

RatingsDirect®

Criteria | Corporates | General:

Standard & Poor's Maalot (Israel) National Scale: Methodology For Nonfinancial Corporate Issue Ratings

Primary Credit Analyst:

Yuval Torbati, RAMAT-GAN (972) 3-753-9714; yuval.torbati@spglobal.com

Criteria Officer:

Peter Kernan, London (44) 20-7176-3618; peter.kernan@spglobal.com

Table Of Contents

SCOPE OF THE CRITERIA

METHODOLOGY

Issuer Credit Ratings (ICRs)

Ratings On Secured Obligations

Rating An Issuer's Most Senior Unsecured Obligations

Rating An Issuer's Contractually Subordinated Obligations

REVISIONS AND UPDATES

RELATED CRITERIA AND RESEARCH

Standard & Poor's Maalot (Israel) National Scale: Methodology For Nonfinancial Corporate Issue Ratings

(Editor's Note: We're republishing this article following our periodic review completed on Sept. 15, 2017. See the "Revisions And Updates" section for details.)

1. This article sets forth the criteria for how Standard & Poor's Maalot assigns Standard & Poor's Maalot (Israel) national scale issue credit ratings to secured or contractually subordinated obligations of nonfinancial corporate issuers. This article is related to the criteria article, "National And Regional Scale Credit Ratings," published on RatingsDirect on Sept. 22, 2014, and "Principles Of Credit Ratings," published on Feb. 16, 2011.

SCOPE OF THE CRITERIA

2. These criteria clarify how Standard & Poor's Maalot rates notes issued by nonfinancial corporate entities on the Israel national scale, starting from the issuer credit rating (ICR). We enhance ("notch up") ratings on secured issues to reflect potentially higher recovery prospects for such obligations, and reduce ("notch down") ratings on contractually subordinated unsecured obligations to reflect potentially lower recovery prospects on such obligations.
3. These criteria do not apply to financial institutions (including nonbank financial institutions) and insurance companies. For financial institution and insurance issuers, which are now out of scope for this criteria, please see "National And Regional Scale Credit Ratings."
4. These criteria only affect long-term ratings on the Israel national scale and do not affect any global scale ratings assigned to Israeli issuers. Moreover, these criteria do not address short-term ratings or other non-Israel national scale ratings. Neither do they address the effect on an issue rating of provisions in an obligation permitting debt service payments to be deferred or cancelled, or allowing the obligation to be mandatorily converted into another hybrid or common equity.
5. This paragraph has been deleted.
6. The information in this paragraph has been moved to the Appendix.

METHODOLOGY

Issuer Credit Ratings (ICRs)

7. Standard & Poor's Maalot assigns its Israel national scale ICRs for Israeli corporates. For more information on the Israel national scale ICR, see the "Issuer Credit Ratings" section under "Standard & Poor's Maalot (Israel) National

Scale Ratings," in "S&P Global Ratings Definitions," updated from time to time.

Ratings On Secured Obligations

8. In assigning a long-term rating to a secured obligation, Standard & Poor's Maalot weighs such an obligation's default risk and recovery prospects. The obligation's recovery prospects may result in a notching up of its rating from the ICR. The decision to "notch up" depends on three factors: economics, length of delay, and weighting.

Economics

9. In the event of an issuer insolvency, how much of the secured obligation's scheduled principal and interest will be available to secured lenders?
10. In our experience, recovery can be affected by various legal and analytical considerations. For example, if an obligation is "over-secured," Standard & Poor's Maalot may take the view that the lender might enjoy a higher level of recovery than for "fully secured" obligations (although recovery would likely not exceed the face amount of the obligation plus accrued interest to a stated date). To the extent recovery is based on a valuation of pledged security, we will generally stress-test the value of the security in hypothetical post-default scenarios as one of our analytical considerations.

