



Agusto & Co.

Research, Credit Ratings, Credit Risk Management

Credit Ratings and the Development of the Debt Capital Market

Accra, Ghana

April 2025

 **Agusto & Co.**

Research, Credit Ratings, Credit Risk Management

**GFIM**
GHANA FIXED INCOME MARKET

Document Outline

- Introduction
- What are Credit Ratings?
- Importance of Credit Ratings
- Impact of Ratings on Economic Stability
- What is the relationship between Credit Ratings and Debt Market?
- Case Studies – Nigeria, Kenya
- Lessons and Conclusion
- About Augusto & Co. Ltd



About Augusto & Co. Ltd

About Us



1992

1st Credit Rating Agency in Nigeria



2001

Agusto & Co. was licensed by the Securities & Exchange Commission as Nigeria's First Rating Agency.



2013

Registered as a Credit Rating Agency in Kenya and Rwanda



2022

Certified as an Approved Verifier by the Climate Bonds Standard Board to perform verification of green bonds, projects and assets in Africa



2023

Registered as a Credit Rating Agency in Ghana

Over 3,500 ratings assigned till date

Our Competence

- Augusto & Co. is a Pan-African foremost Credit Rating Agency and a leading provider of industry research and knowledge in Sub-Saharan Africa.
- We are a private limited liability company incorporated on 13 January 1992 in **Nigeria**. Our head office is located Lagos, Nigeria. Our Ghana office is located in Accra Atlantic Towers (Liberation Road, Accra).



Credit Ratings

We are a Pan African leader in credit ratings



Customized Research

Our client-specific research enjoys strong synergies...



Industry Research

We are a leading provider of industry analysis



Green Bonds Verification

We are an Approved Green Bond Verifier by the Climate Bonds Initiative

- **Other Presence**
 - Kenya - Block 1 (7th Floor), Chiromo Road, Westland, Nairobi.
 - Rwanda- Kigali City Tower (14th Floor), Avenue du Commerce, Kigali.



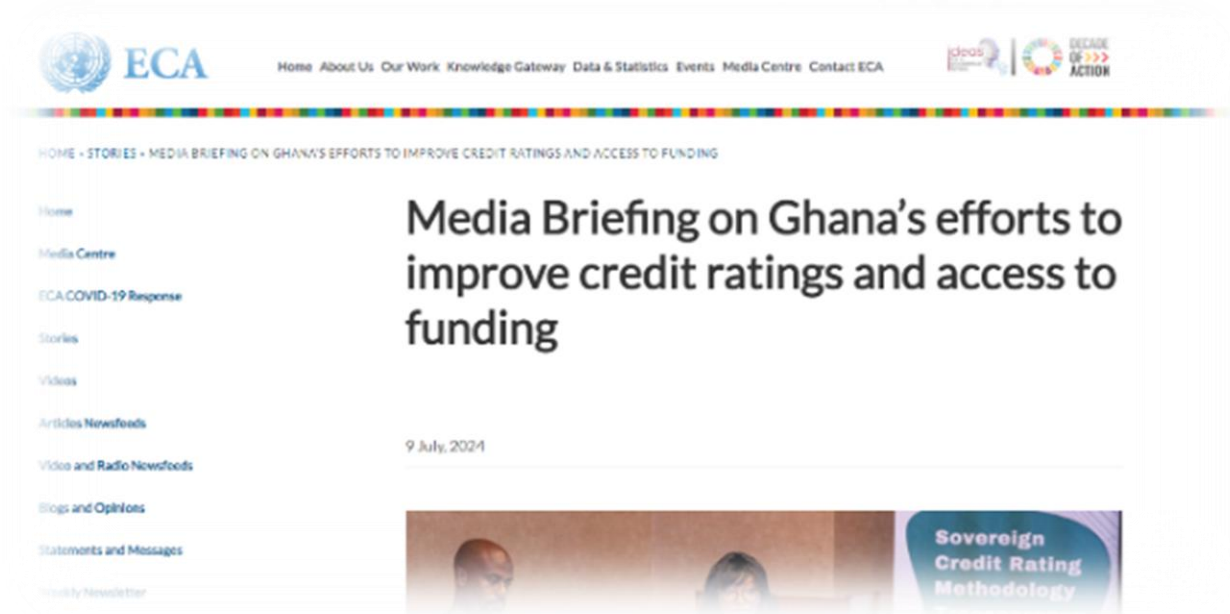
The background features a 3D bar chart with seven bars of increasing height from left to right. To the right of the bars is a line graph with three data points connected by lines. The overall scene is set against a dark blue background with faint, semi-transparent charts and data points.

