CareEdge GLOBAL RATINGS

A subsidiary of CARE Ratings Limited

CareEdge Global

Securities Companies Rating Methodology

January 2026

CONTENTS

A. Introduction

Securities companies are entities that act as intermediaries in the securities markets. They provide a range of services critical to the functioning of the broader financial market. Securities companies may operate as principal traders, service providers, or a combination of both.

Principal traders carry out functions like underwriting, providing liquidity to the market by buying and selling securities (as market makers), and investing capital with various strategies to generate profits. They generally use their own capital for carrying out capital market activity, making their operations balance-sheet intensive and sensitive to shifts in market confidence.

In contrast, securities service providers typically act as agents on behalf of clients and hence they are normally not directly exposed to market fluctuations, but indirect impact is possible due to various aspects such as reduced valuation of pledged securities (for margin trading facility) or repledged securities (for liquidity management) etc. They operate across a broad spectrum of the securities industry, offering services such as interdealer brokerage, retail brokerage, exchange market infrastructure operations, advisory and other related services.

This rating methodology outlines CareEdge Global IFSC Limited's (CareEdge Global) approach for assessing creditworthiness of securities companies. It explains the key qualitative and quantitative factors that are likely to influence rating outcomes. It details the scope, framework, approach, and factors for assessment.

B. Scope

This methodology applies to securities companies that operate as principal traders (including proprietary traders[1]), service providers, or a combination of both. However, assessment for primary dealers is outside the scope of this methodology.

[1] Proprietary traders are entities which execute their market strategies by largely using its own capital to conduct financial transactions.

