Credit Rating Information and Services Limited

Credit Rating Methodology – Fast-moving consumer goods (FMCG)

Meaning of Credit Rating

CRISL defines credit rating is a measure of assessing relative risk of default and the severity of default associated particular securities issue , issuer and/or other financial assets. It is a symbolic indication of current opinion of the relative capability of timely servicing of the debts and obligations as per the terms of contract. It is an independent, impartial best judged professional OPINION on the ABILITY and WILLINGNESS of a borrower to discharge its debt when due , in case of a debt instrument and assessment of net worth, external liability and earning prospects in case of a corporate Entity.

Rating agencies are perceived as impartial, professional and best judged opinion giving agencies in the investment process to safeguard the interest of the general investors. Rating reflects neutral and influence free professional opinion on the assessment of credit risk associated with an instrument or a corporate. The rating services provide a guideline to the investors as to the degree of certainty of payment of principal and interest in case of debt instrument and the degree of acceptability of the net worth and earning prospects of an entity seeking public finance.

Scope and Limitation of Credit Rating

CRISL ratings are in local currency and therefore, it does not take into consideration the sovereign risks and foreign currency risk of Bangladesh. CRISL being a domestic rating agency of Bangladesh considers the government of Bangladesh as the highest pay master and al government guaranteed securities are considered as AAA.

CRISL issues to types of rating for the manufacturing corporate namely Entity Rating and debt instruments. Entity rating reflects ability and willingness of an entity to discharge its debt obligation when due. It also reflects earning prospects and increase in share holder’s value in the long run. The debt instrument rating reflects the inherent features and structures and extent of credit enhancement compared to unsecured creditors. It also reflects all associated risks that may affect the instrument over a period of it life.

Time Horizon

CRISL ratings are forward looking and sustainable throughout normal business cycle. CRISL issues normally two types of ratings – short term and long term. Short term rating carries the validity of six months while the long term rating is valid for one year. The change in economic scenario, complexities and change in government policy may have an impact on the ratings assigned over a period of time. CRISL updates the rating periodically with the cooperation of the client. In case the client is not willing to cooperate, CRISL withdraws the rating after due notice to the client. Therefore, CRISL rating is to be read with the time.

Rating Definition

CRISL follows standard definition of ratings in line with the global rating agencies. It follows a ten notch scale with AAA being the highest while lowest rating D reflects default in discharging its liabilities in time. With the addition of plus (+) and minus (-) signs before the scale the 10 notch scale reflects 26 positions. These plus and minus signs indicates the position of each rating in the scale. The rating scales along with the definition are enclosed at the end of this report.

Definition of Default

CRISL adopted the international definition of default as being adopted by global rating agencies. Under the above definition, Default is:

A) A missed installment (Principal and or Interest) which has not been discharged / paid as per schedule or within the grace period allowed by the regulators/ creditors.

B) Failure to honor the corporate guarantee obligations as per contract or within the allowed grace period;

C) The legal insolvency or bankruptcy of the issuer/ entity

D) A distress exchange in which the bondholders/ creditors are offered a substitute instrument with inferior terms and conditions

E) Restructuring of a financial obligation substantially disadvantageous to the creditors.

Introduction

The fast-moving consumer goods (FMCG) is an umbrella term that encompasses a wide array of industries which deals with the production, distribution and marketing of a wide range of consumer products such as food (processed foods, prepared meals, baked goods, fresh, frozen foods), beverages, personal care (cosmetics, toiletries), medicines, fabric care, detergents, household products etc.

This industry in Bangladesh is a growing sector with huge local demand for its differentiated product lines. Presently it is considered as one of the largest sectors in the economy. During the last 10 years, the use of branded FMCG goods has increased significantly due to people's greater interest in personal grooming, increasing disposable incomes, changing life styles, internet facilities, influence of satellite television, emergence of young working class, branded products and greater product choice and availability.

With the demand for FMCG on the rise and the opening up of the market to MNCs, many of the world renowned players with different brand have entered into the market in the early and mid-nineties. Significant portion of the increasing demand is being met by the multinational companies especially for beauty and cosmetics products. However, some local companies are also operating in the country with its own modern manufacturing plants to cater to the local demand.