Introduction

Introduction

“Credit ratings provide an essential measure of relative credit risk, facilitating the efficient issuance and purchase of bonds and other debt instruments. For African governments and corporations, credit ratings are pivotal in determining borrowing costs.”

**United Nations Economic
Commission for Africa**



Introduction

- Recent macro vulnerabilities in sub-Saharan Africa particularly in countries like Nigeria (FX crisis), Kenya (fiscal debt concerns) Zambia and Ghana (fiscal debt defaults) have increased macro risks in these countries and across many others on the continent.
- Thus, amidst these risks, investors will seek increased transparency, higher disclosures and improved corporate governance standards.
- One significant way of boosting investor confidence in the financial markets is through credit risk ratings.
- The introduction of credit ratings in Nigeria marked a significant milestone in the country's financial landscape, enhancing disclosure and transparency standards and also driving the growth of the Country's non-sovereign debt securities market.
- In 2022, the Capital Markets Authority (CMA) Kenya initiated a review of the credit rating agencies' guidelines to improve the standards for assessing credit ratings in Kenya.
- While in 2024, the Securities Exchange Commission in Ghana issued a new set of guidelines on credit ratings capable of spurring growth in the non-sovereign debt securities market similar to patterns in countries like South Africa and Nigeria.

A hand holding a pen over a desk with a laptop and glasses.

What are Credit Ratings?

Credit Ratings

- **WHAT IS A CREDIT RATING?**

A credit rating is an independent opinion on the credit worthiness of an obligor.



- An independent unbiased opinion on the general credit worthiness of an obligor.
- Focus is on capacity to meet all financial commitments as they fall due.
- Not specific to any particular debt.
- Does not take into consideration the specific nature or provisions of any particular obligation.



- A current assessment of the credit worthiness of the obligor on a particular instrument which it intends to issue or has outstanding.
- Focus is on the obligor's ability to meet its obligations, in a timely manner, on that particular instrument.
- May reflect the creditworthiness of guarantors or other forms of credit enhancement on the obligation.

Understanding Credit Ratings

A Credit Rating is not a recommendation to purchase, sell or hold a financial obligation and is not a measure of asset value.

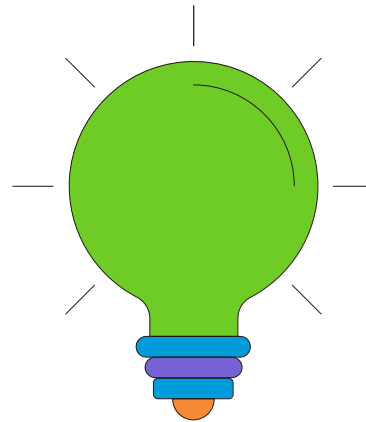
A Credit Rating is not an equity opinion and therefore does not assess the ability of a company to create value for its shareholders.

A Credit Rating is not an audit.

A credit rating is an objective assessment of the financial condition of an obligor and its ability to meet obligations as and when due.

Credit Ratings can only be provided when there is adequate information available to form a credible opinion, and after applicable quantitative and qualitative analysis are performed.

Rating opinions are conveyed in a simple alphabetic scale, for easy reference and comparability.



The Augusto Approach to Credit Ratings

- We adopt a top-down approach in our analysis.
- This implies that we do not rate any entity without prior sound understanding of:
 - The economy in which the entity operates in
 - As well as the entity's industry
- The two exercises highlighted above usually precede our assessment of creditworthiness.
- The rationale for this approach is that we believe in the importance of placing each entity in the context of its operating environment.



Our Rating Methodology (Financial Institutions)

- Capital Adequacy
- Asset Quality
- Profitability
- Liquidity and liability generation
- Staff Productivity
- Market share

Quantitative Analysis

- Ownership structure
- Strength of internal processes (human capital, marketing, risk underwriting, finance and technology)
- Risk management
- Procedures for monitoring compliance with specified guidelines
- Quality of management and staff
- Environmental and social impact

Qualitative Analysis

Our Rating Methodology (Manufacturing Entities)

- Profitability
- Operating Cash flow
- Liquidity profile
- Financing structure and adequacy of working capital
- Leverage

Quantitative Analysis

- Industry risk
- Entity's share of the market
- Quality and diversity of ownership
- Corporate governance
- Quality and stability of key managers
- Staff Productivity
- Quality and timeliness of financial reporting

