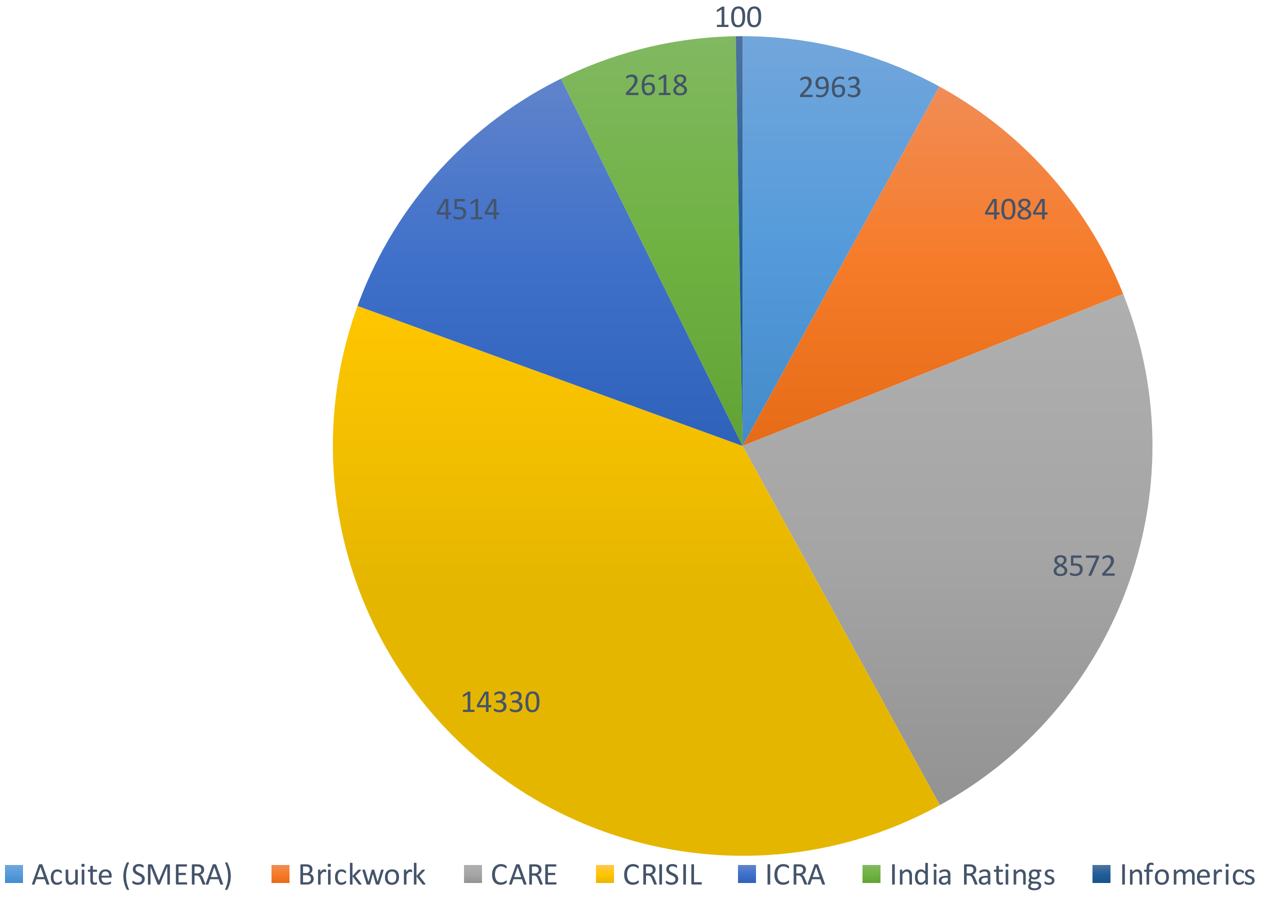
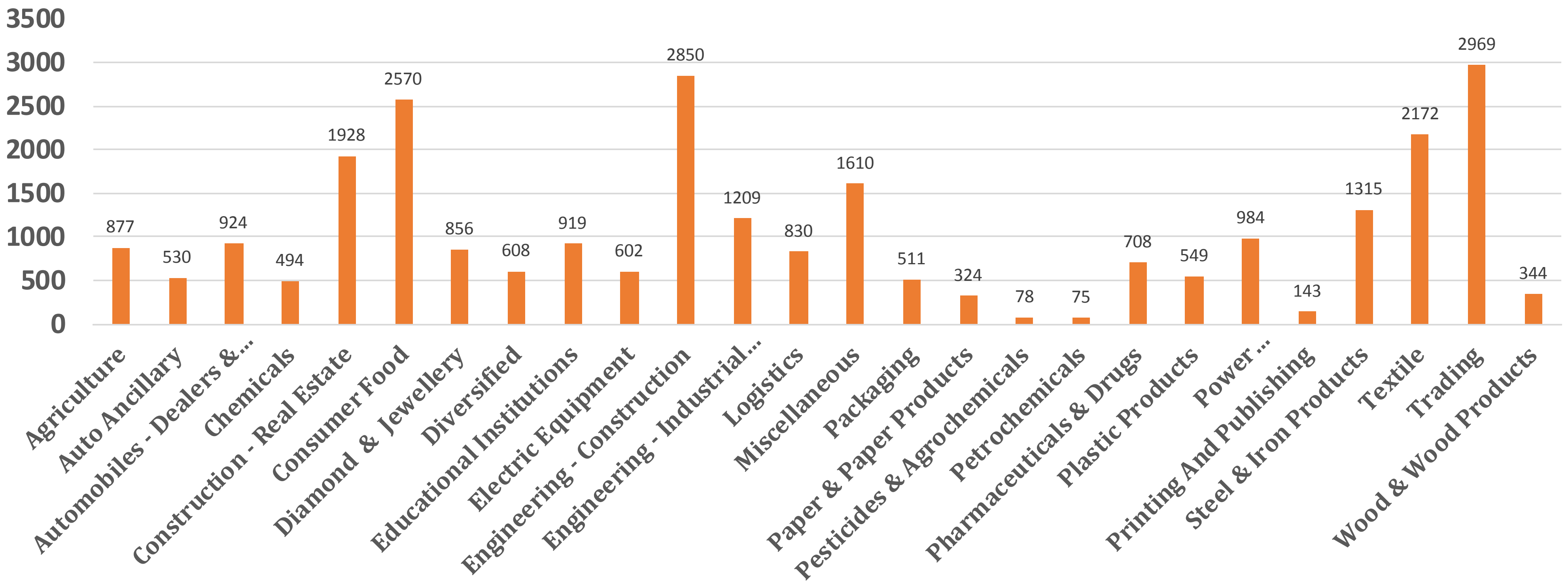
CURRENT RATING SCENARIO IN INDUSTRIES & CLIENTS RATED

