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SUKUK RATING REPORT

K-ELECTRIC LIMITED

January 2022

الوكالة الإسلامية الدولية للتصنيف

Islamic International Rating Agency

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SUKUK RATING REPORT

K-ELECTRIC LIMITED

Report Date:

January 26, 2022

	Latest National Scale Rating (January 26, 2022)	Previous National Scale Rating (February 17, 2021)
PKR 22bn Sukuk	AA+ (pk) (Double A Plus)	AA+ (pk) (Double A Plus)
Outlook	Stable	Stable

Company Information

- Established: 1913
- Vertically integrated power utility Company
- Sole electricity distributor for Karachi (and adjoining areas)
- Key Shareholders (> 5% stake at FY2021[1]):
    - KES Power Limited: 66.4%
    - Government of Pakistan, represented by the President of Pakistan: 24.36%
- **External Auditors**: Messrs A.F. Ferguson & Co.
- **Chief Executive Officer**: Mr. Syed Moonis Abdullah Alvi
- **Chairman**: Mr. Shan A. Ashary
- **Staff**: 10,274 (FY2021)

[1] Ending June 30

CORPORATE PROFILE[2]

Islamic Republic of Pakistan ("Pakistan" or "the Country")-based K-Electric Limited ("KEL" or "the Company") is a vertically integrated power utility company engaged in generation, transmission and distribution of energy to about 3.2 million industrial and residential customers, in Karachi and adjoining areas of Sindh and Balochistan. Having been the sole electricity provider in Karachi, KEL exclusivity in terms of power distribution in the service area until July 2023.

Since our last review, KEL's ownership has remained unchanged with KES Power Limited ("KES") continuing to hold majority shares. In 2016, KES Power entered into a share purchase agreement with Shanghai Electric Power Company Limited ("SEPL") for sale of up to 66.4% shares of KEL. The transaction is impending finalization of closing conditions and requisite regulatory and government approvals. The Company is listed on Pakistan Stock Exchange ("PSX").

Table 1: Ownership Structure as of end-June 2021

Shareholding Structure	%
KES Power Limited	66.4
Government of Pakistan	24.36
Local General Public	5.72
Local Financial Institutions	1.03
Mutual Funds	1.21
Foreign Shareholders	0.07
Others	1.21

(Source: KEL Annual Report 2021)

KEL owns fleet of 5 power plants with an average gross dependable capacity ("GDC")[3] of 1,774 MW[4]. Share of KEL's own installed capacity[5] in the Country stood at 5.2% at FY2021 (FY2020: 5.9%). Further, the Company's transmission system includes 71 grid stations and 172 power transformers with capacity of over 6,536 MVA and supplemented by a transmission lines network spanning about 1,350 km. Gross annual production of KEL in FY2021 was 10,938 GWhs, up 5.6% vis-à-vis prior year, with units sent out posting 9.6% growth. During Q1'FY2022, units generated and sent-out decreased by 22.6% and 0.6% YoY[6] respectively.

Following our last review, some changes have been noted in the Company's Board, Board committees and senior management team. In addition to update of code of conduct, KEL's Board's compliance with the code of corporate governance was validated externally[7] during the last financial period.

The ratings assigned on the PKR22bn Sukuk have been affirmed with 'Stable' outlook. Since the latter half of 2020, the Company has disseminated timely financial accounts and disclosures for annual and quarterly periods. Based on the financial accounts, the Company's EBITDA is lower than required ratio as per covenant thresholds under the PKR22bn Sukuk on a timeline, while the debt service coverage has improved from a low of 0.9x in FY2020, to 2.0x in Q1'FY2022 on an annualized basis, due to improved collection efficiency. While some of these covenants may trigger repayment on the rated Sukuk instrument, KEL has obtained waiver from the Sukuk investors over the tenure of of the Sukuk. The Company has been consistent in meeting the obligations to Sukuk holders, having paid PKR4.4bn since

