Using AI in Credit Screening.

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The Challenge in Credit Analysis

Unlike equities, where disclosures are standardised and datasets are readily available, credit investors face the challenge of piecing together fragmented, unstructured, and costly information. At the same time, the pressure to cover a broad issuer universe efficiently has never been higher. This makes credit a natural domain where AI can directly enhance established investment processes.

Credit analysis is built on two pillars: finding the right information and interpreting it correctly. Much of the relevant information is publicly available—typically found on company investor relations pages through annual and interim reports, press releases, capital market day presentations, bond issuance materials, or transcripts from earnings calls. Rating agency reports also provide valuable context. The difficulty is not availability—it's accessibility and structure.

Where AI Adds Value – Turning Data Into Insights

This is where AI models can make a difference. With a strictly defined scope (a crucial point), AI can automate the heavy lifting of gathering and organising information. For example, it can 'read' PDFs from investor relations sites or rating agencies, extract both numbers and text, and feed them into a structured dataset. Importantly, AI only works with public information—it cannot and should not access password-protected or private materials.

Collecting data is only the first step. To be useful, it must be structured into a framework that mirrors our analytical logic. One practical tool is a scoring map. For instance:

- **Leverage:** assign a score from 1–5 (with 3 neutral) based on sector benchmarks in terms of absolute levels and recent trends.
- **Competitive positioning:** score from 1–5 depending on whether the company is a legacy leader under pressure, a dominant player still growing, or a fast-moving challenger.

Rationale for Leverage Score: 4 (Good)

1. Analysis of Absolute Levels:

- Renault S.A.'s leverage is strong, especially for a capital-intensive automaker.
- 2021: leverage ratio of -0.2x ⟶ net cash position, exceptionally strong (score of 5).
- 2022 (0.1x) and 2023 (0.6x): very low leverage, minimal reliance on debt, low risk profile.
- 2024: 1.1x ⟶ still healthy and manageable; **ratios below 2x are solid for the industry**.

2. Analysis of the Trend:

- Absolute leverage figures remain strong, but the **trend is negative.**
- Leverage has risen year-over-year, shifting from net cash to a more conventional net debt level.
- The upward trajectory may reflect rising debt or slower EBITDA growth.
- This pattern warrants caution despite overall healthy levels.

3. Final Score Justification:

- Score of 5 (Very Good) not chosen due to clear, consistent negative trend.
- Score of 3 (Neutral) too harsh: 2024 leverage at 1.1x is still strong for the sector, and earlier years' strength matters.
- Score of 4 (Good) is most appropriate:
  - Recognises solid, manageable leverage levels.
  - Reflects weakening trend over four years, preventing a top score.

Figure 1. Example of Large Language Models (LLM)'s thinking behind the score of 4 for the leverage on Renault. This is not investment advice and is provided for illustrative purposes only.

Rationale for Competitive Landscape Score: 2 (Bad)

1. Hyper-Competition in the Mass Market:

- Renault's core business is the **mass-market**, non-premium segment.
- This is the most crowded and price-sensitive area of the automotive market.
- Unlike premium players (Mercedes, BMW), Renault competes on price, features, and efficiency.
- Main competitors include **Volkswagen** and **Stellantis**.

2. Pressure from Two Fronts

- *Legacy giants*: Stellantis and Volkswagen bring scale, strong brands, and vast R&D, while aggressively pivoting to EVs—direct competitors to Renault.
- *New entrants*: EV disruption lowers barriers to entry.
- *Chinese automakers* (BYD, MG): cheaper, tech-advanced EVs with battery advantages.
- *Tesla*: expanding into Renault's EV range with price cuts and affordable models.

3. Weak Geographic or Product Moat

- Strengths: solid position in France and with budget brand Dacia.
- Weaknesses: lacks Toyota's global scale and German peers' high-margin luxury moat.
- **Heavy dependence on Europe** increases vulnerability.

Why not a score of 1 (very bad)?

Renault remains a major OEM with established brands, a large manufacturing and distribution base, and a defined EV strategy (Ampere). Dacia is a strong asset. A score of 1 would imply near-failure, which is not the case.

Figure 2. Example of LLM's thinking behind the score of 2 for the competitive landscape on Renault. This is not investment advice and is provided for illustrative purposes only.

We give AI some flexibility in interpreting the data, but always within a carefully defined framework at the prompt stage, ensuring the analysis remains fully aligned with our approach. This not only ensures consistency, it also provides a useful way to challenge and validate our own credit views.