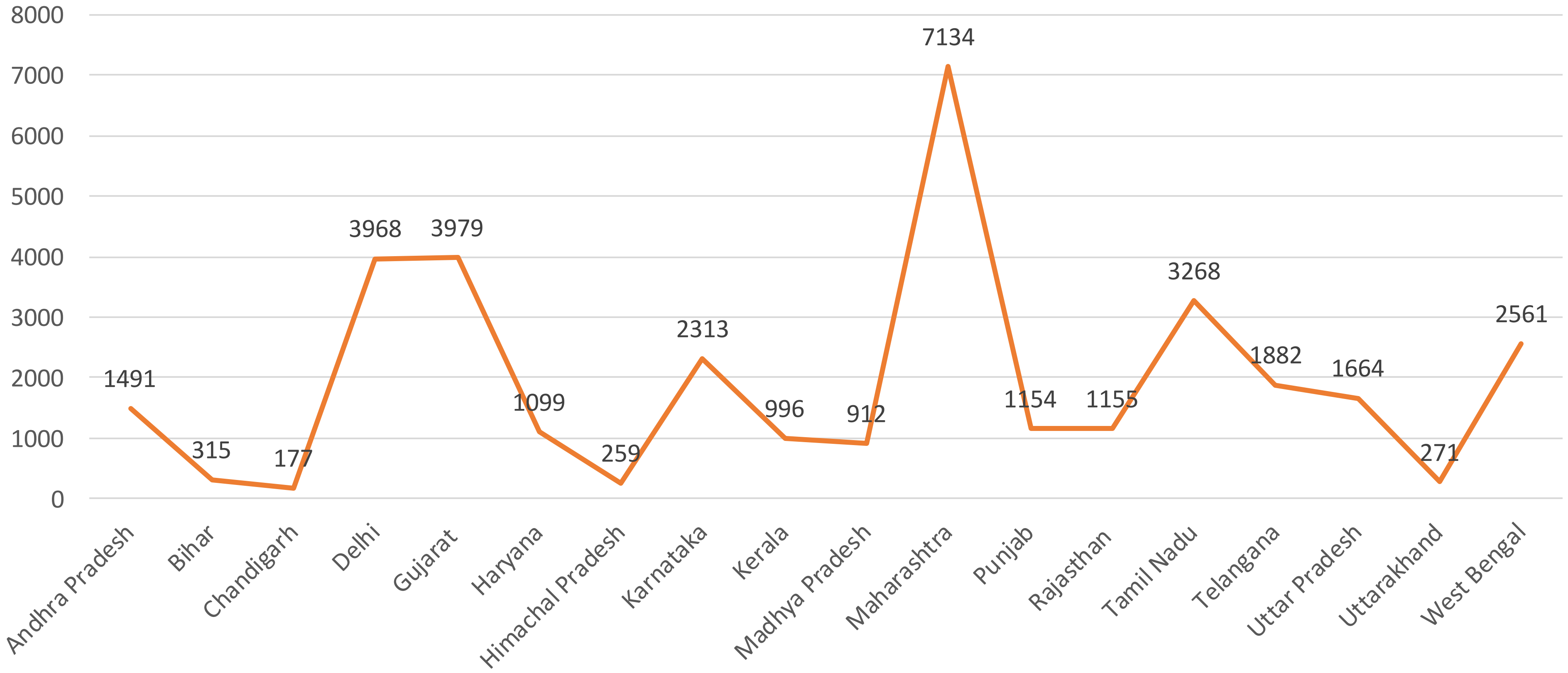
NUMBER OF CLIENTS RATED BY RATING AGENCY (ALL STATES)



