

Rating Methodology | Corporate Entities | General

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OVERVIEW

This rating methodology describes Agusto & Co.'s approach to assessing the credit risk of corporate entities ("Corporates", "Rated Entities" or "Obligors"). Agusto & Co. aims to provide stakeholders (including issuers, investors and other interested market participants) with an understanding of major rating drivers as well as our approach to analysing risks to improve the comparability and transparency of our ratings.

Please note that this document provides an overall perspective on key rating considerations and does not include an exhaustive discussion of all the rating factors that our analysis covers.

RATING PHILOSOPHY

Agusto & Co. issues National Scale and Foreign Currency Ratings. Our National Scale Corporate Rating is an assessment of the creditworthiness of an obligor with respect to a specific debt, bond, commercial paper program, or other financial instruments ("obligation"). Our Foreign Currency Corporate Ratings, however, involve the assessment of an Obligor's ability to meet foreign currency-denominated obligations as and when they fall due.

Accordingly, our ratings measure the degree of credit risk attributable to the Rated Entity. Our rating is not a recommendation to buy, sell or hold a security. In addition, it is not an opinion on the fairness of pricing or the suitability of the security for a specific investor. Our National Scale and Foreign Currency Ratings are typically not higher than the rating of the sovereign government.

Nonetheless, we consider specific strengths and attributes such as significant foreign revenue generation, geographically diversified cash flow, substantial foreign assets as well as guaranteed external support in determining if an obligor will be rated above the sovereign.

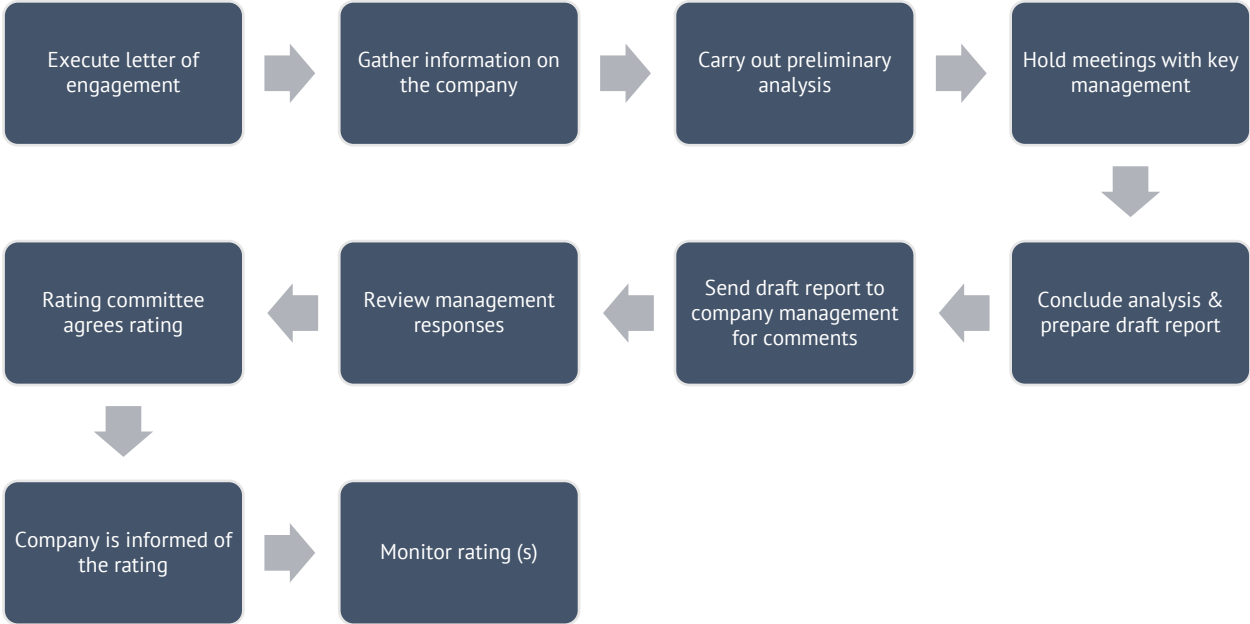
Our Corporate Entity ratings are based primarily on current financial and other information provided to us by the Obligor. This information will typically include background information on the entity, its most recent audited financial statements, unaudited management account

and budget for the current financial year and other information that will enable us to obtain a fair picture of the company's current financial condition as well as likely performance and financial condition over the next year.