Length of delay

11. Our opinion of the potential delay in realizing recovery on a secured obligation is a second factor. If, in our view, the recovery process is likely to be speedy, notching up becomes more likely. On the other hand, if we anticipate a protracted recovery process, it is less likely that the debt rating will be higher than the ICR.
12. If, however, we believe it likely that lenders will fully recover principal and all interest to the date of payment, we may treat delays as less consequential.
13. In estimating potential delays, we analyze:
- How the legal system resolves bankruptcies or provides access to collateral security (see "Debt Recovery For Creditors And The Law Of Insolvency In Israel," published May 27, 2013);
 - The transaction structure. Our analysis may, for example, distinguish between a bond secured by fixed assets and one secured by a lease; and
 - The terms of the obligation.

Weighting

14. The higher the ICR, the more weight we place on full and timely payment; the lower the ICR, the more we incorporate a post-default (or recovery) perspective. Therefore, the degree of enhancement over the ICR will generally depend on the relative level of the ICR itself (see table below).

Ultimate Recovery Notching Criteria Framework, Israel National Scale

	Issuer credit rating (ICR)*			Example
	'ilBB+' or below	'ilBBB' category	'ilA' category	
Reasonably confident of full recovery of principal	+1 notch	+1 notch	0	Corporate loan with over 1x collateral cover, after stress
Highly confident of full recovery of principal	+2 notches	+1 notch	0	Corporate loan with over 1.25x collateral cover, after stress
Highly confident of full recovery of principal and interest	+3 notches	+2 notches	+1 notch	Corporate loan with over 1.65x collateral cover, after stress

*No notching-up of issue ratings when the ICR is 'ilAA-' and above.

Rating An Issuer's Most Senior Unsecured Obligations

- Many companies issue unsecured obligations that, relative to each other, are senior or subordinate by virtue of their covenant structures or because they are issued by parent or subsidiary companies.
- By convention, on the Israel national scale we rate an issuer's most senior unsecured obligations at the level of its ICR. We do not notch down the ratings of such senior debt, even though their recovery prospects may be diminished because the issuer has incurred significant amounts of secured debt, or (where the issuer is funded from cash-generating subsidiaries) because such senior obligations are structurally subordinated to claims incurred by those subsidiaries. Our ratings on the most senior unsecured obligations express our opinion of their default risk, against which ratings on the issuer's other obligations can be compared.

Rating An Issuer's Contractually Subordinated Obligations

- When an unsecured obligation is contractually subordinated in payment to one or more of an issuer's other unsecured debt issues (or could become subordinated, even if at the relevant time the issuer has no prior-ranking unsecured debt), and thereby potentially faces the risk of lower recovery prospects, we will notch down our rating on that unsecured obligation from the ICR. Our practice is to limit the rating differential to one notch for issuers with an ICR of 'ilBBB-' or higher, and two notches for issuers with an ICR of 'ilBB+' and below.

REVISIONS AND UPDATES

This article was originally published on Sept. 22, 2014. These criteria became effective on the date of publication and superseded the article titled "Standard & Poor's Maalot (Israel) National Scale: Methodology For Issue Ratings," published on Feb. 22, 2010.

Changes introduced after original publication:

- Following our periodic review completed on Sept. 15, 2017, we updated criteria references.

RELATED CRITERIA AND RESEARCH

Related Criteria

- Jurisdiction Ranking Assessments Of National Insolvency Regimes Update: July 2017, July 20, 2017
- Jurisdiction Ranking Assessments, Jan. 20, 2016
- National And Regional Scale Credit Ratings, Sept. 22, 2014
- S&P Global Ratings Definitions, updated from time to time, see section "Standard & Poor's Maalot (Israel) National Scale Ratings"
- Principles Of Credit Ratings, Feb. 16, 2011

These criteria represent the specific application of fundamental principles that define credit risk and ratings opinions. Their use is determined by issuer- or issue-specific attributes as well as Standard & Poor's Ratings Services' assessment of the credit and, if applicable, structural risks for a given issuer or issue rating. Methodology and assumptions may change from time to time as a result of market and economic conditions, issuer- or issue-specific factors, or new empirical evidence that would affect our credit judgment.

Copyright © 2017 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription) and www.spcapitaliq.com (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.