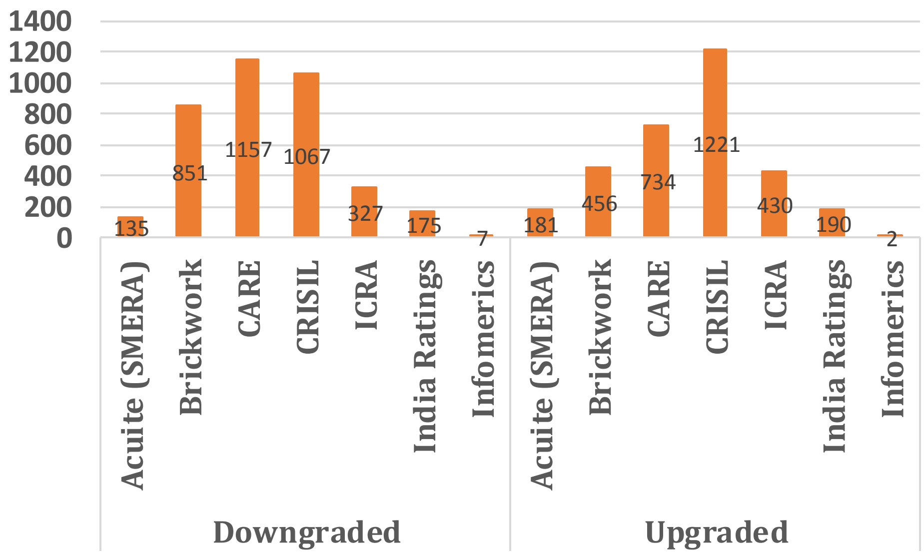
SERVED CLIENTS ACROSS INDUSTRIES

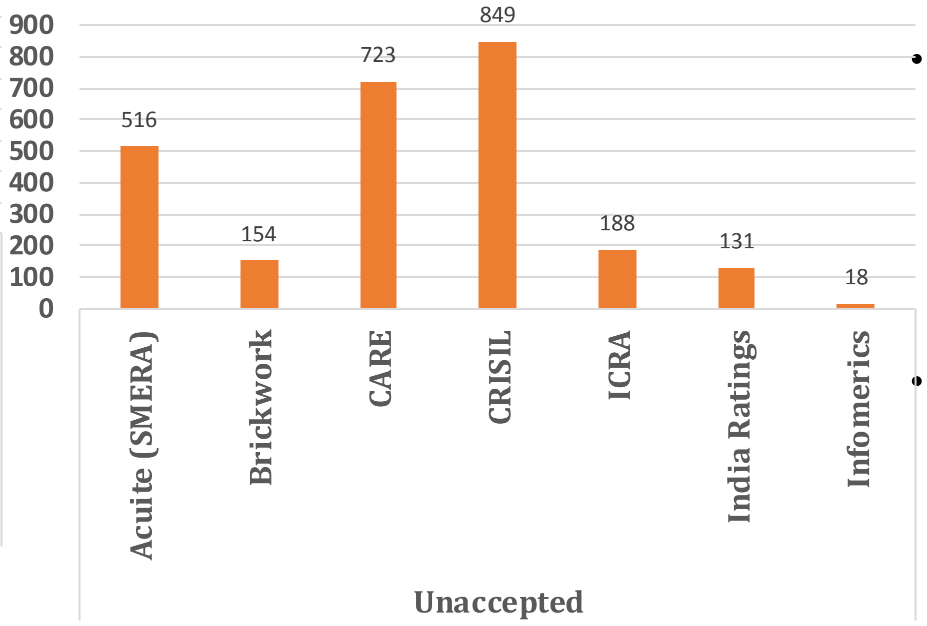


STATE WISE RATING



2018 RECORDS ON RATING AGENCY





- With the introduction of new circular by SEBI, rating downgrade is substantially increased in comparison to Upgrades over 2018.

- SEBI has come up with several alteration in rules of credit rating agency to ensure accurate rating to be assigned by agency and avoid number of defaults

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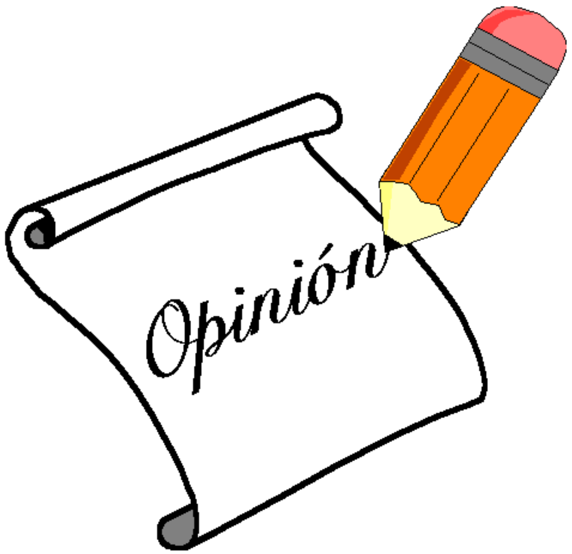
CREDIT RATING & BENEFITS TO CLIENTS

WHAT IS "CREDIT RATING"?

Rating is:

A unbiased and independent **opinion** on borrower's **ability** and willingness to make **timely repayment** of debt.

It takes into account not only the financial condition of the entity but also several qualitative parameters that have bearing on its creditworthiness



Estimates the credit worthiness of an individual, corporation or even a country.

Objective is to differentiate credit risk in borrowers / issuers.

Credit rating is a forward looking exercise.

WHAT CREDIT RATINGS IS?