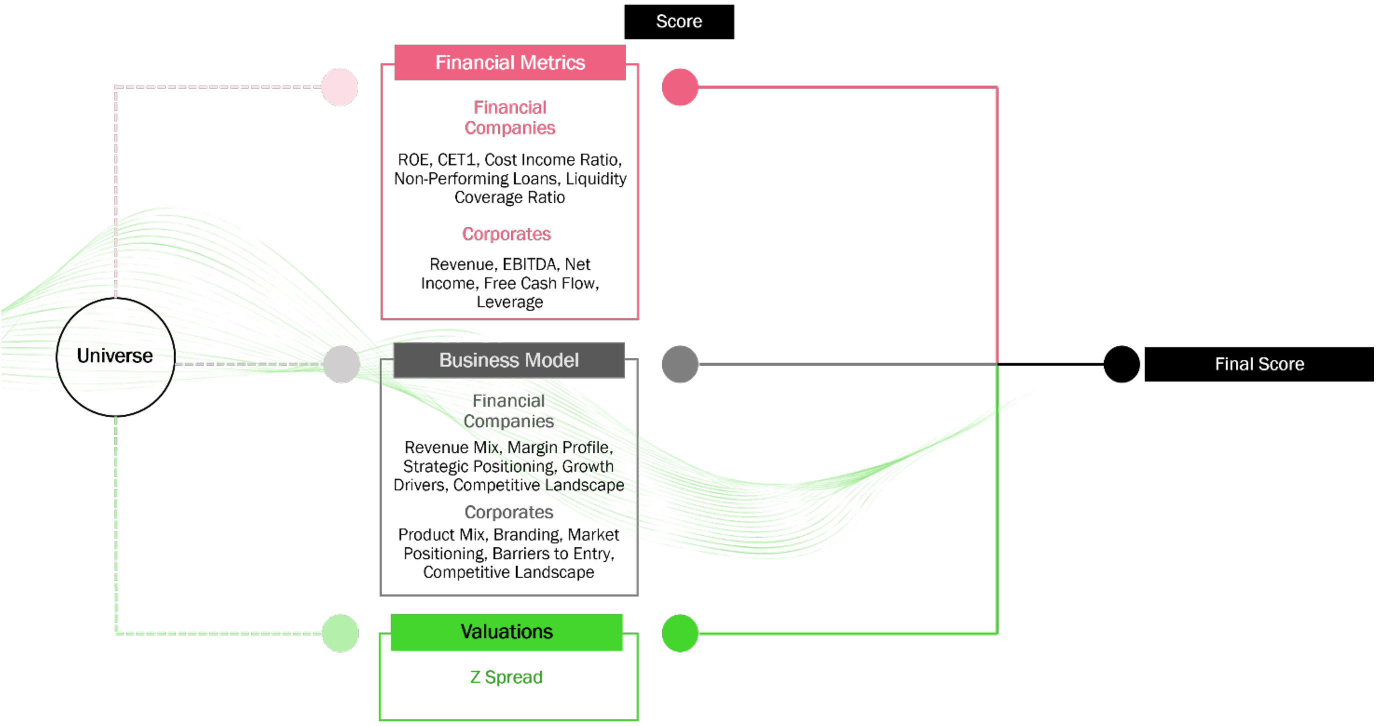

Figure 3. Universe scoring leveraging open-source AI tools customised to meet our specific analytical needs

Scaling Up the Process

The real strength lies in scale: by applying AI across a broad universe of issuers, we gain a fast and comprehensive view of both their financial health and the robustness of their business models. Adding a valuation overlay—typically assessed outside of AI—leads to the construction of a broad credit screener.

At RAM AI, our ambition is to pioneer the next wave of investment productivity through advanced AI. We are realising this vision with our AI-powered infrastructure for systematic equities and now with a cutting-edge agentic platform for credit picking.

The Payoff

This AI-driven screening tool acts as a powerful first filter, scoring a universe of fewer than 2,000 issuers (financial and corporate, across Europe and North America) with strong coverage of around 80%—all at minimal cost (approximately CHF 100 per run, 12 runs per year, each run taking approximately one day).

It is not a substitute for discretionary credit analysis. Rather, it helps us pinpoint where to focus, speeds up idea generation, and ensures our efforts are concentrated where they add the most value.

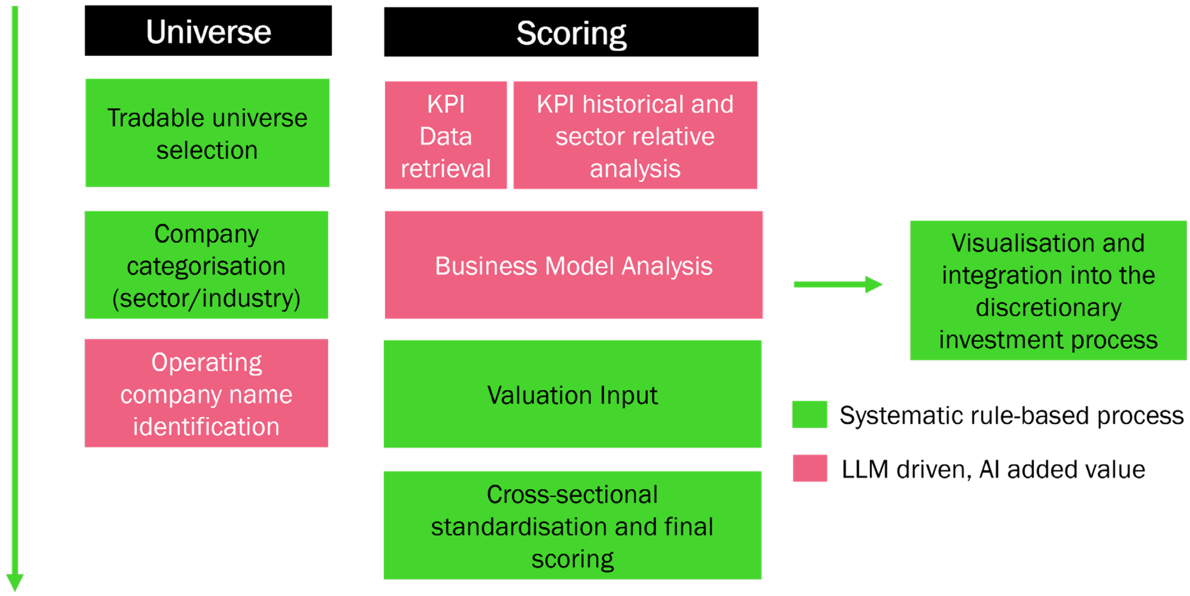

Figure 4. Scheme summarising the first step of our credit process

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