CareEdge GLOBAL RATINGS
A subsidiary of CARE Ratings Limited

# CareEdge Global

# Group Rating Methodology

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## A. Introduction

The Group Rating Methodology is designed to assess the creditworthiness of entities that form part of a group, where these entities are ultimately owned and controlled by the same parent company. These entities may operate across multiple sectors and/or geographies but are strategically and/or operationally linked to the parent.

The methodology focuses on identifying a single identifiable parent to ensure clarity in group assessment. However, the methodology does not apply to groups that do not have a common ownership, though they may operate broadly under the same management.

The methodology assesses the extent and nature of the relationship between the entities within the group and the group's parent, with a particular focus on the entity's importance within the structure. The Methodology provides a framework that guides this evaluation through defined parameters and thresholds. The parameters considered are both qualitative and quantitative, which help assess the likelihood of support from the group parent in times of financial stress or need.

Based on the evaluation results, a group member's rating may be notched up from its standalone rating, notched down or equated with the group parent's rating.

## B. Definition and Scope

This methodology applies to entities within financial institutions, particularly in the financial sector, where groups often comprise multiple entities operating across different financial services, such as banking, insurance, and asset management, and across various countries.

- The "parent" is the highest-level entity within the group that exercises control over the group's overall operations and strategic direction.
- A "subsidiary" is an entity within the group, over which the parent exercises control, either directly or indirectly.
- Control refers to the ability to direct a subsidiary's strategy and cash flow management, typically through majority ownership. Still, it can also exist with less than majority stakes where strategic or operational influence is evident.

The methodology assesses the above relationships to capture the credit implications arising from group linkages, support mechanisms, and the overall group structure.

## C. Overall Framework

CareEdge Global's evaluation begins with determining the parent-subsidiary relationship.

The first step in the process is assessing the **Relevant Parent Rating** using the sector-specific methodology or Group Parent Rating, which is derived through the assessment of key operating companies using their respective sector methodologies. This represents the consolidated credit quality of the group as a whole. This assessment considers all entities within a group as divisions of a single economic entity.

However, in more complex group structures, particularly those spanning multiple sectors, a single sector-specific rating methodology may not be sufficient. In such situations, CareEdge Global may apply more than one sector rating methodology to derive individual Standalone Credit Profiles for each material entity within the group. Such Standalone Credit Profiles may then be combined (with appropriate weightage based on the relative significance of each entity to the group) to arrive at the Group Parent Rating.

During the assessment of Group Parent Rating, ring-fenced subsidiaries may be deconsolidated.

Once the Relevant Rating or Group Parent Rating is established, the next step is to assess the criticality and strength of linkage between the group parent and each subsidiary. This assessment determines the extent to which a subsidiary’s rating is influenced by the Relevant Rating or Group Parent Rating. It can either be equated to that of the Relevant Rating or Group Parent Rating or can be notched (mostly down) from the Relevant Rating or Group Parent Rating, or notched (mostly up) from its own Standalone Credit Profile.

To assess this relationship, the methodology is built around three core analytical pillars:

1) **Criticality and Strategic Alignment**
   This pillar evaluates the subsidiary’s strategic relevance and future importance to the group’s long-term growth, business positioning, and financial profile.

2) **Affiliation Strength**
   This pillar assesses the depth of ownership, control, brand association, and articulation (public or implied) of support, reflecting the parent’s moral obligations to the subsidiary.

3) **Operational and Structural Linkage**
   This pillar evaluates the operational interdependence, any legal or regulatory ties between the parent and subsidiary, and the presence of shared systems and resources.

## D. Pillar-Wise Rating Factors

This section breaks down the Pillars and their key factors used to evaluate the extent and nature of the relationship between group entity and their parent, with particular focus on the entity's importance within the group structure.

### 1. Criticality and Strategic Alignment

This pillar assesses the subsidiary's role and importance within the group's long-term business strategy. It evaluates the entity's strategic edge, financial significance, and prospects to determine its criticality to the group's overall creditworthiness and future success.

#### a) Strategic Edge

Strategic Edge evaluates how the subsidiary enhances the group's strategic reach and market position.

- **Very High** importance is given to subsidiaries that provide a critical competitive edge, enabling the group's presence in key markets and access to new growth markets, technology, and/ or strategic adjacencies, thereby fundamentally strengthening the group's overall business positioning.
- Entities offering a clear and material competitive advantage that supports the parent's strategic objectives and enhances its market position are assessed as of **High** importance.
- Entities that provide some competitive benefits aiding group operations but may not be central to the group's market strategy receive **Medium** importance.
- A **Low** importance is given to entities that do not materially enhance the group's competitive position or market reach.