[2] For the purpose of this report, amounts or figures mentioned as 'bn': billion; 'mn': million
[3] Represents the amount of electricity that can be reliably produced by a plant
[4] Megawatts
[5] As per valid generation license (Source: NEPRA – '*State of Industry Report 2021*')
[6] Year-over-year
[7] In line with PSX's 'Listed Companies (Code of Corporate Governance) Regulations, 2019', external Board evaluation was conducted by Pakistan Institute of Corporate Governance ("PICG")

our last review in February 2021 (total amount redeemed up to end-December 2021: PKR19.8bn), and remaining balance due to be repaid in quarterly amortizations until June 2022. This is also supported by the ring-fenced 495 customer receivables, which have so far posted high recovery ratio. While these receivables are also earmarked against other financial obligations, the collection is sufficient to service the debt.

Regulatory Risk – Low and evolving

- National Electric Power Regulatory Authority's ("NEPRA") sets the Multi Year Tariff ("MYT"), ensuring applicability of uniform consumer-end tariff in accordance with uniform tariff policy of the Government of Pakistan ("GoP"). In March 2017, a revised MYT for KEL was issued for the 7-year period (July 1, 2016 – June 30, 2023), which was subsequently contested by the Company. Upon reconsideration request by the GoP, NEPRA finalized the base tariff at Rs. 12.82/kWh[8] in July 2018 and notified in May 2019, within which NEPRA allowed KEL to claim actual write-offs of bad debts. Nonetheless, KEL has been contesting the determined MYT tariff and has filed an appeal with the Appellate Tribunal; the process of resolution in this matter has not yet commenced.

- As part of National Electricity Policy approved by the Council of Common Interests ("CCI") in June 2021, the GoP aims to change the regulatory landscape in the Country with the implementation of Competitive Trading Bilateral Contracts Market ("CTBCM") model. This shall introduce a competitive wholesale electricity market across Pakistan, which initially would allow large consumers, suppliers, traders and generators to negotiate bulk contract of sale and purchase of electricity (more than 1MW). As per management representation, contribution of eligible consumers for KEL represents less than 20% of total revenues, which may present further opportunities for the Company to expand its footprint beyond the regions currently being served in Pakistan.

- Given the extensive capital intensive nature of the industry constraining new entrants and wide demand-supply gap dynamics in the region, the effect of expiry of distribution license next year may be deemed to be insignificant for KEL.

Recovery & Credit Risk – Low & Moderate

- Circular debt situation in Pakistan due to delay in settlement of GoP receivables is amplified by tariff differential claims ("TDC") delays and non-payment of electricity bills by public sector companies ("PSC").

- Accumulation of TDC receivables from GoP continued to reflect on the Company's cash flows. The Company has ensured timely payments of all current bills to its independent power producers ("IPPs") and fuel suppliers including Sui Southern Gas Company Limited ("SSGC") and Pakistan State Oil Company Limited ("PSO"). It may be noted that KEL's net receivables position after setting-off TDC receivables from GoP against dues for power purchased through National Grid[9], may reverse

[8] Kilowatt hour
[9] Under the power purchase agreement

with increasing power off-take over the coming periods. At FY2021 and Q1'FY2022, KEL's net receivables against government- related entities ("GREs"), on principal basis, stood at about PKR58bn (FY2020: PKR88bn), which has declined in relation to assets on a timeline; however, from a liquidity risk perspective, this may still be viewed as fairly large exposure.

- As of FY2021, KEL's customer base of about 3.2mn growing from 2.9 million in the previous year, contributed 31.5% growth in total revenue of PKR255bn[10] in the period. As per management representation, growth in consumer base was prominent in the residential users, followed by commercial segment. Almost 40.9% of total revenue was generated from residential segment (FY2020: 45.5%), while commercial and industrial consumers, generated the balance.