- Credit rating is essentially the opinion of the rating agency on the relative ability and willingness of the issuer of a debt instrument to meet the debt service obligations as and when they arise.

- Ratings are relative measures of risk; as a result, the assignment of ratings in the same category to entities and obligations may not fully reflect small differences in the degrees of risk.

WHAT CREDIT RATINGS IS NOT?

- A credit rating is not a recommendation to buy, hold, or sell a debt instrument.

- Different investors have different views regarding the level of risk to be taken and rating agencies can only express their views on the relative credit risk.

- The credit rating should not be viewed as assurance of credit quality or as a precise measure of probability of default.

Benefits of Credit Rating- Borrowers

- Credit rating agencies provide investors and debtors with important information regarding the creditworthiness of an individual, corporation, agency or even a sovereign government.

- Higher rated company can economise, minimise cost of public issues and with least efforts can raise funds.

- Credit rating, also act as self assessment tool i.e. comparison of certain financial ratios with chosen benchmarks among industry peers and legal, political and economic environment

- High credit rating creates confidence and trust in the minds of the investors about the company. High credit rating can act as a marketing tool to develop confidence in the minds of customers, dealer, suppliers, etc.

- Credit ratings are an important tool for borrowers to gain access to loans and debt. Good credit ratings allow borrowers to easily borrow money from financial institutions or public debt markets. At the consumer level, banks will usually base the terms of a loan as a function of your credit rating, so the better your credit rating, the better the terms of the loan typically are. If your credit rating is poor, the bank may even reject you for a loan.

BENEFITS OF CREDIT RATING- LENDERS

- The rating will be an additional input to objectively make lending decisions, and determine interest rates for borrowers

- Regulators like Reserve Bank of India (RBI) and Securities & Exchange Board of India (SEBI) often use credit rating to determine eligibility criteria for some instruments.

- Credit ratings are also used for determination of risk weight for calculation of capital Adequacy for Banks as per Basel II guidelines in India.

- Investors will look at the credit rating given by these international and domestic rating agencies before deciding to invest.

Rating Agencies & Types of Ratings

Rating Agency in India

- CRISIL
- CARE
- ICRA
- India Ratings (Fitch)
- Brickwork Ratings
- SMERA
- Infomerics

TYPES OF RATINGS

- **BLR Rating.**
- **Structured Finance Rating**
- **SME Rating. –** Registration certificate issued by micro and small enterprise is not required.
- **Real Estate Grading.**
- **IPO & Hospital Grading.**
- **Education Institutes Grading**
- **Issuer Ratings. – Same Rating Scale As BLR**
- **Corporate Governance Ratings.**
- **Insurance Ratings – Same Rating Scale As BLR.**
- **Mutual Fund Ratings - Same Rating Scale as BLR**
- **Customized Research Services – Industry / Company Research, Risk Management Services. Etc**
- **NSIC Ratings. –** Registration certificate issued by micro and small enterprise is required

SCALE OF CREDIT RATING

- All the Rating agencies uses common simple alphanumeric symbols to convey credit ratings as per the guidelines from SEBI.
- Rating agencies assigns credit ratings to debt obligations for the long-term and the short-term debt instruments.
- To illustrate, long-term credit rating scale and the description associated with each category is given below:

What are you getting and what you think you deserve?

Long Term	Risk Weight %	Short Term	Risk Weight %	
AAA	20	A1+	20	Investment Grade
AA+	30	A1	30	
AA				
AA-				
A+	50	A2+/ A2	50	
A				
A-				
BBB+	100	A3+/ A3	100	
BBB				
BBB-				
BB+	150	A4+	150	Speculative Grade
BB				
BB-				
B+		A4		
B				
B-				
C+				
C				
C-				
D		D		Default

Scale of credit rating as per BASEL-II along with respective risk weights

SCALE OF SME RATING

SME Rating	Definition
SME 1	Highest
SME 2	High
SME 3	Above Average
SME 4	Average
SME 5	Below Average
SME 6	Inadequate
SME 7	Poor
SME 8	Default