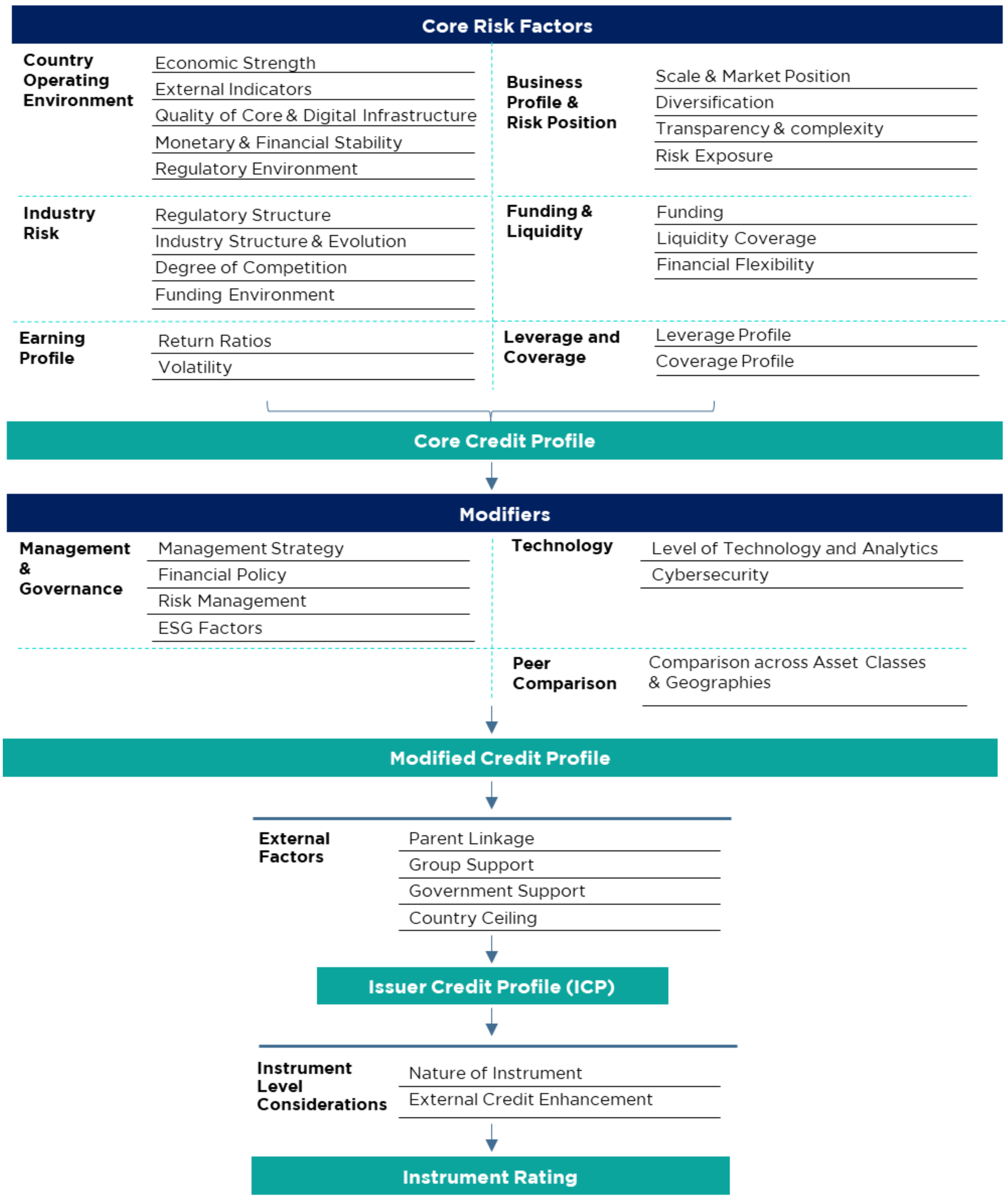
C. Overall Framework

CareEdge Global evaluates securities companies using a multi-layered analytical framework that considers both the entity's core business and financial fundamentals, as well as external factors influencing its credit profile.

- The assessment begins with an evaluation of Core Risk Factors, which form the basis for determining the Core Credit Profile (CCP).
- Adjustments to the CCP are made through a set of Modifiers, to arrive at the Modified Credit Profile (MCP).
- Subsequently, relevant External Factors are analysed to derive the Issuer Credit Profile (ICP).
- Finally, Instrument-Level Considerations are applied to assign the Final Instrument Rating (IR).

The following chart depicts the Securities Companies Evaluation Framework used by CareEdge Global:

Securities Companies Evaluation Framework



D. Core Credit Profile

The Core Risk Factors assessment evaluates six key factors that are central to the credit profile of the securities company being rated. These include Country Operating Environment, Industry Risk, Business Profile & Risk Position, Earning Profile, Funding & Liquidity, and Leverage & Coverage. Each of these factors is supported by a set of relevant sub-factors, which are described in detail in the sections below.

1. Country Operating Environment

The Country Operating Environment (COpE) is used while assessing all non-sovereign ratings to evaluate the relative strength of the operating environment of a specific country where a non-sovereign operates. COpE encompasses all key aspects that a non-sovereign encounter because of operating in a specific country(s). The evaluation is based on the following five broad aspects:

a. Economic Strength
b. External Indicators
c. Quality of Core & Digital Infrastructure
d. Monetary & Financial Stability
e. Regulatory Environment

Each of these five aspects is detailed below:

a. Economic Strength

The economic Strength of a country is an assessment of its size, income level, growth potential and ability to withstand various shocks. The resilience of an economy relies on stable and strong economic growth which determines both competitiveness and employment opportunities. This, in turn, augments citizens' standard of living and contributes to the sovereign's revenue generation ability. For a virtuous cycle of growth, productive investments are critical. Furthermore, a well-diversified economy provides flexibility to withstand various shocks while fostering inclusive and sustainable growth. On the other hand, over-reliance on a few sectors makes an economy vulnerable to sudden external shocks, as demonstrated in the pandemic-led disruption of some tourism and resource-dependent economies.

For securities companies, a robust economic environment bolsters market confidence, stimulates capital-market activity, increases capital flows, and encourages investor participation, collectively strengthening the overall capital-market ecosystem.

b. External Indicators

External Indicators include a country's access to foreign funding, trade competitiveness, and external liquidity, which have a significant bearing on the operating environment. In an interconnected global landscape, the external sector can become a source of risks emerging from global trade tensions, financial contagion, and geopolitical conflicts. Hence, external indicators such as a comfortable current account position, healthy capital inflows, sustainable external debt, adequate liquidity become increasingly important cushions to function as offsets.

Favourable external indicators strengthen the operating environment of securities companies by supporting capital inflows, improving access to foreign funding, and facilitating cross-border market activity, thereby supporting capital-market development.

c. Quality of Core & Digital Infrastructure

Availability of quality infrastructure, both physical and digital, is the backbone of a modern securities business. High-quality infrastructure ensures operational efficiency, reduces transaction costs, and enhances competitiveness in capital markets. Physical infrastructure such as reliable power supply, secure office facilities, and resilient connectivity supports uninterrupted trading and settlement operations. Equally critical is advanced digital infrastructure, which drives speed, security, and scalability.