Supply Side Risk – Low to Moderate

- ***Power from National Grid***: Despite being vertically integrated, KEL also purchase power from various IPPs to bridge the demand supply gap. In August 2020, the GoP approved incremental power off-take up to 1,100 MW from the National Grid. Following this, the Company is also pursuing additional off-take from the National Grid, which with the completion of planned projects for new grids and interconnection points will take the total off-take to 2,050 MW by 2023.

- ***Own generation & transmission***: Since last review, construction work until now on the 900 MW RLNG-based combined power plant project (BQPS-III) is progressing well. Commissioning of the Unit 1 is ongoing. For this, the Company has signed RLNG supply agreement with Pakistan LNG in August 2021. Unit 2 is also targeted to be commissioned in FY2022.

- ***Fuel Supply:*** KEL's power generation is also reliant on the availability of gas and furnace oil, disruption of which may pose supply-side challenges for the Company. Until FY2021, furnace oil was sourced under formalized fuel supply agreement ("FSA") with key suppliers, while there was no Gas Supply Agreement ("GSA") signed with SSGC. Nonetheless, gas supply from SSGC and related payments from KEL have continued in line with specific orders of the Court. Further, in August 2021 KEL signed a GSA[11] with Pakistan LNG Ltd ("PLL") for supply of 150 MMCFD[12] for 900 MW RLNG plant at Bin Qasim Complex.

- Continued supply of furnace oil is ensured under the active agreement with Pakistan State Oil Company Limited ("PSO"), valid until end of the ongoing financial period. Agreement with BYCO Petroleum Pakistan Limited lapsed in October 2021 and renewal is in progress; however, KEL's reliance on this supplier is not material, thereby limiting the risk.

- ***Solar:*** The Company has established KE Venture Company Private Limited ("KEVCL") and its wholly owned subsidiary - K-Solar, to explore investment opportunities in renewable energy. This may be expected to yield long-term benefits and revenue streams.

[10] Excluding tariff adjustment
[11] August 2021
[12] Million cubic feet per day

Other Risks - Moderate

- The Company maintains necessary provisions against contingent payouts in the event of any adverse court and NEPRA decisions; however, the legal advice for the management is favorable.

Financial performance:

- As anticipated, KEL's profitability improved in FY2021 benefiting from improved sales and targeted loss reduction initiatives. Following marginal decline in prior year sales, KEL's units billed increased 12.6% YoY in FY2021 (16,069 GWh[13]), which coupled with 94.9% recovery (FY2020: 92.1%) is reflected in higher sales of PKR325bn vis-à-vis PKR288.8bn in the previous year. Favorable trend in T&D losses, generation fleet efficiency and reduction in load shedding translated into higher gross profit and EBITDA generation. Furthermore, lower KIBOR rates and average cost of borrowing supported higher net profit for the period, a trend that continued during Q1'FY2022. Persistent operational improvements may support improved profitability in FY2022, although higher fuel prices and increase in benchmark interest rates[14] as noted during Q1'FY2022 may set an offsetting tone.

- Debt service coverage ratio during FY2021 and recent interim quarter complied with the minimum covenant threshold of 1.15x under the rated Sukuk deed, after having posted a shortfall in the previous year. It may also be noted that payments to Sukuk Holders remain insulated to operational variances and all obligations were made on time through Master Collection Account ("MCA").

- Lower interest and overall improved profitability precipitated into higher funds from operations ("FFO") and cash flow from operations in FY2021 and Q1'FY2022. During the last financial period, the Company took measures to mitigate power theft and provided rebate scheme to improve bill collection from customers. However, delay in release of government receivables and pending determination of tariff variations have continued to constrain working capital, albeit the net usage is noted to have reduced over the last two financial periods.

- KEL incurred capital expenditure of PKR76.6bn in FY2021 vis-à-vis budgeted PKR139bn, albeit higher than PKR49.9bn in FY2020. Further, the Company has earmarked US$1bn for enhancements across generation, transmission and distribution over the next two years.

