Corporate Scorecard

Ratings Methodology – Corporate Rating Criteria

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From Equifax

Table of Contents

1 OVERVIEW ... 1
2 SCOPE ... 1
3 KEY RATING TERMINOLOGIES ... 2
4 CREDIT RATING METHODOLOGY ... 3
4.1 Industry Risk Drivers ... 5
4.1.1 Economy ... 5
4.1.2 Industry Analysis ... 5
4.2 Business Risk Drivers ... 7
4.2.1 Sustainability and Management ... 7
4.2.2 Competitive and Operating Risks ... 7
4.2.3 Governance and Structural Complexity ... 8
4.3 Financial Risk Drivers ... 9
4.3.1 Profitability, Activity and Stability ... 9
4.3.2 Cash Flows ... 10
4.3.3 Liquidity ... 10
4.3.4 Capital Structure, Leverage & Debt Servicing ... 11
4.4 Arriving at the Rating ... 12
5 COMMITMENT RATINGS ... 12
6 ISSUE RATINGS ... 14
6.1 Subordination Risks ... 14
6.2 Recovery Prospects ... 14
7 Annexures ... 16
7.1 Parent Subsidiary Linkage (PSL) Framework ... 16

1 OVERVIEW

This document provides an overview of Corporate Scorecard's criteria for assessing the creditworthiness of non-financial corporations[1] (Entity). The document outlines the process, principles and methodology applied in Corporate Scorecard's engagements.

2 SCOPE

Corporate Scorecard's corporate rating methodology is an analytical framework for assigning the different types of ratings (credit, commitment and issue), which reflect an Entity's capacity and willingness to honour its commitment(s) in a timely manner. Corporate Scorecard's top-down approach is supplemented by rigorous, bottom-up, evidence-based analysis. Inputs to Corporate Scorecard's rating methodology include a variety of financial and non-financial data from diverse sources.

[1] A non-financial corporation means an entity of any legal form, that does not provide insurance, banking or other such services.

3 KEY RATING TERMINOLOGIES

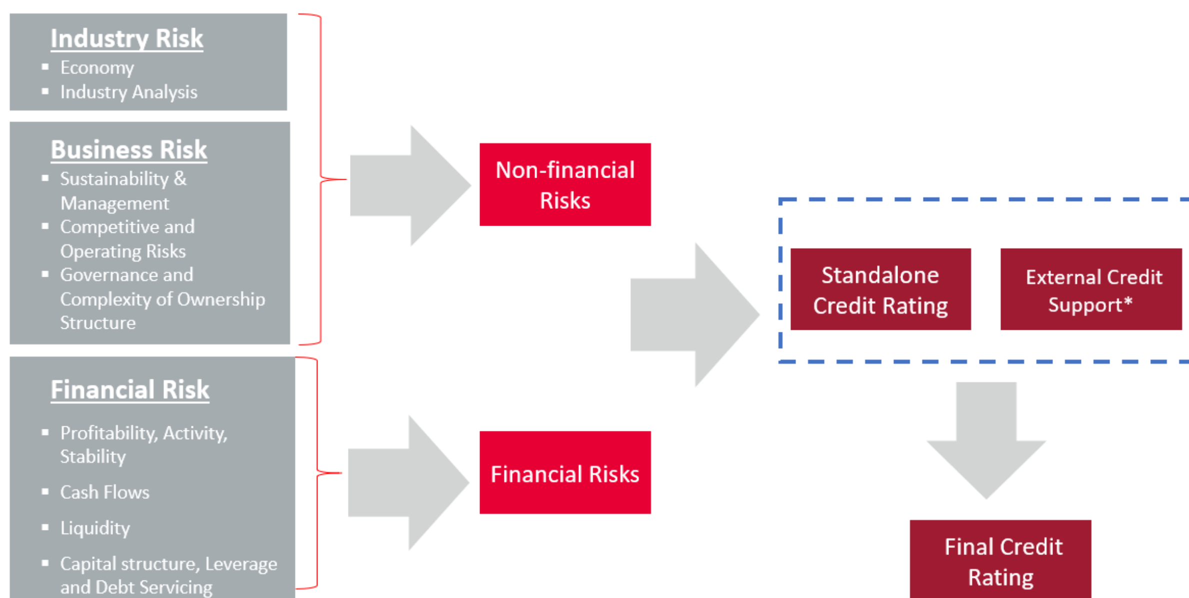
For key rating terminologies including definitions, qualifications and outlook refer to the ratings service guide hosted on the Corporate Scorecard's website.