Investments in cutting-edge trading platforms, real-time analytics, cybersecurity frameworks, and cloud-based solutions enable brokers to handle high-frequency trades, cross-border transactions, and complex risk management seamlessly. A strong digital backbone also facilitates faster settlement cycles, improves client experience, and ensures compliance with evolving regulatory norms.

d. Monetary & Financial Stability

Credible monetary policy helps in attaining low and stable inflation, which fosters business confidence. Conversely, prolonged episodes of high inflation undermine monetary policy credibility, erode purchasing power and discourage investment. In this regard, a flexible exchange rate regime allows the Central Bank to conduct independent monetary policy and manage inflation efficiently. Another important aspect is the variety of monetary policy tools at the disposal of the Central Bank and the flexibility to use them while responding to unforeseen domestic and external shocks.

Similarly, to evaluate the stability of a country's financial system, we assess trends in asset prices, performance of financial institutions, and effectiveness of interest rate transmission. A stable and deep financial system contributes to economic productivity through the efficient allocation of economic resources and eliminates financial stress. It also enhances the government and private sector's ability to raise funds domestically.

For securities companies, a credible monetary policy supports predictable inflation and foreign exchange regime which supports healthy capital markets, strengthens investor confidence, better underwriting and risk management, and improved cross-border investment flows. Whereas a strong financial system ensures reliable funding access, supports orderly market functioning, strengthens counterparty confidence, reduces liquidity shocks, and enhances the resilience of capital market activities.

e. Regulatory Environment

The strength of a country's institutions and effective policymaking contribute to overall economic stability. Strong institutions also make an economy less vulnerable to various shocks (economic, financial and political) as they enable the formulation and implementation of effective policies targeted at mitigating the impact of these shocks. In addition, good regulatory policies aid government effectiveness by improving the quality of public services and enhancing the credibility of the government's commitment toward economic progress and ease of doing business.

Legal and contract enforceability: Contract enforceability and dispute resolution frameworks reflect the strength of a country's legal system, aided by an independent judiciary. A strong legal system facilitates (i) enforcement of rights under contracts, on time and (ii) full recovery. The rule of law ensures unbiased enforcement of contracts and demonstrates the extent of citizens' respect and confidence in the rules of society.

A strong regulatory and legal environment supports securities companies by ensuring clear and established market rules, effective supervision, and enforceable contracts, which underpin investor confidence and smooth functioning of market related activities.

2. Industry Risk

The industry risk is evaluated as it may affect the financial and operational performance of a securities company. We assess the industry risk using four broad aspects:

a. Regulatory Structure

b. Industry Structure & Evolution
c. Competitiveness
d. Funding Environment

Each of these four aspects is detailed below:

a. Regulatory Structure

The regulatory structure governing securities companies plays a critical role in shaping industry stability, market integrity, and investor confidence. The assessment considers various aspects such as the extent of regulatory oversight by statutory bodies, exchanges, or other governing market participants. Additional factors such as maturity, consistency & clarity of regulations, margin requirements guidelines, and disclosures norms may be assessed. A well-defined and stable regulatory framework reduces uncertainty, supports orderly market functioning, and limits excessive risk-taking. Moreover, the track record of regulatory supervision, including the effectiveness of enforcement actions, periodic inspections, and corrective measures, is also evaluated.

b. Industry Structure & Evolution

The industry structure and its evolution reflect the depth, resilience, and sophistication of the capital market in which securities companies operate. This assessment considers various aspects such as capital market depth and breadth, including transaction volumes, liquidity, availability and trading of diverse instruments along with sophistication and understanding of capital market participants. Deeper and more active markets typically provide securities companies with greater business opportunities and revenue stability.