We however recognise that it is difficult to arrive at a meaningful rating without discussing with management and obtaining additional information that is not ordinarily available publicly. Therefore, we also seek additional information (both historical and forward-looking) from management, on issues, which are relevant for arriving at a fair rating for the Corporate Entity. In addition, we would seek to understand the strategic factors likely to support future cash flow while identifying critical factors that will inhibit future cash flow.

We also recognise that changing circumstances may quickly invalidate a rating that might have been previously assigned to an Obligor. We will therefore review our ratings in instances where there are significant subsequent events, which may warrant a change in a previous rating. Given the short-term nature of our ratings, it is unlikely that these reviews will be based on published financial statements. Accordingly, we may rely on unaudited interim financial statements as well as other sources of information, which may or may not be publicly available for a rating review. Therefore, a rating may be changed, suspended, or withdrawn at any time, due to changes in or unavailability of information, or other circumstances. However, such changes will be communicated to the Obligor. All confidential information, which we obtain through this process, is used solely to arrive at the rating and will not be published or otherwise disclosed to third parties without the prior consent of the company.

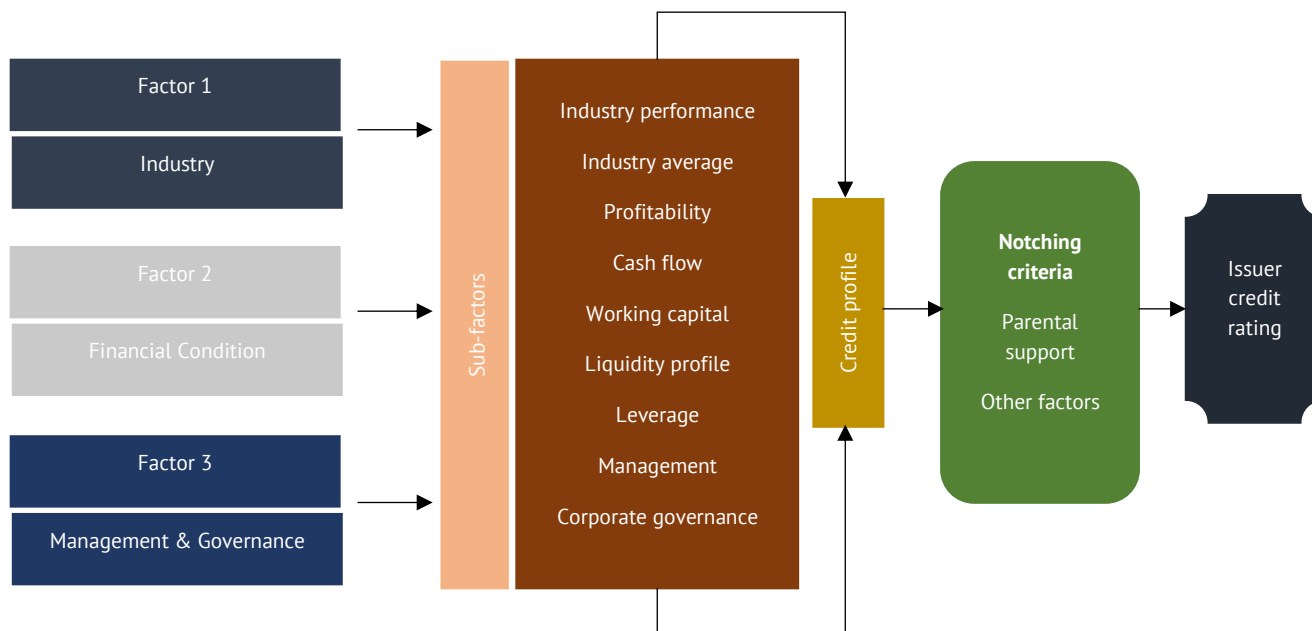
RATING PROCESS



The validity of Augusto & Co.'s corporate ratings is 18 months from the last audited financial statement assessed in arriving at the rating or maximum of 12 months from when the rating was issued.