Due to monopolistic competitive nature of the products, the quality of local and foreign producers is not very different in some categories like soaps and detergents. As such the brand image plays an important role in determining the market share of the producers. Penetration level as well as per capita consumption in most product categories in FMCG is indicating an upward trend with more than two times growth during the last two years.

Growth is also likely to come from consumer upgrading in the matured product categories. The overall economic growth has been accompanied by increased disposable incomes and education level both in rural and urban areas, which is considered as important factors to choose branded and quality FMCG products.

CRISL's rating analysis of FMCG entities factors in their business, market demand ,market share (both local & export market) ,product diversification, market diversification, experience in the FMCG sector, infrastructural facility and technical collaboration, quality control mechanism. Apart from above factors CRISL put emphasis on entity's distribution channel, supply chain management, etc.

Rating Methodology

In order to arrive at a meaningful rating CRISL considers a large number of qualitative and quantitative factors and applies the same in its analytical rigor. In order to avoid biasness in analysis, CRISL tries to convert the qualitative factors to quantitative which ultimately assist CRISL for back testing of its methodologies. Quantitative factors include appraisal of the historic and projected financials, level of profitability, capacity utilization, capital expenditure need, cash flow adequacy, debt servicing capacity, free cash flow, and time series analysis. In order to arrive at meaningful assessment the financial statements are recast in order to make the ratios and analytical factors meaningful in line with the time horizon. All the factors considered by CRISL in rating may be clustered into four broad analytical risk blocks- Rating Factors, Risk factors, Financial Risk and Quality of Corporate Governance.

Rating Factors

1. Market Demand

CRISL considers each product category and its consumer demand. The expected drivers of volume growth and their long-term sustainability are taken into account. The market demand determines the categories in which a player operates. The essential goods have frequent and high demand with high turnover rate; non-essential, luxurious items tend to have stable sales. These market are not only very large; it is also very competitive. New products that are closely linked to consumer needs, values and lifestyles tend to exhibit strong volume growth. Presence in niche categories, where competition is fairly low, strengthens market position. Factors of rating considers the product branding, price-sensitive, products acceptance, targeted income group of people, economic impact of the products etc.

2. Market share (both local & export market)

While evaluating a FMCG companies, CRISL takes into consideration the company’s competitive advantage. The competitive advantage can be gauged by the size and market share of each product of the industry. Size of a company assists in achieving economy of scale, determining economic order size, cost efficiency and thereby lowering the unit cost of production. The size of an organization also justifies the research expenditure and capital intensive equipment and branch network.

Market share has several leads which helps a stable relationship with production to consumption and better control over the distribution channel. Profit margin is compensated by higher volumes of sales. Domestic FMCG branded companies offer relatively cheaper price than the MNCs by a creating a homebound insight trust of the consumers. Companies having large market share usually have lower marketing and advertising costs since it is cheaper to maintain an established brand than to create a new one. However, both size and market share of FMCG companies do not always speak for the advantages mentioned above. In a highly fragmented industry, price leadership goes with the quality of product.

3. Product diversification

In order to drive at a meaningful rating CRISL considers product diversification strategy of a FMCG company which helps the company to increase profitability and achieve higher sales volume from new products. It offers additional revenue sources and spread risks across multiple products. Quality is the key factor that entices the ultimate users in present and future consumption. In a competitive market the same product is produced by so many companies. To sustain customer interest, companies need to constantly introduce newer and better products. Product differentiation and higher perceived benefits triggered the higher price. However, a large number of qualitative and quantitative factors is taken into account for making the analytical analysis more rigorous.

4. Market diversification

Market diversification means extending business offering to new market segments not previously targeted. It mitigates risks in the event of an industry downturn. It is a tool of defense by which a company can protect itself from competing allied companies. In the case of a cash cow in a slow-growing market, diversification allows the company to make use of surplus cash flows. CRISL studies a company's market diversification strategy which refers to a long-term plan formulated by a business to achieve specific organizational objectives. The plan details how the business will reach its target various market, and the exact process it will follow to turn potential customers into actual consumers.