The pace of technological advancement is another key consideration, particularly the strength of digital infrastructure supporting trading, clearing, settlement, and payment systems. The availability of efficient digital platforms, dematerialized securities, and seamless settlement mechanisms enhance operational efficiency, scalability, and risk management for securities companies.

c. Degree of Competition

This parameter assesses the intensity of competition within the securities industry and its impact on pricing power, margins, and business sustainability. This includes evaluating the degree of competition among market participants across brokerage, trading, underwriting, and advisory activities. The assessment also considers barriers to entry, such as regulatory capital requirements, technology investments, compliance costs, brand strength, and client relationships. Higher entry barriers can support industry stability and profitability, while low barriers may intensify competition and pressure earnings for securities companies.

d. Funding Environment

The funding environment evaluates the availability, stability, and diversity of funding sources accessible to securities companies. These companies may rely on borrowings for various purposes such as working capital management (for settlement process), extending margin funding facility to their clients etc. A stable and well-functioning funding environment supports availability of credit at competitive pricing, effective liquidity management, and the ability of securities companies to navigate market volatility.

3. Business Profile & Risk Position

This parameter evaluates the overall strength of a securities company's business profile & risk position. The evaluation is based on the following four broad aspects:

a. Scale & Market Position
b. Diversification
c. Transparency & Complexity
d. Risk Exposure

Each of these four aspects is detailed below:

a. Scale & Market Position

The scale & market position of a securities company reflects its competitive standing and ability to withstand challenging market conditions. Companies with a strong market share or leading position are viewed favorably. A stable or improving market position indicates consistent execution capability and franchise strength.

Also, for service providers, greater emphasis is placed on the breadth and stability of the distribution network, quality of the client base, and the company's ability to retain and grow clients across market cycles. A well-established client franchise supports recurring income and business sustainability.

Additionally, extent of revenue volatility is also considered to understand the quality and sustainability of earnings over medium term.

b. Diversification

The extent to which a securities company spreads its activities across multiple products, client segments, geographic regions, and income categories is critically assessed. Companies with diversified revenue streams such as a balanced mix of brokerage fees, underwriting income, advisory fees, and trading income are better positioned to offset downturns in any single business line.

c. Transparency & Complexity

Transparency & operational complexity are evaluated to understand the clarity, predictability, and controllability of the company’s business model.

Higher complexity arises from involvement in complicated structured products, or activities requiring sophisticated valuation & execution capabilities, or a complex legal and ownership structure (such as multiple/ offshore holding companies or pyramid structures). Such complexity can increase operational and risk management challenges if not adequately supported by well-established policies, systems and team expertise.

The quality of accounting standards and availability of adequate information in the public domain are some of the important indicators of transparency. Adoption of internationally recognized standards enhances comparability, consistency, and disclosure quality. Strong auditing practices and internal control frameworks support timely recognition of losses and reduce the risk of misstatements, while weaknesses in these areas elevate governance and reporting risks.

d. Risk Exposure

Depending on the business model, securities companies are exposed to various risks (such as market risk, credit and counterparty risk, operational risk etc.). The assessment of risk exposure focuses on the scale of risks undertaken, the effectiveness of mitigation under the firm’s risk management framework, and the degree of compliance with stated risk policy and limits.

Given the nature of business, evaluation of operational risk is broadly similar for both principal traders and securities service providers, However, market risk and credit risk may require separate evaluation, which is detailed below:

Parameter	Principal Traders	Service Providers
Market Risk	• Market risk is critical for principal traders as the trades are carried out on own books. Assessment focuses on the proportion of higher-risk assets and off-balance-sheet exposures relative to tangible assets, reflecting the firm's risk intensity. • Assessment includes additional considerations such as unusual growth in underwriting volumes, volatility of trading profit or loss (measured through value-at-risk (VaR)), and the frequency and magnitude of outsize trading losses.	• Securities services (being custodians for clients) are generally not directly exposed to market fluctuations, but indirect impact may arise due to various instances such as reduced valuation of securities pledged by clients (for margin trading facility) etc. • Assessment focuses on various mitigation practices such as monitoring client level exposures, timely initiating margin calls and collection thereof, maintaining liquidity backup is important.
Credit and Counterparty Risk	• Largely arises from various sources such as underwriting of securities for weaker clients, derivatives transactions during volatile markets, and default of counterparty during settlement processes. • Assessment focuses on the quality & scale of these exposures, the firm's ability to manage counterparty credit quality through limits, collateralization, and monitoring practices.	• Typically arises due to financing client trades (including margin trades) when margin calls are not monitored properly or markets are volatile. • Assessment focuses on the quality of underwriting practices and ongoing monitoring of exposures.
Operational risk	• It focuses on the firm's track record of losses arising from failures of internal processes, systems, or human error. • Assessment focuses on the frequency of unintentional errors with material consequences, and any losses linked to employee misconduct or control failures.	