- Elevated capex resulted in higher negative free cash flows in FY2021 and Q1'FY2022. Further, the Company continued to rely on short-term borrowings to meet the shortfall in cash, resulting in 14.9% YoY higher overall debt at FY2021 to PKR230.1bn, which increased another 2.8% YTD[15] at Q1'FY2022. Ongoing infrastructure projects of KEL are debt-funded that may further keep the leverage elevated over the next two years. This includes 900 MW RLNG brown field power plants, for which financial closure is on the anvil. For this, the Company envisages using both local and

[13] Gigawatt hour
[14] After having kept the policy rate unchanged since June 2020, State Bank of Pakistan announced 25bps increase to 7.25% on September 20, 2021 and later to 9.75% on December 14, 2021
[15] Year-to-date

offshore long-term debt, given that the Company's long-term assets have exceeded non-current liabilities and equity on a timeline, this may be indicative of funding mismatch.

- Due to higher EBITDA, KEL's EBITDA/debt ratio[16] improved slightly to 15.9% at FY2021 from 14.3% a year ago (Q1'FY2022: 15.1%); however, remained under 30% minimum covenant threshold. While this may have triggered accelerated repayments on the Diminishing Musharaka Sukuk, the Company received waiver from Sukuk investors last year. Similarly, KEL's adjusted debt/equity exceeded 100% at FY2021 and Q1'FY2022, higher than 70% threshold under the debt covenants.

KEL Sukuk-ul-Shirkah (KEL Sukuk)

In 2015, KEL issued Diminishing Musharaka Sukuk certificates with face value of PKR22bn. With principal repayment under the instrument having commenced 4 years ago, the outstanding amount of the Sukuk stood at PKR2.2bn at end-December 2021, due to be repaid in quarterly amortizations until June 2022.

The PKR22bn Sukuk has investor protection mechanism in place in the form of covenants and securitization arrangements. The structure is collateralized by KEL's generating fixed assets, in addition to earmarking recievables from 495 identified commercial and industrial consumers. Historical recovery ratio from these consumers has been recorded at a high of around 95%[17]. While it may also be noted that receivables from the specific consumers are also earmarked against servicing few debt arrangements, IIRA does not view any challenges in payment to Sukukholders that is done via MCA.

Table 2: Actual Collection & Retention

Figures in PKR'bn	Collection	Retention	Payment	Excess Release	Surplus
FY2019	24.6	13.7	11.4	2.3	10.9
FY2020	24.1	18.1	15.1	3.0	6.0
Q1'FY2021	7.4	3.7	3.0	0.6	3.8
FY2021	32	19.2	16	3.2	12.5
Q1'FY2022	8.6	5.9	4.9	0.9	2.6

(Source: KEL)

IIRA has received the confirmation of compliance from the trustee with the terms set out in the Trust Deed. Under the agreement between the trustee and KEL's banker, the payments from these earmarked consumers are routed through an escrow account, whereby the trustee marks a lien on an amount equivalent to one-third of the next installment, while the remaining amount is released to KEL. In accordance with the Sukuk agreement between KEL and the trustee, the bills are routed to the designated escrow account on a monthly basis. During FY2021, both actual collection and surplus is noted to be higher vis-à-vis prior financial periods as shown in Table 2.

The Trust Deed includes few financial covenants, the breach of which may accelerate recovery. These include additional financial indebtedness, the threshold of Company's EBITDA to total debt falling below 30%, maintenance of debt-to equity ratio under 70:30 and a minimum debt service coverage of 1.2x. During FY2021, the Company was in breach of EBITDA-to-total debt and debt/equity ratios, for which necessary waiver was obtained from the Sukuk investors over the tenure of Sukuk issue. The structure of PKR22bn Sukuk was reviewed by a panel of 4 eminent Shari'a scholars in Pakistan at the time of issuance. The panel through its Fatwa had affirmed the transaction structures compliance with Shari'a

[16] As per IIRA's calculations
[17] As per management representation

guidelines as issued by regulatory authorities in its entirety, and stated that the relevant documents do not contain any element, which may be non-compliant with Shari'a. In the FY2021 accounts, the Company has also provided an updated confirmation that the financial arrangements, contracts and transactions in respect of the PKR22bn Sukuk, are in compliance with the Sukuk features and Shari'a requirements in accordance with the Public Offering Regulations (2017)[18]. In addition, the financial accounts also include an independent assurance report of the external auditor validating the status of KEL's compliance with the features and Shari'a requirements of the Sukuk.