Qualitative Analysis

Our Rating Methodology – Investment Manager Rating

- People
- Systems
- Processes

Key Factors

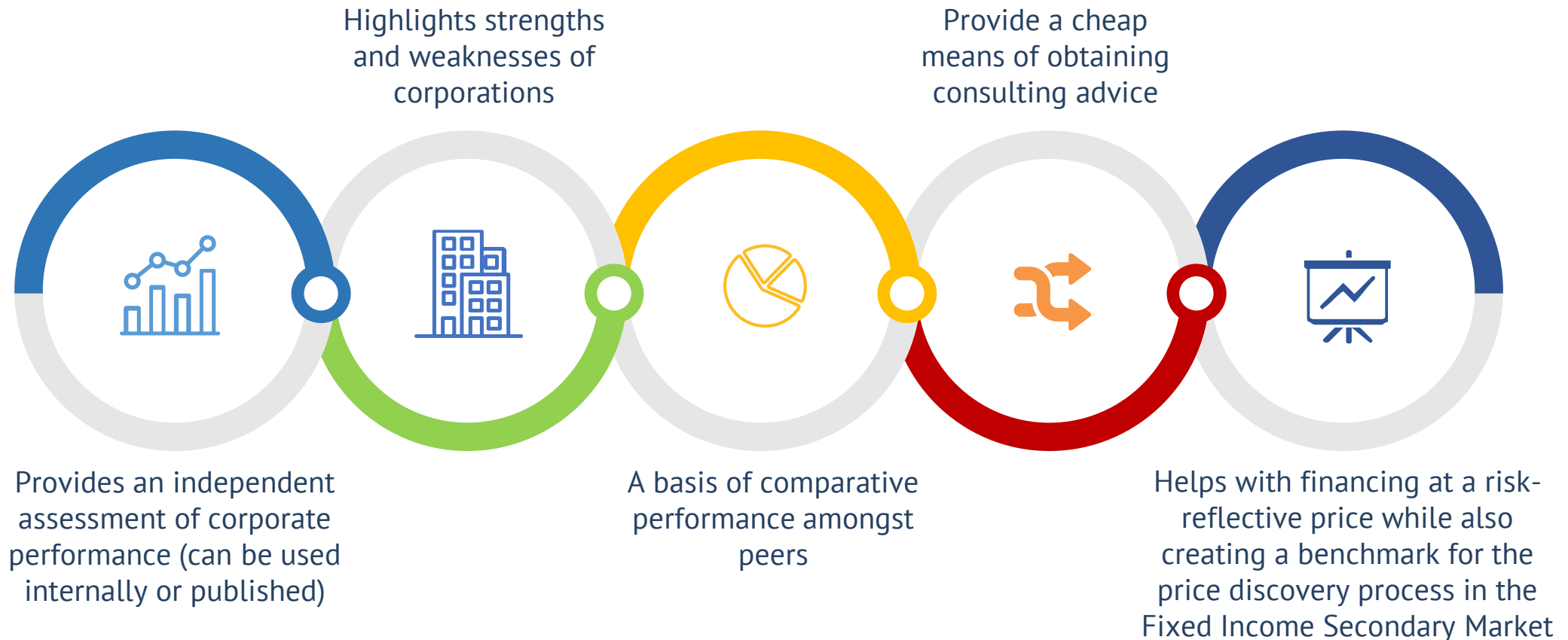
- Organisational Structure
- Governance
- Research
- Decision Making
- Trade Execution
- Investment Risk Management
- Operational Risk Management
- Outlook