4 CREDIT RATING METHODOLOGY

Corporate Scorecard's assigned credit ratings are arrived at by analysing the stand-alone and combined impact of key drivers of systemic (industry fundamentals) and non-systemic risks (Entity's business risk and financial risk profile). Corporate Scorecard evaluates an Entity's exposure to systemic and non-systemic risks on both, gross and net basis – taking any mitigating factors into account, to assess the impact of these risks on an Entity's credit rating.

The below figure summarises Corporate Scorecard's framework for arriving at credit ratings.

Figure 1: Overview of the Rating Process



* External Credit Support refers to support from an external parent or related entity within a Corporate Group.

Corporate Scorecard's rating process starts with an assessment of an Entity's exposure to industry risk factors (top-down approach). Corporate Scorecard determines an Entity's exposure to non-systemic risk factors by analysing financial and non-financial business risks (bottom-up approach). Corporate Scorecard combines the results of its top-down and bottom up approaches to arrive at the standalone credit rating. Lastly, the standalone rating is modified for availability of any external support.

The table below summarises some of the various factors and sub-factors which may be evaluated to determine impact of key risk drivers:

Risk	Factors	Sub – Factor
Industry Risk	Economy	• Demography • Political Risks • Geopolitical Risks • Monetary Policy • Fiscal Policy • Economic Dependencies
	Industry Analysis	• Industry Competition • Structural Risk Factors • Volatility • Industry Life Cycle • Size of The Industry
Business Risk	Sustainability and Management Quality	• Strategy • Management
	Competitive and Operating Risk	• Diversity of Operations • Scale of Operations • Execution Capabilities • Value Chain Risks
	Governance and Complexity of Ownership Structure	• Ownership Structure and Related Party Dependency • Governance Quality
Financial Risk	Profitability, Activity and Stability	• Competitive Positions • Cost Structure • Operating Leverage
	Cash flows	• Cash Flow Coverage • Trade Creditor Exposure • Cash Conversion Cycle
	Liquidity	• Cash Ratio • Working Capital
	Capital structure, leverage and debt servicing	• Gearing • Leverage • Sustainable Growth • Debt Service
External Credit Support	Parent Subsidiary Linkage (PSL) Framework	• Legal Linkage • Operation Linkage • Strategic Linkage • Financial Linkage • Strength of The Parent

The sections below summarise the credit rating process. The arrangement of below paragraphs is only to facilitate cohesion and may not necessarily reflect the actual rating process.

4.1 Industry Risk Drivers

This step of the rating process involves identifying the industry, which best mirror the Entity's operating environment. In an instance where an Entity is operating in a niche sector, Corporate Scorecard may use an industry with similar risk factors as a proxy. Various industry risk assessment tools are then used to study the economy and the underlying industry to assess overall risk to typical operators within the identified industry.

4.1.1 Economy

Corporate Scorecard analyses the current state of and the trend in macroeconomic themes for countries where the Entity is domiciled and/or generates the majority of its revenues (or incurs the majority of its costs). Macroeconomic themes are reviewed using numerous factors, some of which may include:

- Demography – The population size, birth rates, growth rates, unemployment levels, average age of population. These factors impact the long-term growth rates of an economy.
- Country's political risk – the political uncertainty, and potential impact to a specific industry from change in regulations.
- Fiscal Policy – State of current and capital accounts, state of the sovereign's balance sheet and outlook, government expenditure, transferability and convertibility risks.
- Monetary Policy – Interest rates, inflation etc.

4.1.2 Industry Analysis

Industry Competition

Corporate Scorecard evaluates the level and nature of competition in an industry to measure its impact on the current and forecast performance of the industry participants. Corporate Scorecard utilises various models including but not limited to Porter's forces and SWOT Analysis to evaluate the overall industry competitiveness.

Some of factors evaluated to measure industry competitiveness include:

- Bargaining power of buyers and suppliers – Corporate Scorecard examines switching costs, availability of alternate suppliers, number of buyers and suppliers, product/input differentiation to judge the bargaining power of buyers and suppliers, and an industry participant's position in the value chain.
- Competition rivalry – Depends on the number of players, exit costs and quality differences.
- Barriers to entry – Corporate Scorecard looks at economies of scale, specialised knowledge, legal and capital requirements, threat of technology or disruption.

