Credit Rating Information and Services Limited

Credit Rating Methodology – Real Estate and Construction

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 the 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 real estate sector in Bangladesh can be broadly divided into residential and commercial segments. The industry is highly regional and a fragmented industry. Due to absence of any independent regulator and low entry barriers, Bangladesh has seen a huge influx of developers and builders, many of whom have significant presence in their respective local markets.

The industry plays a pivotal role in the economic development of any country. In fact, the performance of this industry is one of the key indicators used in many developed countries to monitor the state of the economy.

The reason for using construction industry data is that trends in this industry generally mirror activity in the economy as a whole. This is because apart from the direct benefits of the creation of new housing and infrastructure, construction activity yields several other benefits.

A close examination of the dynamics of this industry will clearly highlight its critical role in economic development.

Foremost, any construction activity, whether it is related to infrastructure or industrial development or housing or recreation, represents a very long-term investment and hence a significant commitment by the investor to the economy he is investing in. Since construction involves the creation of immovable assets it represents a far more permanent creation of wealth than say investment in the stock market, which can flow out very quickly in case a country faces an economic downturn.

Secondly, the construction industry is a major end consumer for several capital intensive industries such as steel and cement and for smaller industries such as paints, pipes, wiring etc. Thus a robust construction industry spurs economic activity in a large number of up-stream industries, therefore attracting investment in these sectors and creating employment.

Thirdly, construction activity by itself is highly labour intensive, requiring large amounts of skilled, semi-skilled and unskilled personnel. Again, in developing economies, where unemployment tends to be a chronic problem, this is an invaluable advantage.

In view of the above factors it is not surprising that investment in construction projects, either directly by the government itself or through encouragement of private sector activity (or even a combination of both), has been a popular tool for governments looking to boost economic activity.

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, 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.

CRISL would carry out an in-depth analysis on the abilities of the developer itself before initiation of the analysis of individual construction or real estate projects being executed by the real estate developer being rated.

This would usually cover a study of the track record of the developer to see the performance of past projects (i.e successful delivery of projects) , particularly with a view to examining project initiation and monitoring procedures and the availability of the resources required to implement these procedures, including areas such as criteria for pre-qualification of other project participants, evaluation of tender documents and performance guarantees, procedures for awarding contracts, quality controls and ability to monitor the progress of the various project participants in relation to their respective deadlines.

The real estate developer must also be in a position to deal with potential non-technical issues pertaining to the project such as obtaining of permits, etc.

Rating Factors

1. **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.

2. **Diversity**
   Competitive advantage also stems from geographic, product and price segment diversity. A developer with high geographic diversity across different markets faces less cyclical downturns and secular changes that may affect performance as compared to those that have limited presence in the region in which they operate. In product type diversity the developer proposal are weighed on the type of offering he is giving to the people including high-rise, residential, offices, shops, town houses etc. Moreover, price segment diversity is also important as high-end customers may be less impacted by economic slowdown and shield company revenues.

3. **Financial Strength**
   Finally, the financial strength of the real estate developers (including potential impact of off balance sheet contingent liabilities such as litigation and performance bonds) is considered along with an examination of the presence of any credit enhancing features e.g guarantees, support of multilateral institutions, etc. Such an analysis would typically emphasize on cash flow coverage's along with debt leverage and property value to loan ratios. Real estate developers exhibiting a higher degree of financial flexibility would be able to achieve better ratings.

4. **Legal**
   Once a basic assessment of the expertise and financial strength of the real estate developer has been completed, our methodology calls for the evaluation of each individual project being undertaken by the developer at the time of the rating along with any planned projects covered in the rating horizon. The first factor to be considered is the possession of clean title to the project property by the real estate developer and consequently his ability to transfer the title onwards. If a project does not meet this criterion, the litigation risk alone arising from such a situation would be so high as to preclude the issuing of an investment grade rating to the real estate developer.

5. **Team**
   The next factor is the participant risk of the project. This is a large area covering construction contractors, equipment suppliers, architects and any other independent experts involved in the project (e.g. engineering consultants, surveyors etc.). The construction contractors are examined for

their in-house design capability, proven ability to meet deadlines, and most importantly the availability of the right team for the project. Similarly, other project participants are also evaluated with respect to their ability to deliver the required services in their area of expertise.

6. **Build, Operate & Transfer**
   In case of BOT projects, an additional factor of post-completion maintenance of the project is also considered. Internationally, specialist real estate managers are appointed in order to ensure that the intrinsic value of the project does not deteriorate. This is very important from the point of view of the lending institutions as the project is usually the primary collateral securing the financing.

7. **Financing**
   Once the project viability is determined based on the above criteria, we commence the analysis of the financing of the project. Obviously, the greater the equity participation by the sponsor the more confidence will be generated. The external financing obtained for construction projects should generally be long-term in nature and ideally heavily back loaded even to the extent of a single bullet payment scheduled to coincide with the scheduled completion and sale of the project. In the case of BOT projects, the repayment schedule can be based on installments after an appropriate grace period covering the construction and commencement of commercial activity.