Qualitative Analysis

Importance of Credit Ratings

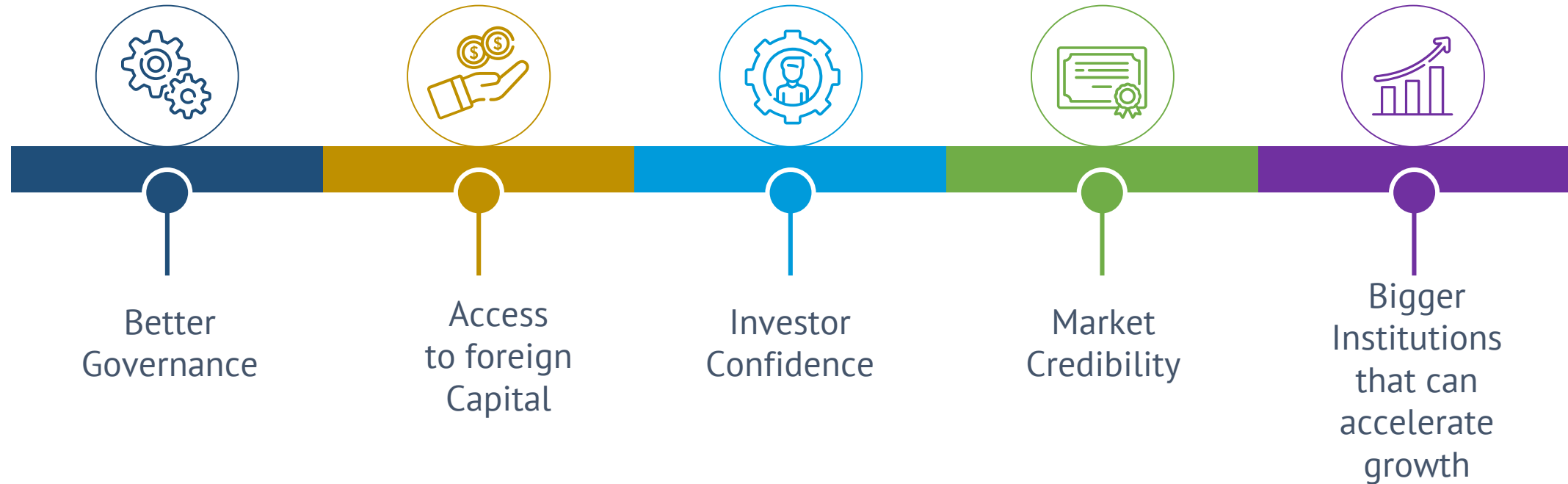
Benefits of Credit Ratings

What an Augusto & Co. Rating will do for Corporations in Ghana



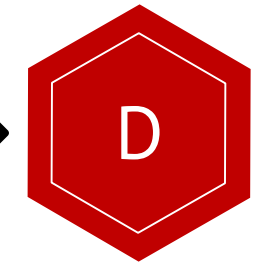
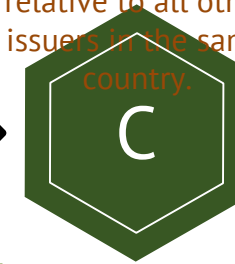
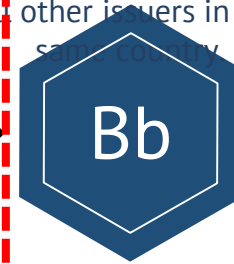
Importance of Credit Ratings

- **Impact on Economic Stability**



Rating Definitions

A company with the best financial condition and strongest capacity to meet obligations as and when they fall due relative to all other issuers in the same country.



A company with good financial condition and strong capacity to meet its obligations relative to all other issuers in the same country.

A company with satisfactory financial condition but limited capacity to meet obligations as and when they fall due relative to all other issuers in the same country.

A company with very weak financial condition and very weak capacity to meet obligations as and when they fall due relative to all other issuers in the same country.

A company with very good financial condition and strong capacity to meet its obligations as and when they fall due relative to all other issuers in the same country

A company with satisfactory financial condition and adequate capacity to meet its obligations as and when they fall due relative to all other issuers in the same country.

A company with weak financial condition and weak capacity to meet obligations as and when they fall due relative to all other issuers in the same country

