to conduct and issue credit ratings for corporate bonds, sovereign ratings, financial institutions, structured finance, and green and sustainability-linked bonds. CARE SA provides Ratings of various instruments such as Bonds, Money Market Instruments, Bank Deposits, Structured Finance and Bank Facilities. CareEdge South Africa also does Issuer Rating (Banks, Corporates, NBDTIs & Insurance companies).

About CareEdge Group
CARE Ratings Ltd. (CareEdge Ratings)
CareEdge Ratings, based out of India and the parent company of the CareEdge group, was incorporated in 1993 and is the one of the largest Credit Rating Agency (CRA) of India and features amongst the top ten credit rating agencies globally. Since inception, CareEdge Ratings has rated USD 2.5 trillion worth of debt and has undertaken over 95,000 rating assignments which includes ratings of large, mid and small corporates as also sub sovereign and state utility companies. Please visit CareEdge website - https://www.careratings.com.

CARE Ratings (Africa) Private Limited
In the quest of supporting the development of capital market in African Union, CareEdge Group has set up the first rating agency of Mauritius - CARE Ratings (Africa) Private Limited (CareEdge Africa) in 2014, which is licensed by Financial Services Commission of Mauritius and Capital Markets Authority of Kenya. CareEdge Africa is also recognised by the Bank of Mauritius as External Credit Assessment Institution (ECAI). CareEdge Africa’s shareholders are CARE Ratings, India (CARE Ratings), African Development Bank (AfDB), MCB Equity Fund (MEF) and SBM (NFC) Holdings Limited (SNHL). Please visit CARE Ratings Africa website - https://www.careratingsafrica.com.