FUND BASED- SHORT TERM / LONG TERM RATING

Fund-Based Facilities	Rating Scale
Packaging Credit	Short –Term
Cash Credit	Long –Term
Working Capital demand loan (WCDL)	Long – Term
Purchase bill discounting	Short- Term
Bill purchase /discounting	Short –Term
Factoring/Forfeiting	Short–term
Post-shipment credit	Short–term
Short-term loan	Short–term
Foreign-currency non-resident loan	Long–term /Short–term*
Term loans	Long–term
External commercial borrowings (ECBs)	Long-term
Mortgage loan facility	Long-term
Vendor financing	Short-term

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NON- FUND BASED SHORT TERM / LONG TERM RATING

Non Fund-Based Facilities	Rating Scale
Bank guarantee	Short–term
Letter of credit	Short–term
Foreign exchange forward contract limit	Short–term^

RECOGNITION OF DEFAULT ON BANK LOAN FACILITIES :-

- "Default recognition" is in line with regulatory guidelines published by the Securities and Exchange Board of India (SEBI) and the Reserve Bank of India (RBI). SEBI, in its circular titled 'Enhanced Standards for Credit Rating Agencies (CRAs)' standardised the instrument-wise default recognition to be adopted by all CRAs.
- Uniform Guidelines to be recognised for delayed in payments
- Reasonable judgment to assess whether the delays were on account of non-credit factors
- Delayed to be corrected in few business days & necessary corrective measures to ensure its not repeated .

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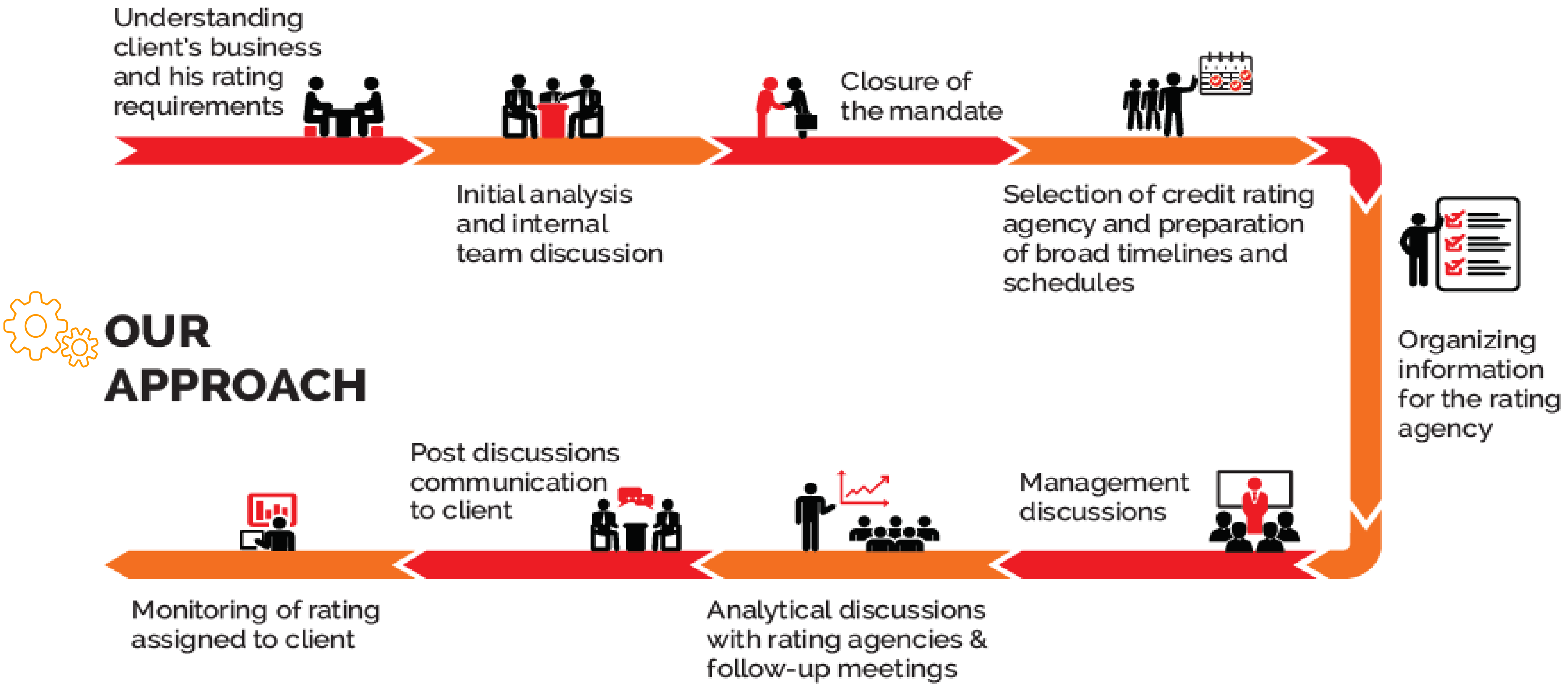
RATING PROCESS