A presence in more than one market with a wide range of products empowers FMCG companies to balance growth objectives and competitive pressures. CRISL does not, however, view a single market with a small product portfolio as an absolute negative since companies may dominate their chosen segments or straddle a niche. However, consumer behavior, fashion trend, geographical impact and some other factors that critically influence a company's performance is considered during rating process.

5. Experience in the FMCG sector

While analyzing the individual entity ,experience of the key entrepreneur in related sector is also factored in rating analysis due to its inevitable impact on successful run of the business and its future sustainability and prospects.

6. Infrastructural facility and technical collaboration

FMCG includes a wide variety product from low price to high price for which all product cannot be manufactured in a single shed as each products offering profit margin in different range. Most companies have a combination of in-house production and outsourcing. Adequate land space for future expansion along with usages of modern and state- of the art technology in production process are pre-requisite for FMCG company. Usually, high technology products are made in-house, whereas others are sourced from customary vendors. The product's retention period also determines whether a company would opt for a central production facility or go in for regional outsourcing. Access to low cost utilities facilities such as gas and water and electricity is given due weightage.

7. Quality control Mechanism

Quality is the key factor to dominate in the FMCG market. As a part of strong quality control, the company needs to set up its own testing laboratory equipped with modern quality control techniques and microbiological lab of latest technology. A group of qualified professionals including chemist, microbiologist need to be employed. At each stage of production, the company needs rigorous testing and quality control process. All raw materials need to undergo quality inspection during receipt. Outsourced material production facilities are also subject to quality audits. The company needs to establish quality plan to check the product at the final stage. Storage of the products will be done in a way to ensure full quality retention. Each product needs to be certified by Government permitted authority i.e., Bangladesh Standard Testing Institute (BSTI) for its quality.

8. Market Share

While evaluating a real estate company or construction firm, CRISL takes into consideration the company’s competitive advantage. The competitive advantage of company can be gauged by the size and market share of the company. The size in revenue base and unit sales volume is assessed to know the strength of a developer.

Risk Factors

1. **Market competition risk**
   Market risk refers to the risk of adverse market conditions affecting the sales and profitability of the company. MNCs operating in local market having a critical mass in terms of stores and revenues bring successful operation in emerging markets. Absence of such pre-requisites leads to inability to penetrate in new emerging market by the local manufacturers. However, the risk arises from falling demand for the product or service which would harm the performance of the company. Entrance of new companies is making market competitive for existing players.

2. **Raw materials supply risk**
Management of raw material costs is an important aspect for FMCG companies. Efficient raw material sourcing is essential, especially in businesses where the margins are thin. The raw material of a product which is high import dependent, effective risk management systems on the procurement side play an important role. A wide sourcing base, which ensures the quality and quantity of purchase at the best possible price, is positively factored into the analysis. Furthermore, in a globalized market where raw materials for a specific product is procured from different locations across the world, location specific risks have impacted largely on costs, profitability and market position. Also the taxation related risks, and risk of employee, turmoil which has been seen with more diversification in emerging markets has been one of the important factor adding to the risk for the industry. Additional factors such as import policy, the government duty structure, import restrictions, cash incentive considerations all plays important role in the CRISL analytical process

3. **Exchange rate fluctuation risk**
Exchange rate risk arises from currency fluctuation in international trade. If Bangladeshi Taka is depreciated and/or foreign currency is appreciated, then the price of imported raw materials will go up which may cause decline in overall profit margin of the FMCG company.

4. **Quality control risk**
In a vast FMCG market arena, quality is the determinative factor to grab the market share. Starting from raw material sourcing to final selling in the consumer market, in every stage needs to be checked, tested and get approval of the related authority. A single defect or low quality product can cause serious impact on market share. Factors like well-equipped microbiological testing laboratory with qualified chemist, microbiologist ensures the quality. Absence of these factors may create a risk of quality.