Additionally, the strength of the **risk management framework** is assessed, including the existence of formal risk policies, clarity of risk limits, and effectiveness of monitoring and enforcement. Negative indicators include trading into unfamiliar products or markets without approval, repeated violations of established risk standards, and frequent or material modifications to risk limits to avoid breaches.

4. Earnings Profile

The earnings profile evaluates the level, quality, and stability of earnings generated by a securities company across market cycles. Given the differentiated business dynamics between principal traders and service providers, the evaluation is carried out based on specific metrics under two broad aspects:

a. Return Ratios
b. Volatility

Each of these two aspects is detailed below:

Parameter	Principal Traders	Service Providers
Return Ratios	For principal traders, earnings are primarily driven by trading activity. Profitability is assessed through below-mentioned metrics: • **Return on Assets (RoTA):** Net profit/ Total assets. • **Return on Equity (RoE):** Net profit/ Equity.	For service providers, earnings are primarily brokerage income (closely linked to transaction volume) and fee income. Profitability is assessed through below-mentioned metrics: • **Net profit margin:** Net profit/ Total revenues. • **Return on Equity (RoE):** Net profit/ Equity.
Volatility	For principal traders, lower volatility indicates stability in trading performance and overall earnings. • **Return Volatility:** Assessed using the coefficient of variation of RoTA over medium term. It is calculated as the standard deviation of RoTA divided by the mean value.	For service providers, less volatility indicates stability in market activity and fee-related income. • **Margin Volatility:** Assessed using the coefficient of variation of net profit margins over the medium term. It is calculated as the standard deviation of margins divided by the mean value.

5. Funding & Liquidity

Funding & liquidity are critical to the financial resilience of securities companies due to the confidence-sensitive nature of their business models and exposure to rapid market movements. Adequate liquidity is required to meet both operational and market activity-driven obligations, including margin calls, settlement with brokerages, clearing house requirements, and other short-term funding needs. Given the nature of business, the evaluation distinguishes between principal traders and service providers. The evaluation is carried out based on specific metrics categorized under three broad aspects:

a. Funding
b. Liquidity Coverage
c. Financial Flexibility

Each of these three aspects is detailed below:

Parameter	Principal Traders	Service Providers
Funding	Given their reliance on balance-sheet-intensive activities, the funding assessment focuses on stable funding sources and usages (such as trading activity in securities).	Given their custodian nature of business facilitating settlement, the funding assessment focuses on stable funding sources and usages (such as extending margin trading facility for clients or working capital needs for settlement).
Liquidity Coverage	Liquidity assessment focuses on the firm's ability to meet sudden cash requirements arising from trading activities and margin requirements. It focuses on liquidity coverage by measuring the adequacy of high-quality liquid resources relative to expected short-term cash outflows.	Liquidity coverage is assessed similarly to that of principal traders, with emphasis on the availability of liquid resources to meet working capital during settlement, extend margin trading facility to client, and other operational outflows.
Financial Flexibility	It refers to the ability of the entity to manage its funding structure & liquidity position to sustain operations, and capitalize on growth opportunities, even during periods of economic or market stress. Entities which belong to large groups or conglomerates typically demonstrate better financial flexibility during testing times. Some of the key factors being assessed are: • Access to multiple funding avenues, such as bank borrowings, capital market instruments. • Access to contingent liquidity and committed credit lines. • Ability of monetize investments in subsidiaries or non-core assets.	

6. Leverage and Coverage

The leverage and coverage profile assesses the extent of balance-sheet leverage and the ability of a securities company's earnings and cash flows to service its financial obligations respectively. Given the nature of business, the evaluation distinguishes between principal traders and service providers. The evaluation is carried out based on specific metrics under two broad aspects:

a. Leverage
b. Coverage

Each of these two aspects is detailed below:

<table>
<tr><th>Parameter</th><th>Principal Traders</th><th>Service Providers</th></tr>
<tr><td>Leverage Profile</td><td>For principal traders, leverage assessment focuses on balance-sheet intensity and exposure from assets and off-balance-sheet commitments compared to equity.

Financial Leverage:
Debt to Equity
(Tangible Assets + Off-balance-sheet Exposures) / Tangible Common Equity
Operating Leverage: Evaluates the firm's ability to absorb fixed cost[2]. It is evaluated as:

Fixed Costs/ Operating Income</td><td>For service providers, leverage assessment focuses on debt in comparison to operating income.