[18] Issued by Securities and Exchange Commission of Pakistan ("SECP")

APPENDIX:

A) KEL Financial Snapshot with IIRA Adjustments

PKR'mn unless otherwise stated	FY2017	FY2018	FY2019	FY2020	FY2021	Q1'FY2022
Income Statement:						
Total Revenue	183,855	217,127	289,119	288,807	325,049	114,139
Total Cost of Revenue	144,334	171,829	238,413	244,914	265,854	97,499
Gross Profit (unadjusted for D&A)	39,521	45,297	50,706	43,893	59,195	16,640
Operating Expenses incl. impairment provisions & D&A	36,317	36,463	42,698	34,862	42,046	12,537*
EBITDA or Core Income (excl. D&A)	16,701	24,301	24,077	28,619	36,557	8,951
Other Income	9,399	8,470	7,564	8,510	9,792	2,887
Operating Profit or EBIT	12,603	17,304	15,573	17,541	26,940	6,989
Finance Cost	3,891	3,585	6,690	17,182	11,594	2988*
Net Profit Before Tax	8,712	13,719	8,883	359	15,346	4,001
Taxation (benefit)	-1,708	1,407	-8,391	3,318	3,348	1,099
Net Profit	10,419	12,312	17,274	-2,959	11,998	2,902
Balance Sheet:						
Assets	395,943	473,698	598,865	703,414	835,677	727,367
Liabilities	211,627	266,405	384,375	492,756	611,726	646,093
- Adjusted Total Debt	74,320	104,511	170,349	200,302	230,114	236,628
Long Term Debt including Sukuk	28,747	34,621	60,723	83,116	73,281	72,150
Current Portion of LT Debt and leases	8,834	6,585	7,675	11,544	16,762	15,357
Short term Borrowings & deposits	26,048	52,494	89,329	91,969	126,395	135,165
Mark-up accrued	5,809	6,370	7,528	8,314	8,858	8,962
Lease liabilities	-	-	-	97	100	96
Unfunded employee benefit obligations	4,882	4,441	5,095	5,262	4,717	4,899
Long-term debt as per Company's calculations	20,147	24,903	49,914	71,397	60,414	58,961
Total debt as per Company's calculations	49,404	72,805	129,511	155,462	184,168	187,314
Equity	184,316	207,293	214,489	210,658	239,952	226,854
Cash Flow Statement:						
FFO	39,000	44,045	42,190	25,409	44,556	8,175
CFO	27,836	19,335	-16,884	21,871	42,259	6,463
Capital expenditure incurred ("Capex")	23,767	44,614	35,574	49,919	76,567	10,630
FOCF	4,069	-25,279	-52,458	-28,048	-34,307	-4,167
Key Ratios:						
Growth in sales (%)	-2.5%	18.1%	33.2%	-0.1%	12.5%	33.4%
Growth in cost of sales incl. D&A (%)	9.8%	19.1%	38.8%	2.7%	8.5%	36.0%
Gross Margin	21.5%	20.9%	17.5%	15.2%	18.2%	14.6%
EBITDA or Core Income (excl. D&A) Margin	9.1%	11.2%	8.3%	9.9%	11.2%	7.8%
EBIT Margin	6.9%	8.0%	5.4%	6.1%	8.3%	6.1%
Net Margin	5.7%	5.7%	6.0%	-1.0%	3.7%	2.5%
EBIT Interest Coverage (x)	3.2	4.8	2.3	1.0	2.3	2.3
EBITDA Debt Service Coverage (x)	1.4	2.6	1.4	0.9	1.2	2.0
FFO / Debt (%)	52.5%	42.1%	24.8%	12.7%	19.4%	13.8%
CFO / Debt (%)	37.5%	18.5%	-9.9%	10.9%	18.4%	10.9%
FOCF / Debt (%)	5.5%	-24.2%	-31.0%	-14.0%	-14.9%	-7.0%
Cash conversion cycle (days; receivables less payables)	-80.1	-89.6	-117.7	-215.4	-311.8	-259.1
Current Ratio (x)	1.0	1.0	0.9	0.9	0.8	0.8
Trade debts / Total assets (%)	26.1%	24.4%	16.7%	14.2%	12.5%	14.9%
Adj. EBITDA / Debt (%)	22.5%	23.3%	14.1%	14.3%	15.9%	15.1%
Adj. Debt / EBITDA (x)	4.5	4.3	7.1	7.0	6.3	6.6
Adj. Debt / Equity (x)	40.3%	50.4%	79.4%	95.1%	102.8%	104.3%
Adj. Long-term debt/(LT debt + equity) as per Company's calculations (x)	0.10	0.11	0.19	0.25	0.21	0.21
Operating Statistics:						
Units Generated (GWhs) (Net)	9,374	9,557	9,928	9,629	10,186	2,537
Units Purchased (GWhs)	7,206	7,862	7,769	8,158	9,301	3,155
T&D Losses (%)	21.7%	20.4%	19.1%	19.7%	17.5%	17.8%
Units Billed(GWhs)	12,981	13,860	14,318	14,277	16,069	4,677
Recovery Ratio (%)	90.1%	91.0%	92.6%	92.1%	94.9%	93.2%
Generation fleet efficiency (%)	36.7%	37.4%	37.1%	38.0%	38.0%	38.1%