5. **Receivables collection risk**
Credit control policies and its effectiveness play an important role in the liquidity management of the FMCG companies. It is more particularly important when a company has been manufacturing for the local market. In order to maintain cash operating cycle to order for raw materials, payment of labour and factory operation, the companies require cash constantly from the business cycle. In case of import dependent manufacturing companies, the Status of payment terms of the import LC vis a vis back to back LCs needs review to assess the funding mismatch.

6. **Reputation risk**
Trust is fundamental to brand reputation which acquires consumer loyalty that a company's products are acceptable and necessary to have. Brand play an imperative role which act as high entry barriers. A good brand image can have competitive advantages like high price acceptability, reluctant to switch to competitive products, lower advertising expenses and so on. During CRISL analytical process, factors like company's brand- building capabilities, management's willingness and ability to spend on advertising and other sustained brand-building efforts are examined. The intellectual property rights of a product is a burning issue that triggers a company may be unable to protect current and future brands and products which may create a reputation risk in coming days. Moreover, there is some times negative reporting print and electronic media regarding maintenance of standard quality and

operational procedure which may cause deterioration of company reputation and image in the market .

7. **Gas supply risk**
Gas is an essential requirement for producing power comparatively at cheaper cost. Supply of Gas being natural resources is limited and often Govt. follows the strategy of gas rationing. Shortage of gas supply may badly affect effective operation of FMCG company.Besides the above risk factors CRISL puts emphasis to identify other risk factors such as operational risk, technological obsolescence risk, price fluctuation risk and any other material risks that adversely affect company's performance.

Financial Risk

Every business decision ultimately leads to a financial decision. While the financial risks are the outcome of the business risk and activities, CRISL reviews the same from the perspective of short-term and long term financial planning and projections vis a vis financial flexibility to meet emergency financial need. CRISL generally reviews the audit reports in order to ascertain as to its reliability from various perspectives. However, in many cases CRISL reviews the financial statements from the view point of cash flow trend, management reports, peer analysis based on quantitative production/activity reports. Accounting systems/practices, measurement system, inventory valuation, depreciation methods, quality of audit and auditors comfort level, audit qualification, management report of the auditors, application of international accounting standards in accounting plays an important role in CRISL financial analysis.

1. **Profitability and coverage**

Although the absolute profitability figures such as Earning (profit) before Tax and interest (EBIT), profit margin, return on equity, return in investment etc. CRISL puts due weight to profitability indicators, profitability trend vis a vis industry norms, position of a particular company in the peer.

2. **Funding structure**

Funding structure of an organization may have an impact on its cash flow and mismatch is cash generation. CRISL places due importance to the financing pattern of long term and short term assets vis a vis the short term and long term debts. For example, if the long term investment in land is financed by working capital loan or short term finance it may seriously affect the cash flow of the company. The companies having excessive short term debts may face cash shortage in meeting its obligations in the volatile economy.

3. **Capital Structure / Le v era g e**

Capital structure of an organization varies from industry to industry. Capital intensive industries require high leverage while the labor intensive industries work at low leverage. CRISL identifies industrial norms in respect of debt equity ratio, coverage ratios, overall gearing ratio, interest coverage ratio, debt servicing coverage ratio in order to measure the degree of leverage. CRISL also reviews the off balance sheet assets and liability items such as guarantees, LCS together with BB LCS in order to ascertain its leverage.

4. **Cash flow stability and liquidity**

Cash flow of a company plays a very important part in CRISL assessment procedure. CRISL in many cases reads the Financial Statements with due emphasis to cash flow. To CRISL Cash flow balance sheets rather provides more reliability of financial statements than normal statements. Stable cash flow provides comfort of judging the capability of the company to discharge its liabilities while free cash flow predicts company's ability to go for expansion or loan repayment capacity or business growth.

5. **Financial Flexibility and Liquidity**

Liquidity is the key to judge the short term financial flexibility of a company. In addition the franchise value of the company to borrow quick fund from the market, relationship with the financial institutions, level of financial limits allowed by the banks and its utilization level, perception of the financial institutions for funding projects under the company, cash operating cycle etc. provides wider coverage to the CRISL analysis. CRISL also reviews the company's failure in updating CIB report of the central Bank in case of any default. In case of Group companies, CRISL analysis goes beyond the individual company, rather Group cash flow, support of Group companies in case of funding need, extent of inter- company cash movement gets highest weightage in judging the liquidity position of a company.