- Degree of substitution – Depends on the availability and performance of the substitute and switching costs.

Structural Risk Factors

Structural risk factors have a disproportionately large impact on overall industry profitability, independent of all other risk factors. For example, fuel prices in the airline industry majorly dictate overall industry profitability irrespective of the basis or level of competition. Hence, Corporate Scorecard attempts to identify and closely evaluate such structural risk factors.

Volatility

Corporate Scorecard examines the earnings volatility in an industry, since sharp fluctuations undermines the cash quality of earnings and increases the risk of a default in cyclical downturns. While evaluating earnings volatility, Corporate Scorecard evaluates a range of factors including but not limited to price elasticity of demand, nature of offerings, position in the value chain and the proportion of consumer's disposable income spent on industry goods.

Industry Life Cycle

Corporate Scorecard examines the industry life cycle, as overall industry profitability and market structure – major determinants of credit risk - vary as an industry moves through phases of start-up, growth, shakeout, maturity and decline. For example, industries in the growth and start-up phase typically have material capital investment requirements and generate weak operating cash flows which in turn may constrain access to capital for such businesses.

Size of The Industry

An industry which makes a significant contribution to GDP or overall employment or failure of which may have a widespread contagion effect on the overall economy, is more likely to receive regulatory support to counter disruption caused by technological change or prolonged periods of cyclical downturns.

Industry Scores

The combined evaluation of the above-mentioned key industry risk drivers is used to arrive at industry scores, which serve as building blocks for sector ratings and are forward looking estimates of the industry's credit risk. A composite of the trimmed medians of financial indicators and a business risk profile that is typical of the industry is used to construct industry scores. The validity of this process is enhanced by Corporate Scorecard's near complete coverage of Australian public and private Entities financial data.

Sector Ratings (SRs)

Industry scores are translated into sector ratings, which act as a proxy for systemic risks faced by the Entity and serve as guiding signposts throughout the rating process.

4.2 Business Risk Drivers

Corporate Scorecard examines the Entity's management quality and strategy, competitive position and governance and complexity to peg its exposure to idiosyncratic business risks.

4.2.1 Sustainability and Management

An Entity's strategic response to systematic risk factors has a strong bearing on overall business profitability. As part of this analysis Corporate Scorecard evaluates an Entity's strategy for clarity, appropriateness, risk appetite and compatibility with existing capabilities. Further attention is paid to the flexibility of the Entity's strategy and its ability to respond to changes in its external environment.

A key determinant of the quality of an Entity's strategy is reflected in management's ability to identify changes in the business and market environment and respond effectively in a timely manner. In assessing this, Corporate Scorecard evaluates the qualifications and experience of key managerial personnel and their ability to implement the formulated strategy.

4.2.2 Competitive and Operating Risks

Several factors determine an Entity's competitive position. Some of these factors include scale and diversity of operations, brand, market share and history of operations.

Diversity of Operations

Corporate Scorecard examines the diversity of operations across a range of factors including but not limited to products, end-sectors and geographic segments to identify resilience to idiosyncratic factors. Entities with strong international, national or regional presence rate well in this category. Stronger balance sheets and more diversified asset bases are better able to absorb larger system-related (undiversifiable) losses.

Scale of Operations

Corporate Scorecard also evaluates the scale of an Entity's operations. A larger operating footprint enables an Entity to enjoy economies of scale and command a larger market share, which may also result in a strong brand reputation. Entites which maintain large scale of operations may also enjoy the ability to manage its supply chain risks by commanding strong bargaining power relative to its suppliers.

Execution Capabilities

Corporate Scorecard looks at the history of operations to measure the Entity's execution and growth capabilities. A long track record of executing projects of varying size, nature and degree of complexity

usually serves as a strong indicator of ability to adapt to changing conditions and execute projects. While evaluating the history of the Entity, emphasis is placed upon the Entity's clientele and length of customer relationships, since long standing relationships with high-quality clients supports an above average competitive position. Long term relationships also reflects an ability to win repeat orders, which in turn underpins stability of earnings.

Value Chain Risks

Corporate Scorecard examines an Entity's position in the value chain and supply chain risks to measure its capacity to withstand unforeseen disruptions. An Entity's bargaining power is expected to benefit if it is performing a critical role in the value chain and faces a lower risk of backward or forward integration by its customers or suppliers respectively. An Entity may be reliant on its suppliers not only for inputs but also for key execution capabilities. Moreover, the credit extended by the suppliers may underpin an Entity's working capital.