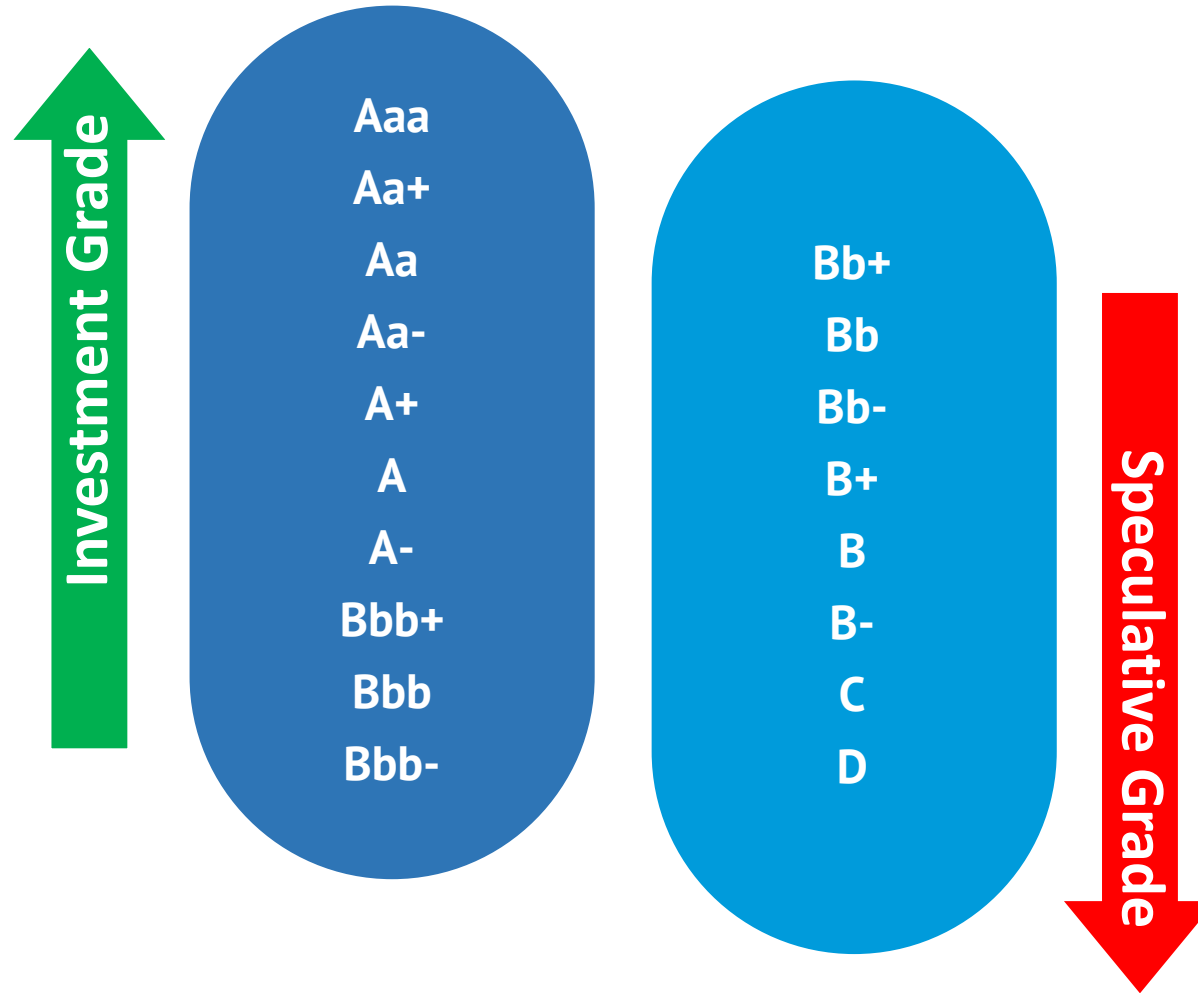
Obligor is in default

Rating Category Modifiers

A "+" (plus) or "-" (minus) sign may be assigned to ratings from **Aa to B** to reflect a comparative position within the rating category.

Therefore, a rating with **+** (plus) attached to it is a notch higher than a rating without the **+** (plus) sign and two notches higher than a rating with the **-** (minus) sign.

Rating Definitions



Rating Outlook

- The risk rating is also supported by an outlook, which could be:
 - **Positive:** that there are positive market trends or favourable internal factors that might result in a rating upgrade
 - **Stable:** indicating that the entity is experiencing stable market trends as well as stable internal conditions that are unlikely to result in a rating change;
 - **Negative:** that there are negative market trends or adverse internal factors which might result in the rating being downgraded

