



## RATING ACTION COMMENTARY

# Fitch Downgrades Credivalores' IDR to 'RD' on Uncured Missed Coupon Payment

Fri 08 Mar, 2024 - 6:11 PM ET

Fitch Ratings - Rio de Janeiro/Bogota - 08 Mar 2024: Fitch Ratings has downgraded Credivalores - Crediservicios S.A.'s (Credivalores) Long- and Short Term Foreign and Local Currency Issuer Default Ratings (IDRs) to 'Restricted Default' (RD) from 'C' and its long and short term National Scale Rating to 'RD(col)' from 'C(col)'. Fitch has also affirmed Credivalores' USD210 million senior unsecured notes due 2025 at 'C'/'RR4' and the company's partial credit guarantee (PCG) local issuance national rating at 'CCC+(col)'/ 'RR4'.

The rating actions follow the company's failure to cure the missed interest payment on USD210 million of 8.875% senior notes due 2025 upon expiration of its original 30-day grace period as part of the company's ongoing negotiations with creditors.

Credivalores announced an exchange offer of its 2025 bonds, subject to completion in 8 to 12 weeks following the necessary regulatory requirements.

## KEY RATING DRIVERS

Credivalores' IDRs are based on its Standalone Credit Profile (SCP), which is below the implied SCP due to Fitch's assessment of the company's funding, liquidity and coverage at the lowest possible level on our scale.

**Uncured Missed Interest Payment:** Credivalores missed an interest payment due on Feb. 7, 2024 on its USD210 million senior unsecured notes. Fitch views the failure to cure the missed interest payment within the 30-day original grace period as a

restricted default as per its ratings definitions.

**Announcement of Exchange Offer:** On March 8, 2024, Credivalores announced an exchange offer of its 2025 bonds for new senior secured notes due 2029, backed by a loan portfolio of USD168 million with staggered coupons, following agreements with an ad-hoc committee of bondholders. Fitch believes this offer constitutes a distressed debt exchange (DDE) under our criteria, as the transaction will lead to a material reduction in terms and, in our view, is being conducted to avoid a default. Fitch will reevaluate the IDRs based on the new capital structure and credit profile upon completion of the exchange offer.

**Ongoing Debt Negotiation:** Credivalores is negotiating a debt restructuring in the midst of challenging market conditions. The reprofiling of its debt is part of the company's strategy to strengthen its capital structure and contribute to its long-term financial sustainability. The payment relies on the successful completion of the agreement and positive advances in its payroll business strategy.

## **RATING SENSITIVITIES**

### **Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade**

--The IDR will be downgraded to 'D' if a bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedure or that has otherwise ceased business and debt is still outstanding.

### **Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade**

-- Fitch will reassess the IDRs upon the completion of a debt restructuring process; the updated IDRs will reflect the new capital structure and credit profile of the issuer.

## **DEBT AND OTHER INSTRUMENT RATINGS: KEY RATING DRIVERS**

### **Partial Credit Guarantee (PGC) Issuance**

Credivalores' partial guarantee bond local issuance for COP160.000 million is rated four notches above its national long-term rating. The level of enhancement above the base recovery corresponds to the additional recovery that the guarantee gives to

the notes, which improves the recovery rate for the bond holders in case of default. The notes have an irrevocable partial guarantee for 70% for payment of interest or principal from Fondo Nacional de Garantías rated 'AAA(col)'.

Credivalores' senior unsecured debt is in line with its respective corporate rating level, as the debt is senior unsecured. The 'RR4' Recovery Rating assigned to Credivalores' senior unsecured issuance reflects average recovery prospects.

## **DEBT AND OTHER INSTRUMENT RATINGS: RATING SENSITIVITIES**

--The company's senior unsecured debt is expected to move in line with the Long-Term IDR, although a material increase in the proportion of secured debt could result in the unsecured debt being notched down from the IDR;

--The four-notch relativity of the PCG issuance above Credivalores' Long-Term National Scale rating could be reduced by future increases in the issuer rating or by an improvement in its intrinsic recovery according to Fitch's methodology;

--A downward move in Credivalores' Long-Term National Scale rating would negatively affect the PCG ratings.

## **ADJUSTMENTS**

The Standalone Credit Profile has been assigned below the implied Standalone Credit Profile due to the following adjustment reason: Weakest Link - Funding, Liquidity & Coverage (negative).

The Business Profile score has been assigned below the implied score due to the following adjustment reason: Business model (negative), Historical and future developments (negative).

The Asset Quality score has been assigned below the implied score due to the following adjustment reason: Risk profile and business model (negative).

The Earnings & Profitability score has been assigned above the implied score due to the following adjustment reason: Historical and future metrics (positive).

The Capitalisation & Leverage score has been assigned below the implied score due to the following adjustment reason: Risk profile and business model (negative).

## REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

## ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

## RATING ACTIONS

ENTITY / DEBT ⇅	RATING ⇅			RECOVERY ⇅	PRIOR ⇅
Credivalores-Crediservicios S.A.	LT IDR	RD	Downgrade		C
	ST IDR	RD	Downgrade		C
	LC LT IDR	RD	Downgrade		C

	LC ST IDR		RD	Downgrade		C
	Natl LT		RD(col)	Downgrade		C(col)
	Natl ST		RD(col)	Downgrade		C(col)
senior unsecured	LT	C	Affirmed		RR4	C
guaranteed	Natl LT		CCC+(col)	Affirmed	RR4	CCC+(col)

[VIEW ADDITIONAL RATING DETAILS](#)

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**APPLICABLE CRITERIA**

[Metodología de Calificaciones en Escala Nacional \(pub. 22 Dec 2020\)](#)

[Third-Party Partial Credit Support Rating Criteria \(pub. 11 Jun 2021\)](#)

[Metodología de Calificación de Soporte Parcial de Crédito por Terceras Partes \(pub. 25 Aug 2021\)](#)

[Metodología de Calificación de Instituciones Financieras No Bancarias \(pub. 25 Jul 2023\)](#)

[Non-Bank Financial Institutions Rating Criteria \(pub. 17 Jan 2024\) \(including rating assumption sensitivity\)](#)

## ADDITIONAL DISCLOSURES

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