4.2.3 Governance and Structural Complexity

An Entity's governance and ownership structure determine an Entity's response to routine and non-routine agency risks, which arise in the normal course of business.

Ownership Structure and Related Party Dependency

An overly complex or convoluted ownership structure can create material related party dependencies and may impede the ability to assess the overall financial risk on a transparent basis. Where an Entity under assessment forms part of a larger group, the credit rating may be adjusted in accordance with the Parent Subsidiary Linkage detailed in annexure 7.1.

Governance Quality

Corporate Scorecard evaluates an Entity's governance quality to assess the management's competence and independence. Some of the areas examined include:

- Independence of its Directors – The lack of independence results in agency risks, which may undermine the Entity's long-term financial viability
- Management's engagements outside the Entity – Too many outside engagements also increase agency risks and may lead to conflict of interest situations
- Compensation practises – Aggressive compensation practises may result in asset and cash stripping of the Entity
- Integrity of management – Corporate Scorecard examines the quality and frequency of disclosure and history of the Entity's compliance with various regulations to evaluate the integrity of the Entity's management.

- Adverse check – Corporate Scorecard review instances of unfavourable adverse checks, if any, to ensure that directors were not prima facie involved in any misconduct or wrongdoing in their capacity as directors in other entities.

Corporate Scorecard also evaluates other non-financial information (ex: PPSR, negative media coverage, known prior incidents of poor project execution), available to identify any current or potential weaknesses in the competitive position or quality of the management.

Once non-financial information is evaluated, Corporate Scorecard reviews the available financial information to measure the Entity's exposure to financial risks.

4.3 Financial Risk Drivers

Corporate Scorecard measures an Entity's financial risk by examining its profitability, cash flows, liquidity and capital structure. Corporate Scorecard evaluates an Entity's independent and comparative financial performance on historical (at least 3 years of historical data where available) and forward-looking basis. In addition, Corporate Scorecard stress tests the Entity's financial indicators to estimate its ability to withstand deterioration in industry, business or financial risk factors, which may result in a material impact an Entity's credit risk profile.

Benchmarks and Forecasts

While evaluating financial risk indicators, Corporate Scorecard benchmarks the Entity's fundamentals against its peers and financial indicators for the wider sector. Corporate Scorecard, leveraging off its extensive data assets, maintains these benchmarks internally on a number of industries and sectors. This exercise enables Corporate Scorecard to identify anomalies and outliers, which warrant a closer examination to identify the likely source and sustainability of such advantages/disadvantages over industry peers and impact on the Entity's credit profile.

In addition to benchmarking, Corporate Scorecard also uses contextual and other data to develop forecasts, stress test financial models and conduct sensitivity analysis, which collectively are used to support the assigned credit ratings.

4.3.1 Profitability, Activity and Stability

An Entity's profitability is a function of its competitive position and cost structure. A sound competitive position imparts pricing power and supports an Entity's ability to generate above industry average margins. High margins provide an Entity with operating flexibility and support its ability to withstand price/volume shocks. An Entity's operating model directly impacts its cost structure. For example, a Entity may choose to have minimal fixed expense base and outsource majority of its functions. Such decisions impact not only profitability but also delivery capabilities, hence, Corporate Scorecard

analyses the appropriateness of an Entity's business model in addition to its competitive position - as indicated by its margins. Some of the ratios used to measure an Entity's profitability are:

Ratio	Calculation
Revenue Volatility	Stability in revenues/ growth over the period under review
Gross Profit Margin	Gross Profit / Revenue
Operating Profit Margin	EBIT/Revenue
Pre-tax Profit Margin	Profit before tax / Revenue
Headroom to break-even Revenue	[Reported revenues / break-even revenue level (Fixed expenses/gross margin)]-1
Degree of Operating Leverage	Gross profit / EBIT
Revenue Volatility	Standard deviation (5 years revenue)/Average (5 years revenue)