*(Source: IIRA adjusted KEL accounts; KEL Information; * unadjusted for interest on consumer deposits as information is not available; Interim ratios annualized where necessary)*

B) Key financial indicators and ratios

Definitions and adjustments for the purpose of this report
Gross Profit = (Revenue - Cost of sales)
EBITDA or Core Income (excl. D&A) = (Gross profit - Consumers services and administrative expenses - Impairment loss against trade debts - Other operating expenses + Interest on consumer deposits + Depreciation and amortization)
Operating Profit or EBIT = (EBITDA + Other income comprising 'income from financial and non-financial assets' - Depreciation and amortization)
Finance cost = (Reported finance cost + Interest on consumer deposits classified under 'Other operating expenses')
Adjusted Total Debt = (Long-term Diminishing Musharaka + Long-term financing + Long-term deposits + Lease liabilities + Current maturity of long-term Diminishing Musharaka + Current maturity of long-term financing + Current maturity of lease liabilities + Short-term borrowings + Short-term deposits + Accrued mark-up + Unfunded Employee retirement benefits)
Long-term debt as per KEL = (Long-term Diminishing Musharaka + Long-term financing)
Total Debt as per KEL = (Long-term Diminishing Musharaka + Current maturity of long-term Diminishing Musharaka + Long-term financing + Current maturity of long-term financing + Short-term borrowings)
CFO i.e. Cash flow from operations = Net cash generated from / (used in) operating activities
FFO i.e. Funds from operations = (CFO +/- Increase / decrease in current assets and current liabilities)
FOCF i.e. Free operating cash flow = (CFO – Capital expenditure incurred)
Gross Margin = (Gross profit % of Revenue)
EBITDA Margin or Core Income (excl. D&A) Margin = (EBITDA as % of Revenue)
EBIT Margin = (EBIT as % of Revenue)
Net Margin = (Net profit as % of Revenue)
EBIT Interest Coverage (x) = (EBIT / Finance cost as calculated above)
EBITDA Debt Service Coverage (x) = (EBITDA / (Current portion of long-term Diminishing Musharaka, Financings and Lease liabilities + 'Finance cost paid' as stated in the Cash flow statement)
Current Ratio (x) = (Current assets / Current liabilities)
Receivable days = (Average Trade debt * 365 / Revenue)
Payable days outstanding = (Average Trade and other payables * 365 / Cost of sales)

IIRA Rating Scales & Definitions

Ratings on International Scale

Foreign Currency Ratings

The foreign currency ratings by IIRA measure the ability of the rated entities to service their foreign currency obligations. These ratings incorporate all the sovereign risks of a country, including the risk of converting local currency to foreign currency.