Financial Leverage:
Debt / EBITDA
(Funds from Operations – CapEx – Dividends) / Debt
Operating Leverage: Similar to Principal Traders, it is evaluated as:

Fixed Costs/ Operating Income</td></tr>
<tr><td>Coverage Profile</td><td colspan="2">Assessment focuses on EBITDA/ Interest which indicates the ability of earnings to cover interest obligations.</td></tr>
</table>

[2] Fixed Costs considered such as rent, technology and platform costs, software subscriptions, licenses, and staff salaries etc.

E. Modified Credit Profile

To capture other important aspects, adjustments through a set of Modifiers are made to the Core Credit Profile (CCP) to arrive at the Modified Credit Profile (MCP). These modifiers include Management & Governance, Technology and Peer Comparison. Each of these factors is supported by a set of relevant sub-factors, which are described in detail in the sections below.

1. Management & Governance

The assessment of the management and governance structure of a securities company involves the evaluation of their overall strategy, financial policies and compliance towards the ESG parameters.

The management and governance structure are assessed using four broad aspects:

a. Management Strategy
b. Financial Policy
c. Risk Management
d. ESG Factors

Each of the four aspects are presented below:

a. Management Strategy

The entity's business plans, mission, policies for expansion, risk management, leverage profile, and future strategies to the general industry scenario are evaluated. A significant factor of management evaluation involves assessing the management's ability to look into the future, and its strategies and policies to tackle emerging challenges, as well as their succession planning. As a part of the evaluation of the Management Strategy, CareEdge Global assesses the effectiveness of the management strategy, its track record of achieving past commitments, and its commitment towards improving the credit profile.

Management strategy is assessed based on the historical effectiveness of the strategy and the presence of a clear, well-defined long-term vision that is effectively translated into a transparent and actionable strategic plan. The ability of management to execute these plans and achieve communicated strategic and financial targets (such as reducing debt levels, improving liquidity position, and maintaining strong key financial ratios) is a key indicator of competence and operational effectiveness. A strong track record of meeting past commitments enhances credibility and stakeholder trust, while frequent shortfalls or missed commitments may indicate management or operational weaknesses, increasing overall management risk.

On the other hand, frequent shortfalls or missed commitments may signal potential weaknesses within the management or operational challenges, which can increase the overall management risk

b. Financial Policy

The financial policy of a securities company reflects management's approach to financial discipline, transparency, and long-term sustainability in a confidence-sensitive business environment. At an organizational level, the assessment focuses on the clarity and consistency of financial policies governing capital usage, liquidity buffers, leverage tolerance, and earnings retention.

A prudent financial policy is characterized by conservative balance-sheet management, alignment between financial decisions and stated risk appetite. Securities companies that prioritize sustainable growth, maintain adequate buffers, and avoid excessive cash withdrawals demonstrate stronger commitment to long-term stability rather than short-term performance optimization.

c. Risk Management

Risk management assessment focuses on management approach to define, communicate, and enforce risk appetite across the organization. A strong risk culture is reflected in clear governance structures, disciplined decision-making, and consistent alignment between stated risk objectives and business execution. Monitoring risk trends over time and responding proactively to changing market conditions provides insight into management's ability to operate within acceptable risk boundaries.

Management's approach to growth and business expansion is a key indicator of risk discipline. Securities companies that pursue measured growth aligned with their expertise and control capabilities, and that are willing to recalibrate strategies during periods of heightened uncertainty, demonstrate a conservative and resilient risk mindset. As operational complexity increases, effective risk management is evidenced by strengthened oversight, robust internal controls, and a sustained focus on maintaining stability across market cycles.

d. ESG Factors

The evaluation of Environmental, Social, and Governance (ESG) factors in an entity is critical for understanding its long-term sustainability, ethical practices, and contribution to broader societal goals. ESG assessments provide insights into how effectively an entity manages non-financial risks and aligns its operations with responsible and sustainable practices.

Environmental assessment focuses on initiatives such as issuing green bonds, shifting toward low-carbon assets and promoting energy-efficient technologies. It also examines efforts to reduce energy use, minimize waste, and manage climate-related financial risks etc.