4.3.2 Cash Flows

As part of its financial analysis, Corporate Scorecard evaluates the cash quality of Entity's earnings. Key to this assessment is assessment of the Entity's cash conversion cycle and operating cash flows. Corporate Scorecard also adjusts an Entity's reported operating cash flows classification of non-operating items (for instance change in related party loans for liquidity management) and benchmarks an Entity's cash conversion cycle to peers. Such analysis also helps to identify cases of excessive reliance on its supply chain for liquidity. Corporate Scorecard examines activity ratios in comparison to peers to estimate an Entity's sustainable growth capacity and maintenance capex expenditure requirements. For example, an Entity with a high activity ratio compared to peers, faces the risks of a high impost on liquidity from less frequent but high-cost asset replacement requirements. Consistently high maintenance capital expenditures weigh on an Entity's ability to generate post investment cash flows, one of the key indicators monitored to evaluate an Entity's ability to grow sustainably. Some of the ratios used to evaluate the cash flows are:

Ratio	Calculation
Activity	Revenue / Total Assets
Cash Flow Coverage	Operating Cash Flow / Current Liabilities
Trade Creditor Exposure	Trade Creditors / Total Assets
Cash Conversion Cycle	Debtor holding days + Inventory holding days - Creditor payment days – Revenue in advance days

4.3.3 Liquidity

Corporate Scorecard reviews an Entity's liquidity profile to measure its ability to maintain solvency and meet its short-term obligations over the next twelve months. In addition to operating and payroll

liabilities, an Entity has several other short-term non-operating liabilities, which if not met in time can lead to a credit event. For example, a failure to roll over expiring long-term debt or renew funding facilities may result in a material deterioration in an Entities credit profile to the point of distress. Corporate Scorecard assesses an Entity's access to funding facilities, debt maturity schedule and headroom under stipulated covenants. In case of an Entity which has no external funding facilities, liquidity ratios are used to measure its capacity to access funding facilities. Some of the ratios examined to study the liquidity profile include:

Ratio	Calculation
Liquidity	Current Assets / Current Liabilities
Quick Ratio	Current Assets – Inventory / Current Liabilities
Cash Ratio	Unencumbered cash balance / Current liabilities
Debtor Days	Trade Debtors * 365 / Revenue
Creditor Days	Trade Creditors * 365 / Cost of Goods Sold
Inventory Days	Inventory * 365 / Cost of Goods Sold
Maintenance Capital Coverage	(Cash Flow from Operations + Cash Tax + Cash Interest) / Maintenance Capital Expenditure
Working Capital Coverage	(Cash Flow from Operations + Cash Tax + Cash Interest) / Working Capital
Contractual obligation coverage	(Cash Flow from Operations + Cash Tax + Cash Interest) / (Interest + Rental costs + Trade Creditors + Preferred Dividends + Other contractual commitments over 12 months.

4.3.4 Capital Structure, Leverage & Debt Servicing

Corporate Scorecard examines the Entity's capital structure. The capital structure is impacted by the management's risk appetite and return on capital expectations of the shareholders. A management with a high-risk appetite may borrow excessively, which maximises return to equity holders but creates a high demand on the Entity's cash flows and increases the risk of the capital structure. A high debt balance also adversely impacts the residual available to unsecured creditors in the event of an insolvency. A high return on capital mandate may also result in excessive payouts to owners and/or management under the guise of dividends or irrecoverable related party loans – which may result in further deterioration in the Entity's capital structure. Corporate Scorecard reviews an Entity's earning retention policy and degree of financial leverage. Some of the ratios examined include:

Ratio	Calculation
Gearing	Total liabilities / Total assets
Leverage	Total debt / EBITDA[2]
Repayment Capacity	Profit before tax / Total liabilities
Reinvestment	Accumulated retained earnings / Revenue

[2] Earnings before interest, tax and depreciation

Sustainable Growth	Retained earnings[3] / Revenue
Debt Service	(Cash Flow from Operations + Cash Tax + Cash Interest) / (Current portion of long-term debt + Interest)
Interest Cover	EBIT / Interest expense

4.4 Arriving at the Rating

Corporate Scorecard consolidates its findings on drivers of industry risk, business risk and financial risk to arrive at the credit rating of an Entity on a standalone basis.

While finalising the credit rating, Corporate Scorecard relies on internally developed financial models that are informed by the evaluation of the above risk factors combined with the inputs and forecast estimates provided by the Entity. These estimates are stressed or modified, as required, to reflect prevailing industry trends and Corporate Scorecard's view of various risk factors which may determine the Entity's credit rating., The forecast process also helps to identity the probable trajectory of the Entity's credit rating along with the associated triggers and the drivers of any ratings migration.

