CASE STUDY

Supporting Credit Risk Assessment Process for a Large Corporation

THE CLIENT:
A global Metals & Mining company

USERS:
Credit risk team

This global diversified Metals & Mining company operates in a number of metals and minerals, with mining and processing divisions located all over the world. The strategy of the company involves maintaining quality and long life of mineral assets through value-focused approach to capital allocation, including discretionary capital expenditure on development projects that ensure future organic growth. To expand the volume and breadth of products offered to customers, the company finances development of new assets via its subsidiaries, associates, and joint ventures. The company is also engaged in relationships with independent partners or small-scale miners to provide a reliable and timely supply of products to meet industry demands.
Pain Points

To assess the effectiveness of investment in operational mining assets, including lending to third parties, the credit risk team needed credit risk assessment tools that would enable them to assess future performance based on internal financial projections vs. historical figures, and link these to probability of default (PD) and expected loss (EL) parameters.

These tools would provide the credit risk team with the functionality to:

- **Assess credit risk based on historical performance** of an operational asset (subsidiary, associate, or third party)
- **Generate forward-looking credit risk assessment** from internal financial and business forecasts
- **Map credit risk assessments** to *actual PD values in per cent*
- **Complement the credit risk assessment with analysis of loss given default (LGD)**, taking into account collateralization and structure of lending transactions
- **Achieve a comprehensive picture of risk (EL)** through combining PD and LGD results

The challenge was to find a solution for assessing credit risk of an operational corporate based on projected financials, that would reflect creditworthiness of such corporate in future, post-investment and deleveraging.

The credit risk team evaluated S&P Global Market Intelligence’s (“Market Intelligence”) Credit Assessment Scorecards and felt that Market Intelligence’s solution would address these needs.
The Solution

Credit Assessment Scorecards are Excel®-based scoring models enabling users to:

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<tr>
<th>Feature</th>
<th>Description</th>
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<tr>
<td>Perform credit risk assessment</td>
<td>The Scorecards provide credit and risk management professionals with essential tools to identify and manage potential default risks of private, publicly traded, rated, and unrated companies, across a multitude of sectors.</td>
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<td>Map credit risk score to a PD(%)</td>
<td>The Scorecards package includes a mapping document listing PD values derived annually by S&amp;P Global Market Intelligence for each credit score based on S&amp;P Global Market Intelligence’s proprietary data on historically observed defaults.</td>
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<td>Assess LGD</td>
<td>S&amp;P Global Market Intelligence’s LGD model enables credit analysts to assess LGD at transaction level with high precision, taking into account collaterals, guarantees, insurance, as well as seniority of debt and other structural features of a transaction.</td>
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<td>Estimate EL</td>
<td>Combining PD and LGD values, obtained with the use of Scorecards, into EL is an advanced approach to credit risk management.</td>
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1 S&P Global Ratings does not contribute to or participate in the creation of credit scores generated by S&P Global Market Intelligence. Lowercase nomenclature is used to differentiate S&P Global Market Intelligence PD credit model scores from the credit ratings issued by S&P Global Ratings.
Key Benefits

Credit Assessment Scorecards have a global scope of application and are designed to cover a wide range of industries. Scorecard users are benefiting from:

- **Productivity gains** with a fully developed and globally implemented corporate credit risk assessment solution built on proven methodologies.

- **Scorecard numerical scores** that are broadly aligned with S&P Global Ratings’ criteria and further supported by historical default data dating back to 1981.

- **Universal coverage or sector-specific focus of the Scorecards**, depending on the user preference. The clients can select from either Generic Corporate PD scorecard which includes benchmarks for 150 industries\(^2\), or sector-specific corporate PD scorecards, such as, for example, Metals & Mining Upstream and Metals & Mining Downstream, which ensure high precision of assessment through business and financial risk factors intrinsic to an industry.

- **Methodology transparency** of the Scorecards, including all risk factors, weights, benchmarks, and scoring algorithms.

- **Complementarity of corporate PD and LGD Scorecards** enabling the user to conduct a comprehensive credit risk assessment with estimation of expected loss.

- **Quick deployment** of the Scorecards as off-the-shelf solution.

- **Training and ongoing analytical support** provided by S&P Global Market Intelligence to help the client understand the range of available capabilities and continue to get the most out of the solutions.


- **Annual maintenance and validation** carried out to ensure that all Scorecards are analytically sound, and the scoring criteria are up-to-date.

*To learn more about our Credit Assessment Scorecards, [click here.](#)*

\(^2\)As of April 2021.