6. **Financial Management**

CRISL rating analysis places due weight to the quality of financial management. Managing Finance through budgetary control system, working capital management through budgetary control system, management of cost efficiency through installation of appropriate cost accounting system, product costing, use of accounting information by the management, IT base financial management system, quality of the manpower and their qualification etc all are taken into consideration while ascertaining the extent of financial management.

Governance Risk

Although the Memorandum of Association of the company contains a large number of objectives, the company normally pursues one or two main objectives on the basis of which the MISSION and VISION Statements are prepared in order to determine the corporate goals. Companies operating on the basis of certain corporate goals as reflected in operating activities.

1. **Corporate governance**

Corporate governance is a blend of law, regulations, enforcement and appropriate voluntary practice by the organizations that permit a corporate to attract capital, perform efficiently and generate long term economic value for its shareholders while respecting the interest of its stakeholders and society as a whole. The specific areas covered are composition of Board, formation of Committees, transparency in disclosure of relevant, reliable financial and operational information, information on ownership and control and information on internal processing of management. CRISL places due importance to the governance factors in the rating process of an organization

2. **Succession Planning/family owned outfit**

The succession plan is the key indicator of corporate philosophy that an organization is a going concern and it has unlimited life and its viability will not be affected on the departure of any individual professional. In order to reduce the dependency on single / few individuals a succession plan in a corporate reflects the management idea of business management continuity and its succession. CRISL while reviewing the management philosophy takes into consideration of the above factor. In addition, through the succession plan, the visibility of family management vs professional management becomes more prominent.

3. **Credibility and Banking Relationship**

Credibility, to a great extent, may be reflected in its franchise value and public perception in the market. However, in order to identify the willingness of the company to discharge a liability in time, CRISL philosophy is to see the corporate environment prevailing in the organization vis a vis the strategy being followed to achieve the corporate goals through managing its diversified business. In addition, corporate policy to management of conflict of interest, handling intercompany transfer pricing and intercompany transactions also reflects the credibility of the organization and its system. In addition to the above, banking relationship plays important role to judge the credibility of an entity. CRISL carefully looks into all the exposures of the entity enjoyed from the bank/FIs along with length of relationship. CRISL also reviews the utilization limit of credit facility. Besides, the personal deposit of the key sponsors, if there is any, are also taken into consideration. While reviewing the credit facilities, CRISL also look into the present status of the same along with past performance.

4. **IT infrastructure**

The extent of Information technology and communication infrastructure installation and the extent of its use in the production and product management, cost management, inventory management play an important role in managing an organization.

Environment and Legal Issues

Compliance of environmental regulations as imposed by the local regulators and the compliance requirement of the international buyers has been playing a very important role in determining competitiveness of a manufacturing organization. CRISL reviews the extent of compliance to the local environmental rules, regulators clearance, updated tax and other clearance, compliance with the labour related rules such as minimum wage payments, Excess hour rules, compliance of the buyer's requirements etc. CRISL also carefully look into the legal issues including the pending legal cases along with latest status to get idea about the company's standing.