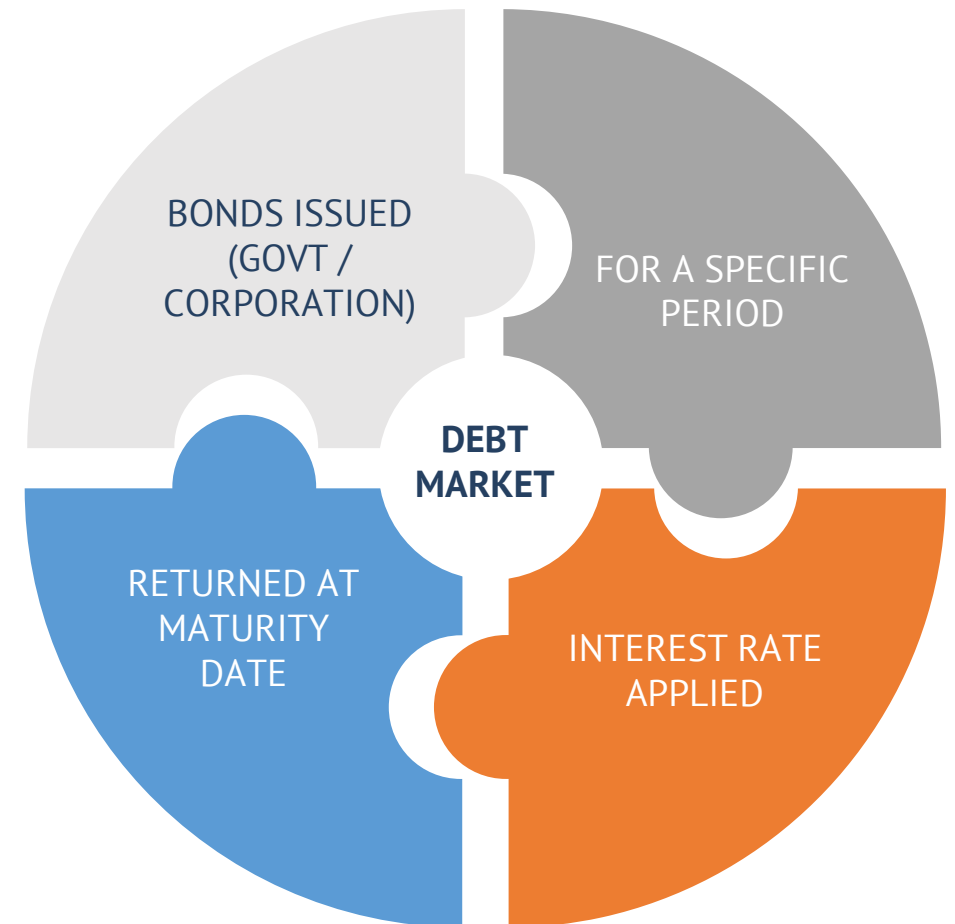


What is the relationship between Credit Ratings and Debt Market?

Understanding Debt Market

The Debt Market is:

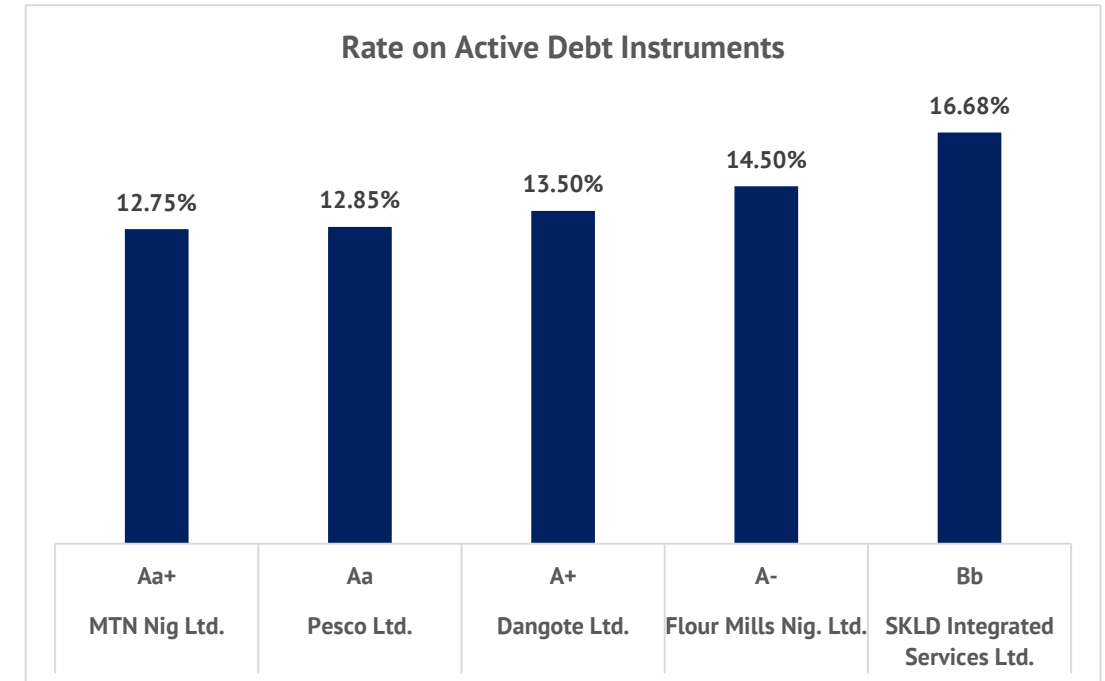
- A platform where fixed income securities are issued and traded by investors (Lenders & Borrowers).
- A platform where debt securities are issued by corporations and the government to raise capital for business operations, infrastructure development, and other projects and also to raise working capital finance.
- Where instruments such as treasury bills, government bonds, commercial papers, corporate bonds and green bonds and other long term debt securities are traded.



Credit Ratings determines Debt Pricing

Debt Pricing and Credit Ratings

- Credit ratings play a crucial role in determining the cost of funds and the quality of debt offering.
- Interest rates are one of the most significant factors that affect the cost of borrowing money.
- Thus, an empirical way to determine the interest rates and yields on debts is to hinge the pricing of the debt on the credit ratings.
- In general, the lower the rating, the higher the risk of default and the higher the interest rate charged by the lender and vice versa.