RATING FRAMEWORK

Our Corporate Rating Methodology covers three key rating factors (Industry - 100, Financial Condition - 700 and Management & Governance - 200) – which are further broken down into sub-factors. The aggregate of the scores under each factor determines the credit profile of the Rated Entity.



FACTOR 1: INDUSTRY

Agusto & Co. adopts a top-down approach in rating corporate entities. Annually, we carry out detailed research and market studies on diverse industries for which we assign ratings. Considerations under our analysis of an Industry covers the following:

- The strategic importance of the industry within the national economic framework
- Size of the industry and its importance as an employer of labour, source of foreign exchange, source of tax revenue and contributor to national income
- Nature and level of government support for the industry
- Regulatory risk - extent and volatility of government regulation/legislation
- Basic industry characteristics- industry life cycle, cyclicity and earnings volatility, sources of supply & supplier bargaining power, barriers to entry and exit
- Impact of macro-economic variables on industry performance and position
- Marketing and distribution arrangements, fragmentation of markets
- Price elasticity of demand and price leadership

Industry position is assessed by comparing the Corporate Entity's annual turnover to industry turnover and measured on a scale of 1 (biggest) and 5 (marginal player).

| Benchmarks | Representation |
|--|----------------|
| Corporate entity's turnover represents \geq 20% of industry turnover | 1 |
| Corporate entity's turnover represents \geq 15% but $<$ 20% of industry turnover | 2 |
| Corporate entity's turnover represents \geq 10% but $<$ 15% of industry turnover | 3 |
| Corporate entity's turnover represents \geq 5% but $<$ 10% of industry turnover | 4 |
| Corporate entity's turnover represents $<$ 5% of industry turnover | 5 |

FACTOR 2: FINANCIAL CONDITION

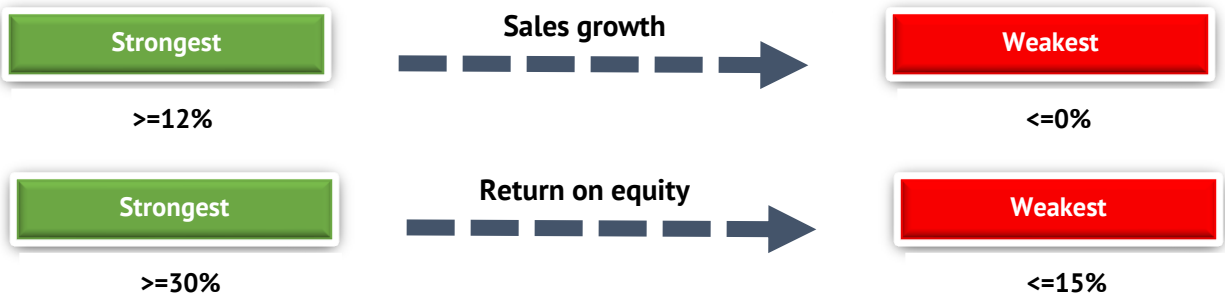
Our assessment of the financial condition of a corporate entity entails five key sub-factors – profitability, cash flow, working capital, liquidity profile and leverage. Our analysis under this factor covers a review period of the Corporate Entity's latest three years of audited financial statements, recent management accounts and one-year budget to assess trends and estimate future financial performance. We typically compare the financial metrics derived for each obligor with relevant peers in the industry. Our parameters are industry-specific as they are in line with established industry trends.