Social assessment reviews initiatives that enhance access for underserved populations, promote employee well-being, and ensure diversity and inclusion, particularly at leadership levels. It also considers Corporate Social Responsibility (CSR) and philanthropic activities, transparent disclosures, and ethical marketing to protect customer interests and build trust.

Governance assessment evaluates board independence, diversity, and expertise in overseeing strategy, risk management, and ESG objectives. It also reviews governance structures, ESG disclosures aligned with international standards (GRI, SASB), and the robustness of anti-corruption policies, whistleblower mechanisms, and ethical conduct.

2. Technology

For securities companies, technology and cybersecurity are not just enablers but strategic imperatives. Companies that invest in advanced technological solutions and robust cybersecurity frameworks can enhance efficiency, foster trust, and maintain a competitive edge while mitigating risks in an increasingly digital financial ecosystem. The technology profile is primarily assessed using the following two broad aspects:

a. Level of Technology and Analytics
b. Cybersecurity

Each of these two aspects is explained below:

a. Level of Technology and Analytics

CareEdge Global assesses the infrastructure and technological capabilities of securities companies as a critical aspect of their evaluation. Companies that prioritize and invest in industry-leading technology are viewed more favourably compared to those operating with outdated or inadequate systems. Advanced IT infrastructure and cutting-edge innovative technology enable entities to leverage innovative solutions, enhance operational efficiency, and maintain a competitive edge. This translates to lower risk, as these entities are better positioned to adapt to market changes and ensure sustained operational effectiveness. Conversely, entities with subpar infrastructure and outdated technology face higher risks due to potential operational inefficiencies, reduced competitiveness, and challenges in addressing technological advancements.

b. Cybersecurity

A securities company with robust cybersecurity framework demonstrates resilience against cyber threats, ensuring business continuity and safeguarding customer trust. Conversely, weaknesses in cybersecurity infrastructure and practices can expose the entities to operational, financial, and reputational risks, significantly affecting their overall risk profile and competitiveness.

CareEdge Global assesses the robustness of an entity's cybersecurity framework, primarily by focusing on the existence and effectiveness of a formal cybersecurity policy and strategy aligned with regulatory requirements and industry best practices. Preparation to address cyber incidents, including structured response plans and business continuity protocols is also critical to assess the effectiveness of the overall cybersecurity framework. Furthermore, the implementation of firewalls, intrusion detection systems, encryption protocols, endpoint protection, measures to secure data and operations hosted on cloud platforms, including vendor risk management practices are evaluated.

3. Peer Comparison

The analysis of management, business and financial risk is internal to the securities companies and used to arrive at the standalone assessment of the entity. Peer group analysis is done to assess the relative performance and creditworthiness of an entity by comparing it to its peers within the same country or operating in countries having similar economic risks and operating environments.

This analysis involves selecting a group of entities that share similar characteristics such as size, business model, geographic location, and market focus. The entity is then compared on various parameters, both financial and non-financial to its peers who may not be direct in all parameters. Key metrics and ratios are then compared across these peers to evaluate the given factors.

Benchmarking against peers can identify trends, strengths, and weaknesses specific to the entity being evaluated, providing a clearer context for assigning a credit rating. This comparative approach helps in understanding the competitive positioning of the entity within its industry and contributes to make informed decisions regarding its financial health and stability. The positioning of the entity relative to its peer group refers to how the entity is perceived and positioned compared to other similar entities.

F. Issuer Credit Profile

1. External Factors

The Modified Credit Profile (MCP) is adjusted for parent group or sovereign support, if available, to arrive at the Issuer credit profile (ICP). In group support, the guarantor, parentage/shareholding pattern and strategic importance of the securities company in the overall group are taken into consideration.

a. Parent Linkage

The assessment of parent linkage is critical to analyse the ability and willingness of the parent entity of the securities company to assist it, during periods of financial stress or crisis. There are several factors including legal and regulatory frameworks which play a significant role, as they outline the conditions under which support can be provided and the extent of that support. Further, past instances of support or bailouts can establish precedents that affect stakeholders' expectations and perceptions of future support. Financial resources and stability are important as support providers with strong fiscal positions and stable economic conditions have greater capacity to intervene during crises compared to those with limited fiscal space or weaker economic fundamentals. Similarly, access to liquidity is also critical, as it determines the ability to inject capital or provide emergency funding swiftly.

b. Group Support

This encompasses exceptional backing provided by a larger group within which the securities company operates. This support enhances the entity’s credit profile by leveraging the group's collective resources, diversified business lines and strong financial standing. The organizational framework and hierarchy within a group of companies play a crucial role in determining the flow of support. Centralized structures with clear lines of authority and consolidated financial resources may facilitate more effective support mechanisms. Conversely, decentralized structures or loosely affiliated subsidiaries may face challenges in coordinating and deploying support swiftly and effectively.