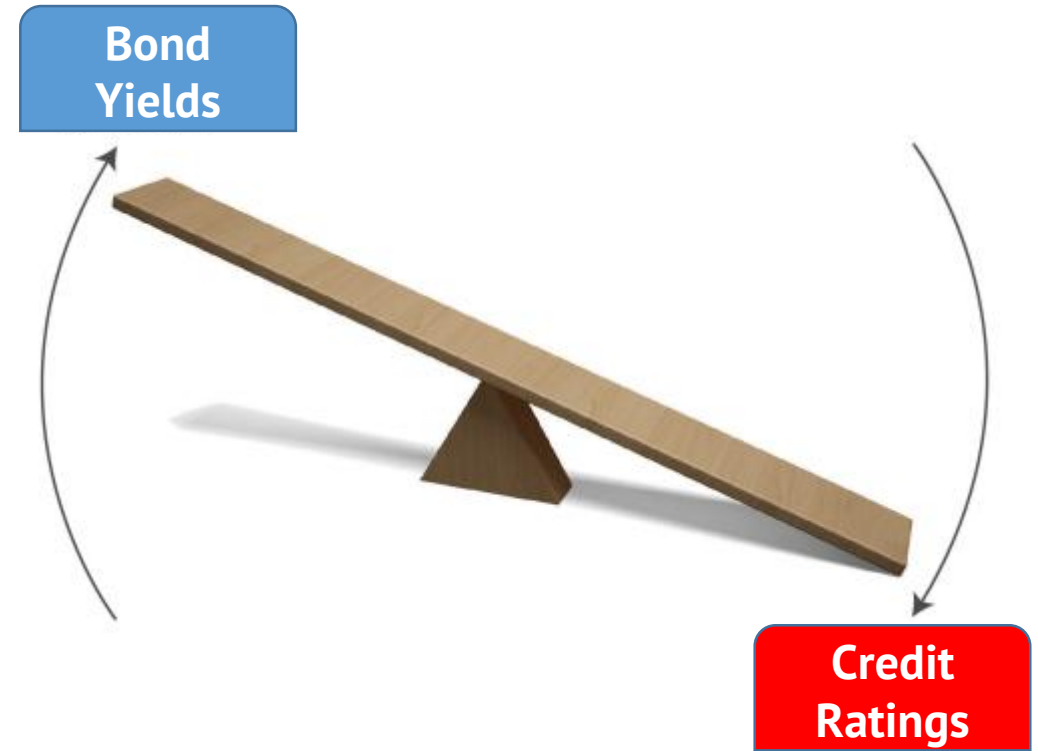


Source: FMDQ & Augusto&Co

Relationship of Yields in Debt Securities & Credit Risk Ratings



“The higher a bond's rating, the lower the interest rate (yield) it will carry, all else equal.”



“The lower a bond's rating, the higher the interest rate (yield) it will carry, all else equal.”

Understanding the Relationship between Credit Ratings & the Debt Market

- When it comes to issuing a debt instrument, your credit rating plays a significant role in determining the success of the debt issuance.
- Investors in debt securities rely heavily on credit ratings as a way to assess the level of risk associated with lending money to borrowers through a debt instrument.
- Credit ratings can also serve as an early warning signal to investors and regulators about the conditions of the credit market.
- Investors and regulators can take proactive measures to mitigate risks before they escalate to failures.
- Investors view debt issuers with high credit ratings as less risky, as they have demonstrated sound financial conditions via a credit rating process.
- Investors may view debt issuers with weak credit ratings as high-risk obligors and this has a resultant impact on the pricing of such debt instruments.





Case Studies – Nigeria, Kenya

Case Studies

Kenya



- In **Kenya**, the Kenya Mortgage Refinance Company's (KMRC) inaugural Kshs 1.4 billion corporate bond issued in 2022 attracted a 480% oversubscription and a total performance rate of 579.6%.
- Thus, demonstrating the increasing appetite for corporate bonds coupled with the attractive interest rate premium of 12.5%.
- The KMRC bond's investment-grade credit rating of "AA-", along with its stable outlook, impacted investor confidence positively.
- At then end of Q1 2025 the size of the Kenyan fixed income market stood at \$61.3 billion

Nigeria



- The Nigerian debt market is one of the bright spots of the Country's economy where the debt market growth has steadily been supported by credit ratings.
- The Nigerian debt market provides access to a range of fixed-income securities from local and international issuers, through the Nigerian Exchange Limited (NGX) and the FMDQ Securities Exchange Limited.
- At the end of Q1 2025, the value of the NGX and FMDQ fixed income markets stood at ₦105 trillion (\$66.1 billion).