Final Rating

The final step is adjusting for external support provided by an external parent or other related entity and modifying the standalone credit rating in accordance with the Corporate Scorecard's Parent Subsidiary Linkage Framework detailed in annexure 7.1 to arrive at the final credit rating of the Entity.
In case the parent's rating is stronger and the linkage between a parent and the Entity is assessed to be strong or moderate, the final rating of the Entity may benefit and be higher than its standalone rating. On the contrary, if the linkage is weak, there may be limited, or no adjustments made to the Entity's credit rating.

5 COMMITMENT RATINGS

Corporate Scorecard's commitment rating is arrived at by adjusting an Entity's credit rating (refer section 4 for credit rating methodology) for delivery risk. While evaluating the delivery risks, Corporate Scorecard revaluates the track record of the Entity to specifically check for demonstrated expertise in executing projects which were similar to the proposed commitment in scale and complexity. Corporate Scorecard looks at existing risk mitigation measures (e.g. Bank guarantees, committed funding lines etc.), whose suitability or adequacy may benefit the commitment rating. Corporate Scorecard also examines the prima facie availability or ability to procure the relevant operational, human and

[3] For the fiscal period

technological competencies and financial resources which may be required to deliver the contractual commitment.

A commitment rating may differ from the Entity's credit rating, if any of the below risks, after adjusting for risk mitigation measures adopted by the Entity, are found to be material:

Funding Risks – Corporate Scorecard closely examines the Entity's funding facilities and places special emphasis on identifying available headroom and the term of facilities to ensure they remain adequate and subordinated to the contract. An Entity with insufficient resources to fund the commitment may require advance and ongoing prompt payments to successfully execute the project.

Scale Risks – This risk evaluates size of the contract relative to Entity's current scale of operations. A disproportionately large contract may stretch the Entity's existing capacities to the tilt and leave little to no headroom to absorb routine and non-routine errors or disruptions.

Operational Risks – An Entity with limited experience in execution of projects at hand may indicate potential capacity gaps or require recalibration of the Entity's existing capabilities. While the Entity may have the required technical competency or an ability to procure them, the Entity's lack of general project management skills remain a key source of risk to contract execution.

Concentration Risks – This risk attempts to measure the future earnings concentration, which might result from the award of the commitment. In such case the client may be required to support the Entity's cash conversion cycle to ensure timely completion, given the significant contribution of the commitment to Entity's future earnings.

Capacity Risk – Corporate Scorecard evaluates the depth and breadth of the Entity's operational resources to identify capacity risks which may arise from the award of the commitment. Accordingly, Corporate Scorecard evaluates the order pipeline and intake in the recent months, to determine the availability of operational resources required to execute the commitment.

6 ISSUE RATINGS

Corporate Scorecard's issue rating are closely linked to credit ratings of the Entity but may differ from the credit rating either due to seniority of the issue (subordination risks) or the collateral available (recovery prospects).

6.1 Subordination Risks

Corporate Scorecard evaluates the explicit and implicit subordination risks. The explicit subordination risk stems from the position in the capital structure, covenants, credit enhancements and bankruptcy laws. Implicit subordination arises from the group structure where risk is increased due to structural subordination.

The position of an issue in the capital structure, covenants of an issue, credit enhancement measures and bankruptcy laws of the region are evaluated to derive the seniority of the issue relative to all existing and potential future liabilities of the Entity.

After determining the explicit risks, Corporate Scorecard evaluates the implicit subordination risks through an assessment of the corporate structure and identifying any structural subordination which may arise from the position of the entity within a group, or as a result of specific capital controls identified in the broader group.

6.2 Recovery Prospects

Availability of a collateral can partly offset the loss to an issue subscriber in the event of a default. The expected loss to an issue subscriber is a product of the loss given default (exposure at default less collateral's recovery value) and probability of default (determined by the Entity's credit rating). The reduction in expected loss to an issue subscriber due to the availability of collateral may put an upward pressure on the issue rating.

Salvage value

The realisable/salvage value of collateral is a function of its nature, marketability and condition, and the primary determinant of recovery prospects. Collateral may be a specifically identifiable asset or an asset class.

The salvage value is computed by grouping assets into categories derived along the lines of tangibility, liquidity and type. A distressed sale discount is applied to the prevailing market values of each of the categories and the sum of these discounted market values is the estimated salvage value expected to be realised.