The ease with which financial resources can be transferred or utilized across different entities within the group is essential. Factors such as local regulatory restrictions, different jurisdictions, currency exchange controls, and tax implications can affect the fungibility of resources. These differences can impact the feasibility and speed of providing support across borders.

c. Government Support

Securities companies are generally not considered a significant source of systemic risk, and government interventions in this sector have historically been infrequent, temporary, limited and targeted, primarily aimed at stabilizing market conditions. Therefore, if such government commitment is explicitly stated, it can be reasonably incorporated into the evaluation of the entity's credit profile.

d. Country Ceiling

The sovereign ceiling serves as a benchmark for rating entities within a country, reflecting the intertwined nature of sovereign and corporate credit risks. It refers to the highest possible credit rating that can be assigned to an entity within a country, typically capped at the sovereign's credit rating. This concept reflects the influence of a country's economic, financial, and political stability on the creditworthiness of entities operating within its borders.

G. Issuer Instrument Rating

1. Instrument Level Considerations

a. Nature of Instrument

The credit rating approach outlined provides the entity's Issuer credit profile (ICP), which aligns with the credit profile of the senior debt obligations, without external credit enhancement. In contrast, other instruments, which have lower priority for repayment, may be rated one or more notches below the ICP. This lower rating reflects their higher risk due to their subordinate position in the creditor hierarchy. These rating adjustments provide a clear indication of the relative risk and priority level associated with different debt instruments issued by the entity, aiding investors, and stakeholders in their risk assessments.

b. External Credit Enhancement

External credit enhancement (ECE) refers to mechanisms or instruments provided by third parties to improve the credit profile, enabling it to secure a higher credit rating than its standalone or intrinsic creditworthiness. By reducing the perceived risk for investors, ECE enhances the entity's ability to access funding at favourable term. Some of the key forms of External Credit Enhancement include:

- Third-Party Guarantees wherein a highly rated entity (e.g., a parent company, sovereign, or multilateral agency) guarantees part or all the obligations of the securities companies. These guarantees can cover principal, interest, or both, and are often provided by development banks or export credit agencies.
- Similarly, Credit Insurance in the form of insurance policies from highly rated insurers protects against specific risks, such as default or political instability and these are normally used for cross-border transactions.
- Further, collateralized support in the form of highly liquid and secure assets (e.g., cash, government securities) is pledged to back the securities company's obligations which reduces the credit risk by providing direct recoverability for lenders in case of default.

Contact

Pawan Agrawal	Advisor	c-pawan.agrawal@careedge.in
Nitesh Jain	Chief Rating Officer	nitesh.jain@careedgeglobal.com
Kiran Kavala	Senior Director	kiran.kavala@careedgeglobal.com
Mayank Devpura	Director	mayank.devpura@careedgeglobal.com
Sanchit Gahlaut	Analyst	sanchit.gahlaut@careedgeglobal.com
Mradul Mishra	Media Relations	mradul.mishra@careedge.in

CareEdge Global IFSC Limited
(subsidiary of CARE Ratings Ltd.)
Unit No. 501, Fifth Floor, FLEXONE, Building Footprint 15C2, Block 15, Road 1C, Zone 1, GIFT SEZ, GIFT City, Gandhinagar – 382050, Gujarat, India.
CIN-U66190GJ2024PLC151103

About Us:

CareEdge Global IFSC Limited (CareEdge Global) is a full-service Credit Rating Agency (CRA) with a mission of Empowering Global Capital Market Participants Through Unrivalled Insights and Expertise. As the first CRA registered and authorized by the International Financial Services Centres Authority (India), CareEdge Global is uniquely positioned to provide comprehensive ratings on a global scale. A part of the CareEdge Group, which is a knowledge-based analytical organisation offering a wide range of services in Credit Ratings, Analytics, Consulting, and Sustainability. Established in 1993, our parent company, CARE Ratings Limited (CareEdge Ratings), stands as India's second-largest rating agency.