Sub-factor 1: Profitability

Through our assessment of an entity's profitability, Augusto & Co. measures the rated entity's efficiency with respect to the utilization of its resources as well as the sustainability and resilience of the earnings recorded. In assessing an Obligor's profitability, we consider the following:

- Sales growth both in nominal and real terms
- Gross margins (ability to maintain and improve current levels)
- The intensity of asset utilisation measured by asset turnover
- Operating margins (ability to maintain and improve current levels)
- Contribution of core business to overall profitability - operating profits/profit before interest and tax
- Return on assets and equity
- Sources of future profit and profit growth.

Indicative metrics (subject to industry modifications)

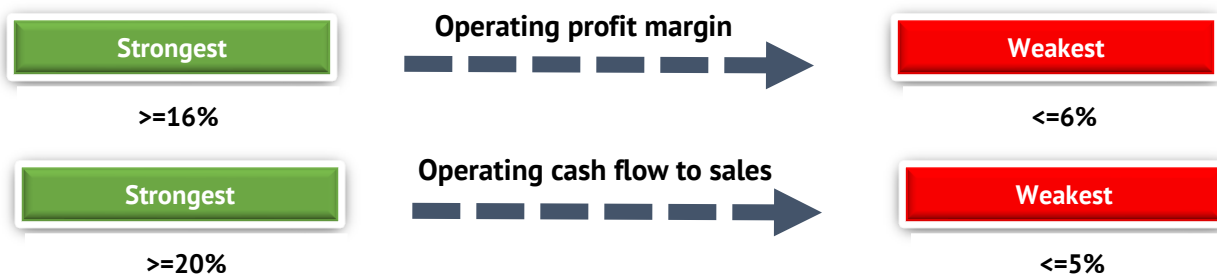


Sub-factor 2: Cash Flow

Agusto & Co. considers cash as important in the determination of the credit risk of a corporate entity as debt obligations are serviced generally through cash. Through our analysis of cash flow, we seek to understand the sources and uses of cash for an Obligor, as well as its capacity to sustain cash generation. A key consideration is the operating cash flow as it is generated from the Rated Entity's core operations (sustainable ability to convert profits to cash flow). Other considerations include the following:

- The ability of the operating cash flow to cover financing costs (interest and dividends), meet short-term asset replacement requirements and repay debts in an orderly manner
- Capital spending requirements
- Cash coverage
- Expected cash flow to maturing obligations

Indicative metrics (subject to industry modifications)



Sub-factor 3: Working capital

Working capital is the funds available to the Corporate Entity for the day-to-day running of the business. Our assessment of a Corporate's working capital is to measure the level of working capital available versus needed in the short and long term. Our assessment of a Rated Entity's working capital includes evaluating the following

- Nature and length of the operating cycle
- Changes in the operating cycle
- Level of working assets for which financing is required
- Seasonal working capital requirements
- The bargaining power of the Obligor over its suppliers
- Level of spontaneous financing available for working asset financing
- The adequacy of the available working capital from internal sources.
- Working assets and spontaneous financing are essentially current assets (less cash) and current liabilities.

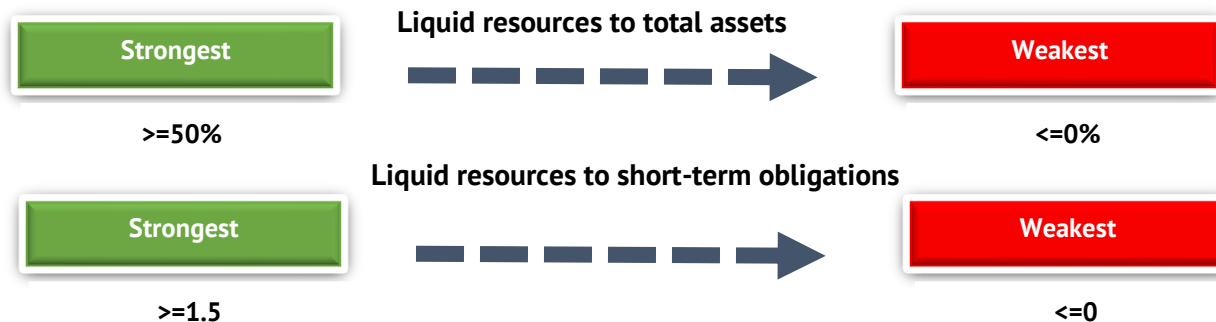
For example, we compute the working capital available (or long-term financing need) to assess the current level of long-term financing surplus/ (need) available to the Corporate Entity. When working capital is available, the entity will score a full mark, otherwise, a zero score is applied.