CRISL RATING SCALES AND DEFINITIONS
LONG-TERM RATINGS OF CORPORATE

RATING	DEFINITION
AAA Triple A (Highest Safety)	**Investment Grade** Entity rated in this category is adjudged to be of best quality, offer highest safety and have highest credit quality. Risk factors are negligible and risk free, nearest to risk free Government bonds and securities. Changing economic circumstances are unlikely to have any serious impact on this category of companies.
AA+, AA, AA- (Double A) (High Safety)	Entity rated in this category is adjudged to be of high quality, offer higher safety and have high credit quality. This level of rating indicates a corporate entity with a sound credit profile and without significant problems. Risks are modest and may vary slightly from time to time because of economic conditions.
A+, A, A- Single A (Adequate Safety)	Entity rated in this category is adjudged to offer adequate safety for timely repayment of financial obligations. This level of rating indicates a corporate entity with an adequate credit profile. Risk factors are more variable and greater in periods of economic stress than those rated in the higher categories.
BBB+, BBB, BBB- Triple B (Moderate Safety)	Entity rated in this category is adjudged to offer moderate degree of safety for timely repayment of financial obligations. This level of rating indicates that a company is under-performing in some areas. Risk factors are more variable in periods of economic stress than those rated in the higher categories. These entities are however considered to have the capability to overcome the above-mentioned limitations.
BB+, BB, BB- Double B (Inadequate Safety)	**Speculative Grade** Entity rated in this category is adjudged to lack key protection factors, which results in an inadequate safety. This level of rating indicates a company as below investment grade but deemed likely to meet obligations when due. Overall quality may move up or down frequently within this category.
B+, B, B- Single B (Risky)	Entity rated in this category is adjudged to be with high risk. Timely repayment of financial obligations is impaired by serious problems which the entity is faced with. Whilst an entity rated in this category might be currently meeting obligations in time through creating external liabilities.
CCC+,CCC, **CCC-** Triple C (Vulnerable)	Entity rated in this category is adjudged to be vulnerable and might fail to meet its repayments frequently or it may currently meeting obligations in time through creating external liabilities. Continuance of this would depend upon favorable economic conditions or on some degree of external support.
CC+,CC, CC- Double C (High Vulnerable)	Entity rated in this category is adjudged to be very highly vulnerable. Entity might not have required financial flexibility to continue meeting obligations; however, continuance of timely repayment is subject to external support.
C+,C,C- Single C (Extremely Speculative)	Entity rated in this category is adjudged to be with extremely speculative in timely repayment of financial obligations. This level of rating indicates entities with very serious problems and unless external support is provided, they would be unable to meet financial obligations.
D (Default)	**Default Grade** Entity rated in this category is adjudged to be either already in default or expected to be in default.

Note: For long-term ratings, CRISL assigns + (Positive) sign to indicate that the issue is ranked at the upper-end of its generic rating category and - (Minus) sign to indicate that the issue is ranked at the bottom end of its generic rating category. Long-term ratings without any sign denote mid-levels of each group.

SHORT-TERM RATINGS OF CORPORATE

ST-1	**Highest Grade** Highest certainty of timely payment. Short-term liquidity including internal fund generation is very strong and access to alternative sources of funds is outstanding. Safety is almost like risk free Government short-term obligations.
ST-2	**High Grade** High certainty of timely payment. Liquidity factors are strong and supported by good fundamental protection factors. Risk factors are very small.
ST-3	**Good Grade** Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Although ongoing funding needs may enlarge total financing requirements, access to capital markets is good. Risk factors are small.
ST-4	**Moderate Grade** Moderate liquidity and other protection factors qualify an entity to be in investment grade. Risk factors are larger and subject to more variation.
ST-5	**Non-Investment/Speculative Grade** Speculative investment characteristics. Liquidity is not sufficient to ensure discharging debt obligations. Operating factors and market access may be subject to a high degree of variation.
ST-6	**Default** Entity is in default or is likely to default in discharging its short-term obligations. Market access for liquidity and external support is uncertain.