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After forming an opinion on the subordination risks and recovery prospects, the issue rating may be notched higher or lower to reflect the reduced or additional credit risks associated with the issue.

7 Annexures

7.1 Parent Subsidiary Linkage (PSL) Framework

Purpose

The PSL Framework provides an overview of Corporate Scorecard's methodology for assessing the impact on the Entity's credit rating, from any potential support from its ultimate parent.

Scope

The PSL Framework facilitates determination of any potential uplift on an Entity's standalone credit rating as a result of support from its parent. Generally, the PSL Framework applies when the credit profile of the parent is stronger than the stand-alone credit profile of the Entity.

The Framework should be read in conjunction with Corporate Scorecard's Corporate Rating Methodology.

The extent of uplift to the Entity's standalone credit rating would depend on the strength of linkage between the Entity and the parent. Linkage is likely to be material if the parent is the dominant shareholder, asserts economic control or is able to otherwise influence the key strategic decisions of the Entity.

Framework

The first step in the PSL Framework is the assessment of the standalone credit rating of an Entity and the parent, using the relevant Credit Rating Criteria.

Corporate Scorecard then proceeds to assess the strength of linkage between the parent and the Entity. The legal, operational, strategic and financial ties between the parent and the Entity are analysed to determine the strength of the linkage. The stronger the linkage, the higher the parent's propensity to extend support.

Assessment of Linkage

Corporate Scorecard analyses the legal, strategic, financial and operational linkage between the Entity and the parent, by assessing the below-mentioned factors

Legal Linkage

Extent of shareholding, legally enforceable provisions, corporate status of the parent

Full ownership or majority shareholding by the parent is a key contributor to a strong legal linkage. The other instances of a strong legal linkage include the presence of a deed of cross guarantee between the parent and an Entity, the presence of any legally enforceable provisions, such as guarantees or standby letter of credit provided by the parent to the Entity's debt instruments.

In case the parent is a listed entity, then default by the Entity could result in adverse impact to the parent's reputation. Such default could also trigger cross default clauses on ISDAs and other facilities, and hence, may adversely affect parent's ability to raise funds.

Geographical barriers and regulatory constraints may weaken the legal linkage. For instance, if the parent and the Entity are domiciled in different countries, it may limit the parent's ability to gain control over the Entity's funds due to tax and capital transfer barriers.

Strategic Linkage

Relative importance of the Entity to the parent, shared name

Strategic linkage is measured by the Entity's deemed importance to the parent, which is prima facie measured by the Entity's contribution to the parent's revenue, assets, profitability or cash flows. In some cases, the strategic linkage may be strong despite the small scale of the Entity's operations. For instance, the parent's focus on improvement in the Entity's market competitive position through regular capital investment, or the parent's strategy to expand operations in the Entity's domicile country may indicate a strong strategic linkage.

Strategic linkage is also deemed strong when the Entity and the parent use a common name/ brand/ logo. Such commonality also indicates a greater intent on the parent's part to associate itself with the Entity. Under these circumstances, the Entity's failure to meet its financial obligations may also adversely impact the parent's reputation, thereby meaning there is a higher likelihood of financial support.

Financial Linkage

Demonstrated track record of support, economic incentive to the parent

A demonstrated track record of financial support in the form of equity infusion, extension of related party loans or standby letter of credit letter of comfort for availing financing facilities, are all indicative of a strong financial linkage. Financial linkage is also deemed strong, when there is an evidence of the parent extending regular and timely funding support, leading to the Entity's low dependence on external borrowings.

While determining financial linkage, it is also necessary to ascertain the economic incentive (or disincentive) to the parent, from extending or refraining to extend financial support to the Entity. If the Entity is not profitable and is a drain on financial resources of the parent on a persistent basis, there is a greater likelihood that the parent company may stop extending financial support beyond a point.

Operational Linkage

Extent of management control, control over operations, centralised treasury function

Operational linkage may be considered strong if the parent and the Entity have common Board of Directors, or where the parent appoints majority of the directors on the Entity's Board. Corporate

Scorecard also assesses the control exerted by the parent, over the Entity's day to day operations and the Entity's access to parent's proprietary technology/resources. Operational linkage is also deemed strong, when the parent manages treasury operations centrally and maintains and controls common funding facilities. Further, the greater the similarity in operations and/or interdependence for product, technology, R&D, access to target markets, brand(s) etc., the stronger the operational linkage is likely to be.