We also consider the overall working capital surplus / (deficiency), which is an indication of the corporate entity's overall working capital adequacy for the current level of business. It measures whether the available working capital can fully cover the working capital need or if there is a short-term financing surplus to augment the working capital position. A full mark is given where adequate overall working capital exists, otherwise, the Rated Entity gets a zero score.

Sub-factor 4: Liquidity profile

Our assessment of an Obligor's liquidity profile is to evaluate available liquid resources, which comprises undrawn committed bank lines as well as the level of cash and cash equivalents. Augusto & Co believes the existence of sizable liquid resources compared to short-term obligations demonstrates an ability to raise finance at short notice to meet maturing obligations as the need arises.

Indicative metrics (subject to industry modifications)

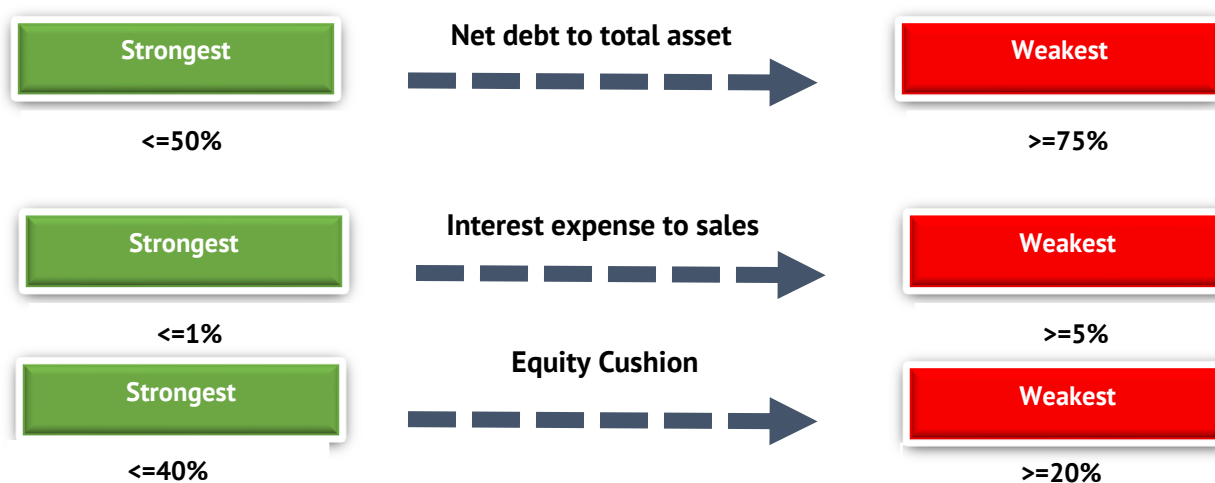


Sub-factor 5: Leverage

Leverage measures the extent to which a Corporate Entity relies on borrowed funds. An increase in borrowings relative to equity indicates a rise in leverage, which results in higher finance cost burdens. A highly leveraged entity has a higher risk of defaulting on debt obligations and less capacity to withstand volatility in earnings and cash flow generation. Our assessment of leverage covers the following

- Total liabilities to equity
- Total debt to equity
- Equity cushion
- Asset quality and expected shrinkage in asset values
- Net debt to EBITDA (earnings before interest, tax, depreciation and amortization)
- Debt service coverage ratios (including cash flow coverage of interest charges and cash flow to outstanding interest-bearing liabilities).