Corporate Bonds Issued in Nigeria 2022-2023

| Company | Credit Rating | Interest Rate | Bond Type | Security | Issue Date | Issue Price | Issued Qty |
|-----------------------------|---------------|---------------|--------------|-------------|------------|-------------|-------------|
| ABC Transports Limited | Bbb- | 16.50% | Corporate | ABC2027S0 | 4/13/2022 | 100 | 900,000 |
| Dangote Cement PLC | A+ | 11.85% | Corporate | DAN2027S2TA | 4/27/2022 | 100 | 4,269,000 |
| Dangote Cement PLC | A+ | 12.35% | Corporate | DAN2029S2TB | 4/27/2022 | 100 | 23,335,000 |
| Dangote Cement PLC | A+ | 13.00% | Corporate | DAN2032S2TC | 4/27/2022 | 100 | 88,396,000 |
| Dangote Industries Limited | A+ | 12.75% | Corporate | DIF2029S1TA | 7/19/2022 | 100 | 10,465,500 |
| Dangote Industries Limited | A+ | 13.50% | Corporate | DIF2032S1TB | 7/19/2022 | 100 | 177,119,045 |
| Dangote Industries Limited | A+ | 16.75% | Corporate | DIF2032S2 | 12/5/2022 | 100 | 112,415,455 |
| Flour Mills of Nigeria PLC | A- | 14.50% | Corporate | FMN2026S1 | 5/9/2023 | 100 | 46,000,000 |
| Lagos State Government Bond | Aa- | 15.25% | Sub-national | LAB2033S1 | 5/23/2023 | 100 | 115,000,000 |
| Lagos State Government Bond | Aa- | 14.675 | Sub-national | LASUK2030S2 | 5/23/2023 | 100 | 19,815,000 |
| Lagos Free Zone Company | Bbb | 13.25% | Corporate | LFZ2042S2 | 5/10/2022 | 100 | 25,000,000 |

Source: Nigeria Exchange Group (NGX) 2024

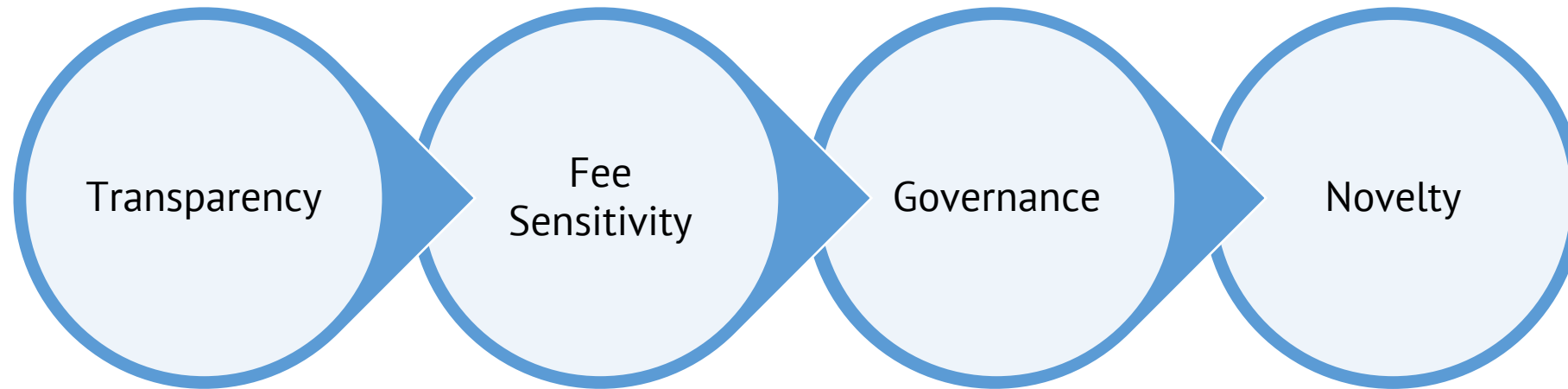
Impact of Rating Actions





Conclusion and Lessons

Lessons from our Journey in the Ghanaian Market



Conclusion and Lessons in the Ghanaian Market

- A credit rating helps evaluate the credit worthiness of a corporation, municipal or even a sovereign.
- As the African economy grows and financial markets mature, the role and impact of credit ratings will become even more significant.
- Harnessing credit ratings effectively will be crucial to unlocking the African continent's immense potential by stimulating new capital while also helping to improve investors' confidence.
- In Ghana, credit ratings will be critical to creating new growth spots in the capital market as credit ratings can help unlock the potentials of the Country's Debt markets, thus stimulating capital into the Ghana's capital markets.
- Overall, credit ratings will play a vital role in the development of the debt market in Africa by promoting transparency, attracting investors, creating a mechanism for debt pricing and supporting overall market efficiency.

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About Agusto & Co. Ltd



Agusto & Co.

Research, Credit Ratings, Credit Risk Management

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