#### b) Financial Significance

Financial Significance assesses the entity's contribution to the group's overall financial strength and performance, whether current or anticipated in the future.

- **Very High** importance is given to entities that play a vital and sustained role, consistently contributing to a substantial share of the group's balance sheet, revenues, and profits, while also demonstrating rapid growth with strong long-term prospects. Thereby significantly supporting the group's future growth trajectory under both normal and stressed conditions.
- A **High** importance is given to entities that are significant contributors to the group's financials, materially influencing the group's profile with solid

growth prospects that contribute meaningfully to the group's longer-term outlook, but with slightly less scale than the "Very High" level.
- Entities contributing a moderate or reasonable portion of financial resources or assets, reflecting some importance but not critical to the group's core financial position and exhibiting moderate or stable growth prospects, receive **Medium** importance.
- A **Low** importance is given to entities whose financial contribution is minimal or declining, with little impact on the group's financial profile or creditworthiness and which are in a declining or sunset phase with negative growth prospects.

## 2. Affiliation Strength

This pillar reflects how deeply the subsidiary is embedded within the group's structure, including ownership control, management oversight, brand association, and form and its articulation of support.

### a) Degree of Ownership

Degree of Ownership measures the level of the group's current and prospective ownership of the subsidiary.

- **Very High** importance is given when the parent holds outright majority ownership (typically over 75%), ensuring complete control and seamless integration. These entities are considered strategically important and unlikely to be divested,
- When the parent owns a clear majority stake (over 50%), providing solid control and influence over the subsidiary is assessed as of **High** importance.
- Entities where the parent holds a significant minority stake (between 20% and 50%) with demonstrated control or influence receive **Medium** importance.
- A **Low** importance is given when the parent holds a minor stake (less than 20%), resulting in limited control or operational influence.

**Note:** The assessment of ownership importance may vary depending on jurisdictional, regulatory, and other contextual factors. For example, an entity with 51% ownership could be considered of Very High importance in cases where control is unequivocal. In contrast, in other situations, a 40% stake without any other significant shareholders may be rated as High importance.

**b) Management Oversight**

Management Oversight evaluates the extent of parent involvement in the subsidiary’s management and decision-making processes.

- **Very High** importance is given when management is fully integrated, with the subsidiary’s executive decisions and operations closely aligned and overseen by the group parent. However, in the case of a listed subsidiary, full integration may not be possible or compliant with governance regulations that require some extent of independent management and board oversight. Here, “Very High” importance should be interpreted as a strong affiliation with material parent influence.
- **High** importance is given where there is significant overlap or coordination in management and governance, reflecting material influence from the parent.
- Entities with some parent management presence but where the subsidiary retains operational autonomy receive **Medium** importance.
- A **Low** importance is given when management is independent, with little to no oversight or influence from the group's parent.

**c) Common Branding**

Common Branding assesses the extent to which the subsidiary shares its branding and marketing identity with the parent and/or group.

- **Very High** importance is given when there is full sharing of the group brand identity or high resemblance, including shared logos, taglines, visual identity, and joint marketing of products and services, with products and services bundled or marketed jointly as an integral part of the group’s overall offering.
- **High** importance is given when there is significant brand association, such as use of the parent’s name, co-branding, or aligned messaging in major products or services.
- Entities with limited brand overlap or occasional bundling, while maintaining a distinct brand identity, receive **Medium** importance.
- A **Low** importance is given when there is no meaningful brand association; the subsidiary operates entirely under its distinct brand, with independent marketing, logos, and positioning.

**d) Form and Articulation of Support**

Form and Articulation of Support assesses the legal and formal nature of the parent’s financial backing for the subsidiary. This pillar considers not only the legally binding commitments but also the parent's public articulation of support, reflecting the moral and reputational expectations that the parent will provide backing if needed.