Indicative metrics (subject to industry modifications)



FACTOR 3: MANAGEMENT AND GOVERNANCE

Agusto & Co. considers management (including governance) as a key determiner of the credit risk of an entity. As such, this factor carries the second-largest score on our grid (after financial condition). Inputs for our assessment are typically from our discussions during pre-rating meetings as well as information garnered from the documents provided by the Corporate Entity. Agusto & Co. considers management's competence, organizational effectiveness, risk management, and corporate governance practices as we believe they impact the creditworthiness of a Rated Entity. Key considerations include –

- Changes in the Board of Directors and auditors (particularly when sudden, unexpected and repeated)
 - In our view, this affects the strategic direction of the Rated Entity and reflects dysfunctions in management as well as accounting, legal, or regulatory issues.
- Delayed financial reporting or a qualified audit report – This indicates issues with the Obligor's performance.
- Board composition – including the duality of the role of the chairman and the chief executive officer (or managing directors and a high proportion of executive directors compared to independent non-executive directors).
- Existence and composition of board committees – to support the Board's oversight function
- Management team including expertise and years of experience in the business as well as the frequency of exits and additions to the team

CONCLUSION

Ratings by Agosto & Co. are derived after a careful and detailed analysis of the entity. We analyse the profitability, cash flow, liquidity, working capital and leverage in the Rated Entity to assess its financial condition. The quality of management and governance is also key to our credit assessment as they influence the performance of the entity and its credit risks. Other considerations include existing litigations, budget/forecasts and business plans. As stated earlier, this document is not exhaustive of all our rating considerations. For more information, please reach out to our key contacts. We are always available to be of service to you.

RATING DEFINITIONS – CORPORATE ENTITIES

| | |
|------------|--|
| Aaa | A company with the best financial condition and strongest capacity to meet obligations as and when they fall due relative to all other issuers in the same country. |
| Aa | A company with very good financial condition and strong capacity to meet its obligations as and when they fall due relative to all other issuers in the same country. |
| A | A company with good financial condition and strong capacity to meet its obligations relative to all other issuers in the same country. |
| Bbb | A company with satisfactory financial condition and adequate capacity to meet its obligations as and when they fall due relative to all other issuers in the same country. |
| Bb | A company with satisfactory financial condition but limited capacity to meet obligations as and when they fall due relative to all other issuers in the same country. |
| B | A company with weak financial condition and weak capacity to meet obligations as and when they fall due relative to all other issuers in the same country. |
| C | A company with very weak financial condition and very weak capacity to meet obligations as and when they fall due are relative to all other issuers in the same country. |
| D | In default. |

Rating Category Modifiers - A "+" (plus) or "-" (minus) sign may be assigned to ratings from Aa to C to reflect comparative position within the rating category. Therefore, a rating with + (plus) attached to it is a notch higher than a rating without the + (plus) sign and two notches higher than a rating with the - (minus) sign.

RATING DEFINITIONS – SHORT-TERM

| | |
|------------|--|
| A1+ | A company with the strongest capacity to meet short-term obligations as and when they fall due relative to other issuers/obligations in the same country |
| A1 | A company with a strong capacity to meet short-term obligations as and when they fall due relative to other issuers/obligations in the same country |
| A2 | A company with adequate capacity to meet short-term obligations as and when they fall due relative to other issuers/obligations in the same country |
| A3 | A company with limited capacity to meet short-term obligations as and when they fall due relative to other issuers/obligations in the same country. |
| B | A company with weak capacity to meet short-term obligations as and when they fall due relative to other issuers/obligations in the same country. |
| C | A company with very weak capacity to meet short-term obligations as and when they fall due relative to other issuers/obligations in the same country. |
| D | A financial company in default |

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