



Rating Methodology – Telecommunication Companies

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.

CRISL RATING PERSPECTIVE

Understanding the increasingly important role of ratings, especially in the light of Basel II guidelines, consistent and uniform default definition is critical and it has significant impact on the reliability and comparability of ratings across rating agencies. A rigorous and transparent definition of default makes the ratings assigned by a rating agency meaningful. Ratings can either indicate probability of default (PD) or Expected Loss (EL). The underlying principles guiding each of these approaches are not similar, and ratings that indicate probability of default are not directly comparable with ratings that indicate Expected Loss, especially at lower rating levels. Investors and market participants, thus, will compare only those ratings that are based on similar approaches, or make appropriate adjustments before comparison.

Considering the stage of development of rating environment in Bangladesh CRISL adopted rating definition of "Probability of Default". Therefore, all CRISL ratings indicate the probability of default and not the EL that may arise after the default.

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 honour 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;

SCOPE AND LIMITATIONS OF CRISL RATINGS

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 all government guaranteed securities are considered as AAA.

CRISL offers Entity Rating for telecommunication companies in addition to the rating of debt instruments / fixed income securities. 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 holders' value in the long run. The debt instrument or fixed income security 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 its 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 are 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 of in discharging its liabilities in time. With the addition of plus (+) and minus(-) signs before the scale, the 10 scales reflect 26 notches. 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.

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, time series analysis. In order to arrive at meaningful assessment the financial statements are re-cast 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 in to broad analytical risk blocks- Industry, Business Risk, Operational Risk, Financial Risk and Quality of Corporate Governance. In addition to the normal qualitative and quantitative factors in evaluating the performance of any corporate, CRISL places special emphasis on the following factors in the telecommunication industry:

INDUSTRY RISK FACTORS

- ┆ Growth potential - relationship with economic development (penetration rates).
- ┆ Highly regulated by the Government and constrained by its policies (i.e. number of players, rates, degree of competition and extent of services allowed).
- ┆ Level of liberalization and competition.
- ┆ Industry players (i.e. strength and dominance of incumbents); how many new players?
- ┆ Type, scope and duration of license
- ┆ Fast-paced industry with rapid changes.

SUBSCRIBER BASE

- ┆ Quantity - market share, growth rates, churn rates.
- ┆ Quality - minutes of use, average monthly call charges, average revenue per user ("ARPU"), trade debt collection, involuntary disconnections, and provision for bad debts.
- ┆ Call patterns.

NETWORK INFRASTRUCTURE

- ┆ Capacity vs actual subscribers.
- ┆ Frequency allocation and management.
- ┆ Technology used - new or old.
- ┆ Network coverage/quality.
- ┆ Infrastructure for trunk and international calls.
- ┆ Cost of building network infrastructure - 'right of way' tie-ups.
- ┆ International traffic volumes and accounting rates.
- ┆ Roaming facilities - settlement procedures.
- ┆ The Communications and Multimedia Commission's benchmark quality standards; complaints per subscriber.

MARKETING

- ┆ Acquisition cost per subscriber.
- ┆ Commissions and other marketing expenses.
- ┆ Dealer network.
- ┆ Product branding and market positioning.

OPERATIONAL EFFICIENCY

- | Cost structure.
- └ Exposure to fraud.
- | Network congestion.
- | Dropped and blocked calls.
- | Billing system and management of receivables.

FIXED LINE STRATEGY

- | Trunk network and international gateway infrastructure and costs to build/acquire/lease vs potential returns.
- └ Target segments.

FINANCIAL RISK

- | Capital expenditure required to continue expanding business and to remain competitive.
- └ Expected worst-case scenario.
- └ Break-even cash flow.
- └ Strong financial position will allow numerous technological options to expand and upgrade network to keep up with technology.

MANAGEMENT

- └ Strategies employed.
- | Innovation to embrace convergence of voice and data.

SHAREHOLDERS' SUPPORT

- | Financial strength.
- | Commitment to company.



CRISL RATING SCALES AND DEFINITIONS

LONG TERM RATING SCALE - CORPORATE

RATING	DEFINITION
AAA Triple A (Highest Safety)	Investment Grade Entities rated in this category are 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)	Entities rated in this category are 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)	Entities rated in this category are 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)	Entities rated in this category are 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 Entities rated in this category are 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)	Entities rated in this category are 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)	Entities rated in this category are 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)	Entities rated in this category are adjudged to be very highly vulnerable. Entities might not have required financial flexibility to continue meeting obligations; however, continuance of timely repayment is subject to external support.
C+, C, C- (Extremely Speculative)	Entities rated in this category are 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 Entities rated in this category are 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 RATING SCALE- 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	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.