CRISL RATING SCALES AND DEFINITIONS

BANK LOAN/ FACILITY RATING SCALES AND DEFINITIONS- LONG-TERM

RATING	DEFINITION
blr **AAA** (*blr* Triple A) (Highest Safety)	**Investment Grade** Bank Loan/ Facilities enjoyed by banking clients rated in this category are adjudged to have highest credit quality, offer highest safety and carry almost no risk. Risk factors are negligible and almost nearest to risk free Government bonds and securities. Changing economic circumstances are unlikely to have any serious impact on this category of loans/ facilities.
blr **AA+**, *blr* **AA**, *blr* **AA-** (Double A) (High Safety)	Bank Loan/ Facilities enjoyed by banking clients rated in this category are adjudged to have high credit quality, offer higher safety and have high credit quality. This level of rating indicates that the loan / facilities enjoyed by an entity has sound credit profile and without any significant problem. Risks are modest and may vary slightly from time to time because of economic conditions.
blr **A+,** *blr* **A,** *blr* **A**- Single A (Adequate Safety)	Bank Loan/ Facilities rated in this category are adjudged to carry adequate safety for timely repayment/ settlement. This level of rating indicates that the loan / facilities enjoyed by an entity have adequate and reliable credit profile. Risk factors are more variable and greater in periods of economic stress than those rated in the higher categories.
blr **BBB+,** *blr* **BBB,** *blr* **BBB-** Triple B (Moderate Safety)	Bank Loan/ Facilities rated in this category are adjudged to offer moderate degree of safety for timely repayment /fulfilling commitments. This level of rating indicates that the client enjoying loans/ facilities under-performing in some areas. However, these clients are considered to have the capability to overcome the above-mentioned limitations. Cash flows are irregular but the same is sufficient to service the loan/ fulfill commitments. Risk factors are more variable in periods of economic stress than those rated in the higher categories.
blr **BB+**, *blr* **BB**, *blr* **BB-** Duble B (Inadequate Safety)	**Speculative/ Non investment Grade** Bank Loan/ Facilities rated in this category are adjudged to lack key protection factors, which results in an inadequate safety. This level of rating indicates loans/ facilities enjoyed by a client are below investment grade. However, clients may discharge the obligation irregularly within reasonable time although they are in financial/ cash problem. These loans / facilities need strong monitoring from bankers side. There is possibility of overcoming the business situation with the support from group concerns/ owners. Overall quality may move up or down frequently within this category.
blr **B+**, *blr* **B**, *blr* **B-** Single B (Somewhat Risk)	Bank Loan/ Facilities rated in this category are adjudged to have weak protection factors. Timely repayment of financial obligations may be impaired by problems. Whilst a Bank loan rated in this category might be currently meeting obligations in time, continuance of this would depend upon favorable economic conditions or on some degree of external support. Special monitoring is needed from the financial institutions to recover the installments.
blr **CCC+**, *blr* **CCC**, *blr* **CCC-** Triple C (Risky)	**Risky Grade** Bank Loan/ Facilities rated in this category are adjudged to be in vulnerable status and the clients enjoying these loans/ facilities might fail to meet its repayments frequently or it may currently meeting obligations through creating external support/liabilities. Continuance of this would depend upon favorable economic conditions or on some degree of external support. These loans / facilities need strong monitoring from bankers side for recovery.
blr **CC+,** *blr* **CC,** *blr* **CC**- Double C (High Risky)	Bank Loan/ Facilities rated in this category are adjudged to carry high risk. Client enjoying the loan/ facility might not have required financial flexibility to continue meeting obligations; however, continuance of timely repayment is subject to external support. These loans / facilities need strong monitoring from bankers side for recovery.
blr **C+,** *blr* **C,** *blr* **C-** (Extremely Speculative)	Bank Loan/ Facilities rated in this category are adjudged to be extremely risky in timely repayment/ fulfilling commitments. This level of rating indicates that the clients enjoying these loan/ facilities are with very serious problems and unless external support is provided, they would be unable to meet financial obligations.
blr **D** (Default)	**Default Grade** Entities rated in this category are adjudged to be either already in default or expected to be in default.

SHORT-TERM RATINGS

blr ST-1	**Highest Grade** Highest certainty of timely payment. Short-term liquidity including internal fund generation is very strong and access to alternative sources of funds is outstanding, Safety is almost like risk free Government short-term obligations.
blr ST-2	**High Grade** High certainty of timely payment. Liquidity factors are strong and supported by good fundamental protection factors. Risk factors are very small.
blr ST-3	**Good Grade** Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Although ongoing funding needs may enlarge total financing requirements, access to capital markets is good. Risk factors are small.
blr ST-4	**Satisfactory Grade** Satisfactory liquidity and other protection factors qualify issues as to invest grade. Risk factors are larger and subject to more variation.
blr ST-5	**Non-Investment Grade** Speculative investment characteristics. Liquidity is not sufficient to insure against disruption in debt service. Operating factors and market access may be subject to a high degree of variation.
blr ST-6	**Default** Institution failed to meet financial obligations