Local Currency Ratings

The local currency ratings by IIRA measure the ability of the rated entities to service their local currency obligations. These ratings incorporate all the sovereign risks of a country, except the risk of converting local currency to foreign currency.

Ratings on National Scale

The national scale local currency ratings assigned by IIRA are tiered against an assumed local government rating of 'AAA' and, therefore, do not incorporate all the sovereign risks of a country.

Issue/Issuer Rating Scale & Definitions

Medium to Long Term

IIRA uses a scale of AAA to D to rate credit worthiness of the issuer and long term issues, with AAA being the highest possible rating and D being the lowest possible rating.

AAA: Highest credit quality. Represent the least credit risk.

AA : High credit quality. Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A : Good credit quality. Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB : Adequate credit quality. Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB : Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B : Obligations deemed likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC : Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC : A high default risk

C : A very high default risk

D: Defaulted obligations

Note: IIRA appends modifiers + or - to each generic rating classification from AA through B. The modifier + indicates that the obligation ranks in the higher end of its generic rating category; no modifier indicates a mid-range ranking; and the modifier - indicates a ranking in the lower end of that generic rating category.

Rating Outlook : The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of rating change.

Rating Watch-list : IIRA places entities and issues on 'Watch-list' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). A 'Watch-list' announcement means that the status of the assigned rating(s) is uncertain and an event or deviation from an expected trend has occurred or is expected and additional information is necessary to take a rating action.

Short Term

IIRA uses a scale of A1+ to C to rate credit worthiness of the issuer and its short term obligations, with A1+ being the highest possible rating and C being the lowest possible rating.

A1+ : Highest certainty of timely payment. Short-term liquidity, including internal operating factors and / or access to alternative source of funds, is outstanding and safety is just below risk free short-term obligations.

A1 : High certainty of timely payment. Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A2 : Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A3 : Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B : Speculative investment characteristics. Liquidity may not be sufficient to ensure timely payment of obligations.

C : Capacity for timely payment of obligations is doubtful.

Fiduciary Rating Score

(91-100) – Very Strong Fiduciary Standards
(91-93), (94-97), (98-100)*
Rights of various stakeholders are well protected and the overall governance framework is strong.

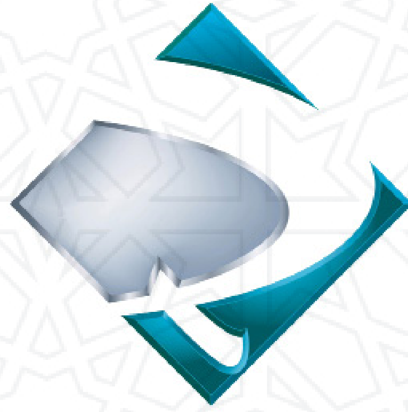
(76-90) – Strong Fiduciary Standards
(76-80), (81-85), (86-90)*
Rights of various stakeholders are protected. Minor weaknesses have been identified in the overall governance framework.

(61-75) – Adequate Fiduciary Standards
(61-65), (66-70), (71-75)*
Rights of various stakeholders are adequately protected. Certain weaknesses have been identified in a few governance related areas.

(40-60) – Basic Fiduciary Standards
(40-46), (47-53), (54-60)*
Rights of various stakeholders are relatively vulnerable. Significant weaknesses have been identified in the overall governance framework.

(Less than 40) – Low Fiduciary standards
Rights of various stakeholders are at high risk and the overall governance framework is weak.

**Apart from the lowest score range, all score ranges have been split into three sub-divisions for further clarity*



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