- **Very High** importance is given when the parent provides formal, legally binding guarantees covering the subsidiary's long-term debt or the presence of cross-default or acceleration clauses in parent debt documents. Also, clear and ongoing articulation of commitment to support is available. There is a track record of equity infusions, along with committed liquidity lines or intragroup funding.
- High importance is given where guarantees or legal support exist, but with less certainty about coverage or permanence, or including some cross-default provisions. Additionally, a clear articulation of commitment to support is available, although it is not a permanent one. Past capital or liquidity support may exist, but it is less consistent.
- **Medium** importance is given to entities receiving informal or limited support, such as letters of comfort or non-binding legal assurances. Also, commitment to support is available, but not clearly articulated. Equity or liquidity aid is ad hoc, and any backing is mainly reputational, without a formal support structure.
- A **Low** importance is given when there are no formal guarantees or support, with low certainty of any backing being ad hoc or purely reputational, and there is no history of capital or liquidity assistance.

## 3. Operational and Structural Linkage

This pillar assesses the extent of interconnection between the parent and subsidiary through both day-to-day operational integration, the presence of shared systems or resource dependencies, and the existence of any formal legal or regulatory ties.

### a) Operational and Resource Integration

Operational Linkages evaluate the degree to which the subsidiary's operations complement or enhance the parent group's business, including cost efficiencies, shared services and the extent of operational, technological, and functional integration between the parent and subsidiary.

- **Very High** importance is given when the subsidiary's operations are delivering substantial cost savings, risk management, shared treasury, shared functions, have common customers, and there is deeply integrated infrastructure and systems shared with the parent, creating strong mutual dependency that is integral to the group's performance.

- **High** importance is given when some clear operational synergies or overlaps provide material benefits to the parent with some shared functions or common customers, alongside significant resource sharing leading to material dependency.
- Entities with some operational benefits, though limited in scale and scope, with few commonalities between functions, customers, and use of some group infrastructure or systems receive **Medium** importance.
- A **Low** importance is given when operational synergies, shared resources or benefits to the parent are minimal, incidental, or non-existent.

**b) Legal & Regulatory Jurisdiction**

Legal & Regulatory Jurisdiction evaluates the strength of formal legal and regulatory ties between the parent and subsidiary, considering common geographical jurisdictions, common lenders or financing arrangements. It also accounts for regulatory restrictions, such as ring-fencing, as well as the listing status of the parent or subsidiary, which influences the transparency of information regarding group support.

- **Very High** importance is given when the subsidiary and parent share strong legal links. Both entities operate within common geographical jurisdictions that facilitate regulatory cooperation and minimise barriers. Common lenders or financing arrangements legally bind the entities. Regulatory restrictions on cash flow fungibility are minimal or non-existent, allowing for relatively unrestricted movement of funds between entities. Additionally, a parent entity that is listed is deemed favourable, indicating that the parent may provide further disclosures regarding support provided to the subsidiaries.
- High importance is given when some legal links exist. Both entities operate within some common geographical jurisdictions that facilitate regulatory cooperation and minimise barriers, along with some common lenders. Further, regulatory restrictions—particularly in foreign jurisdictions—may limit cash flow fungibility, imposing constraints on the free flow of funds from the subsidiary to the parent.
- **Medium** importance is given to entities with limited legal or regulatory ties, where subsidiaries separate face regulatory restrictions like ring-fencing or dividend limitations that restrict cash flow movements. These restrictions remain effective even if the parent faces financial stress. Further, both entities operate within a few common geographical jurisdictions that facilitate regulatory cooperation and minimise barriers, along with a few common lenders.

- A **Low** importance is given when the subsidiary operates largely independently with minimal legal or regulatory linkage to the parent. Significant regulatory or legal barriers prevent the transfer of funds. Further, both entities operate within no common geographical jurisdictions that facilitate regulatory cooperation and minimise barriers, along with no common lenders.

Analysts may deviate from the above guidelines, where deemed necessary. Clear justification is required if the assigned importance differs from the guidelines provided.

## E. Final Rating

The assessment of all relevant factors is mapped into four distinct buckets, each corresponding to a notching guideline. These notches provide a guideline to equate with the Relevant Rating or Group Parent Rating, either notching down from the Relevant Rating or Group Parent Rating or uplifting the Subsidiary's Standalone Credit Profile to arrive at the final rating.

| Level of Importance | Notching Guideline |
|---|---|
| Highly Strategic | Can be Equated to the Rating of the Group Parent or the Relevant Parent |
| Strategic | 1 to 2 notches down from the Rating of Group Parent or Relevant Parent |
| Moderately Strategic | Standalone Credit Profile +2 / Standalone Credit Profile +3 |
| Least Strategic | Standalone Credit Profile +0 / Standalone Credit Profile +1 |

However, analyst judgment plays a critical role in determining the notches within the respective range to arrive at the final rating outcome.

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