   As can be seen, the risks associated with a construction project, and hence the real estate developer, are varied and one or more may be realized during the course of any project. This is not unlike other green field projects, where the risk levels are also very high. Therefore, ratings for real estate developers will tend to be constrained unless substantial external support is available or risk has been diversified in a way so as to mitigate some of the factors mentioned above.

Risk Factors

1. **Completion Risk**
   Once the ability of the various participants to execute the given project has been established, CRISL's methodology calls for a study of the completion risk of the project. This is a critical part of the rating exercise because repayment schedules are generally tied to projected completion times. In order to assess the completion risk, the first step is the evaluation of the project schedule. Ideally, the project should be divided into several distinct parts, each of which has to be completed by a specific date. Enough room should be left in the schedule to cover for unforeseen events. Experienced sponsors and constructors can determine this flexibility by looking at previous projects and the nature of the project in hand. An appropriate mix of contractual bonuses and penalties must be used to reward timely work and discourage the missing of targets respectively. Also, there should be as little reliance as possible on external factors. As the number of such factors grows, the control of the project participants over timely completion diminishes. Completion risk levels are also determined by the engineering complexities associated with the project. The greater the complexities, the higher are the probability of difficulties faced in the execution stage and consequently the risk of exceeding the budgeted timeframe. Time overruns generally also cause cost overruns, the impact of which on a construction project is discussed below.

2. **Operating Risk**

Timely completion by itself does not guarantee in any way the success of the project, as a significant operating risk also exists. Operating risk for construction projects basically takes two forms: quality and costs. Quality can in turn take the form of technical performance i.e. whether the engineering of the project is up to the desired specifications or aesthetics i.e. whether the desired sensory affect has been created (the latter is more important in housing projects). In both cases, a failure to achieve the desired standard will either result in time and cost overruns or the sale value of the project being reduced.

Operating cost risk implies that the project may be significantly over budget even while meeting the project specifications and time schedule. A cost overrun resulting from any of the two quality risks (or from delayed completion as discussed earlier) can pose significant problems to the project sponsor as it involves arranging of further financing, to be repaid out of the same inflow from the sale of the project, which is already being used to pay off the original debt. Therefore, depending on the extent of the cost overruns, the project viability may be badly affected.

In order to understand the degree of operating risk, CRISL takes an in-depth look at the feasibility study of the project. Our study basically involves a close look at the underlying assumptions in the feasibility and sensitizing these to determine the margin available in case of changes in key variables.

3. **Demand Risk**

A significant demand risk is also present in any construction project, even though it is sometimes mitigated through advance bookings. These have the double advantage of securing customers before completion of the project as well as reducing the amount of external financing required during the construction stage of the project. However, since such advance bookings are usually on an installment basis after a minimal down payment, this gives rise to credit risk due to the possibility of default on installments by the customer.

4. **Competition Risk**

Real Estate businesses, especially apartment projects have started flourishing and have been showing robust growth in Dhaka City since early 1980s. At present, more than 1100 real estate and land development companies are operating their business and new companies are contemplating to enter into real estate business against the back drop of increasing demand for flat of different size. Entrance of new companies is making market competitive for existing players and hence creating competition risk.

5. **Raw Materials Price Fluctuation Risk**
   Developers procure large portion of raw materials and equipment from local market and imports from international market. Prices of major construction materials (rod, cement, brick, ceramics, electric wire & other electric equipment, sanitary fittings) are going up both in local as well as international market. Such increase of raw materials price exposes the real estate company to price fluctuation risk.

6. **Govt. Policy Changes Risk**
   Changes in the Government's policy (monetary and fiscal policy) as well as enactment of new law especially for real estate sector may create risk for participants in this sector. Property registration tax, opportunity to invest black money in real estate sector, embargo to gas connection to new flat provision of minimum percentage of solar power, identifying the sector as unproductive sector by any regulatory body may create impediment or opportunity for this sector. In this regard Govt. has passed Dhaka Mahanagar Imarat Nirman Bidhimala-2008, Bangladesh National Building Code, Besorkari Abashik Bhumi Unnayan Bidhimala - 2004, Detailed Area Plan and Real Estate Development & Management Act 2010. Stringent compliance of such Act is required and any conscious or subconscious lapse in compliance may create risk for Real estate companies

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**
   Apart from the absolute profitability figures such as Earning (profit) before Tax and interest (EBIT), gross profit, and net profit CRISL puts due weight to profitability indicators (profit margin, return on asset, return on equity, return in investment etc.), 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

1. **Corporate goals and strategy**
   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.

2. **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

3. **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.

4. **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.

5. **IT infrastructure**

The extent of Information technology and communication infrastructure installation and the extent 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 compl~~iance 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