RATING METHODOLOGY FOR COMMERCIAL PAPERS

A commercial paper (CP) is an unsecured debt instrument issued by an entity to raise short-term funds, with tenor ranging from two to 270 days. As the tenor of a CP is less than a year, its proceeds are usually used for working capital. It is not suitable for financing medium- to long-term investments, which have longer payback periods. A CP may also be used for bridging purposes before an entity obtains a credit facility.

In order to determine a short-term rating for a CP, PEFINDO's rating methodology includes the assessment of the long-term rating on an issuer and its liquidity position in the short-term. Please refer to our website, www.pefindo.com, for the rating methodology that we use to assign long-term ratings on an issuer and its debt instrument for corporates and financial institutions. This covers the assessment of the three major risks – industry risk, business risk, and financial risk – in addition to parent support methodology when necessary. A methodology specific for government-related entities (GRE) is used when applicable.
There is a strong link between long-term and short-term ratings, as we view that the short-term rating also reflects the fundamental credit quality of the issuer. The following table presents the link between our long-term and short-term ratings:

Long-term rating	Short-term rating					
idAAA	idA1+					
idAA+	idA1+					
idAA	idA1+					
idAA-	idA1+					
idA+	idA1+	idA1				
idA		idA1				
idA-		idA1	idA2			
idBBB+			idA2			
idBBB			idA2	idA3		
idBBB-				idA3		
idBB+					idB	
idBB					idB	
idBB-					idB	
idB+					idB	
idB					idB	
idB-					idB	
idCCC						idC
idD						idD

The table above shows that there is an overlap between long-term and short-term ratings. The factor that differentiates the short-term rating for two issuers with the same long-term ratings is their short-term liquidity position. Between two issuers with the same long-term ratings, a CP from an issuer with a stronger liquidity position can obtain a better short-term rating. Our liquidity analysis assesses whether an issuer's sources of cash can cover all its uses of cash in the near term. For a CP, the liquidity position should at least be adequate to fully cover cash needs over the next 12 months. To have a strong liquidity position, an issuer's sources of cash should be more than adequate to fully cover all the uses of cash, and the sources of cash should mostly be consisted of cash balance rather than committed credit facilities. The potential CP issuance should also not be counted among the sources of cash.
In assessing liquidity position for a CP, the sources of cash include:

1. Cash balance. The seasonal cash balance should be assessed to determine whether there is a potential timing mismatch between the CP maturity dates and the availability of cash balance.
2. Short-term investments. The investments should be quickly liquidated without deep discounts to their carrying value. For banks, short-term liquid and low-risk instruments, such as government bonds and placements at the central bank (Bank Indonesia), could also be included.
3. Unused portion of committed credit facilities (uncommitted credit facilities are excluded) without any breach of financial covenants.
4. Estimated funds from operations (FFO).
5. Other sources of cash, such as proceeds of contracted asset sales or funding support from the parent company with a high degree of certainty in terms of value and timing in the near term. For banks, upcoming repayment proceeds from low-risk assets (loans/financing) could be included.

In addition to a quantitative analysis of the liquidity position, a qualitative analysis of the sources of cash, particularly for the committed credit facilities, is also conducted. This includes the issuer's relationship with banks, including its track record in obtaining or renewing its credit facilities on time and under financial distress, the diversity of credit facilities and banks, and the tenor of credit facilities. The issuer's access to capital markets and its track record are also assessed.
The uses of cash include:

1. Short-term liabilities including interest payables and accrued interests expenses, current maturities of long-term debt, CP maturities, and short-term debt, assuming no refinancing. For banks, short-term third-party deposits and interbank deposits could also be included.
2. Working capital needs in the near term.
3. Capital expenditure in the near term.
4. Dividend payables.
5. Tax payables.

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