RATING PROCESS



DETAILED RATING REPORT

Points on which complete detailed rating report is analyzed for clients on industries

- PERFORMANCE AND CREDIT RATING GRID
- FACT SHEET
- STRENGTH AND RISK FACTORS
- MANAGEMENT PROFILE
- FUTURE
- OWNERSHIP
- MANUFACTURING FACILITIES
- BUSINESS PROFILE
- PRODUCT PROFILE
- CAPACITY UTILISATION

- SUPPLIER INFORMATION
- CUSTOMER INFORMATION
- ORDERS IN HAND
- MARKETING ARRANGEMENTS
- OTHER INFORMATION
- BANK AND INSURANCE DETAILS
- FINANCIAL PERFORMANCE
- PROFIT AND LOSS ACCOUNT
- GRAPHS
- BALANCE SHEET
- KEY RATIOS
- SITE VISIT INFORMATION
- PROMOTERS' DETAILS

SEBI CIRCULARS & GUIDELINES

REGULATORS FOR CREDIT RATING AGENCIES

- Credit rating agencies are globally regulated by the **Capital Market Regulators** of the countries of operations.

- With risk based approach and capital adequacy norms based on the ratings, **Central Banks** also have guidelines for the CRAs.

- International Organization of Securities Commission (**IOSCO**), an association of over 100 countries, has stipulated best practices for the credit rating agencies. Most of the rating agencies follow the same. Of late the country regulators have started to formulate their policies based on these best practices.

- Association of Credit Rating Agencies in Asia (**ACRAA**) is an association of CRAs in Asia. ACRAA also guides its members for the best practices in the business.

HIGHLIGHTS OF THE RECENT SEBI CIRCULAR

- Formulation of Rating Criteria and Processes and public disclosure of the same
- Accountability of Rating Analysts
- Standardization of Press Release for rating actions
- Functioning & evaluation of Rating Committees/Sub Committees
- Disclosure of ratings in case of non-acceptance by an issuer
- Disclosure in case of delay in periodic review of ratings
- Policy in respect of non-co-operation by the issuer
- Monthly Submission of No default Statements and Quarterly Performance

SEBI Guidelines to Adhere

1 Credit agencies would also need to review ratings after every "material event" and request monthly "no default statements" from issuers, Sebi added.

2 Rating agency need to send details of companies to SEBI whose rating has been upgraded by two notches or more.

3 In case an issuer, having not co-operated with a CRA in the past, approaches another CRA for rating, the new CRA shall, in its Press Release, disclose the aspect of non-co-operation..

4 Each CRA shall disclose on its website details of all ratings assigned by them, irrespective of whether the rating is accepted by the issuer or not, even in case of non-public issues.

5 The company should be given Default Rating even in case of delay of 1 day even of 1 rupee (of principal or interest) from the scheduled repayment date.

6 SEBI rule change should also make it more difficult for promoters or businessmen to nudge bankers to go easy on repayments. This is because a public disclosure of even a small default can impact not just the company's stock, but also its ability to raise capital in the future. It will mean a downgrade by credit rating agencies, with implications for the cost of borrowing.

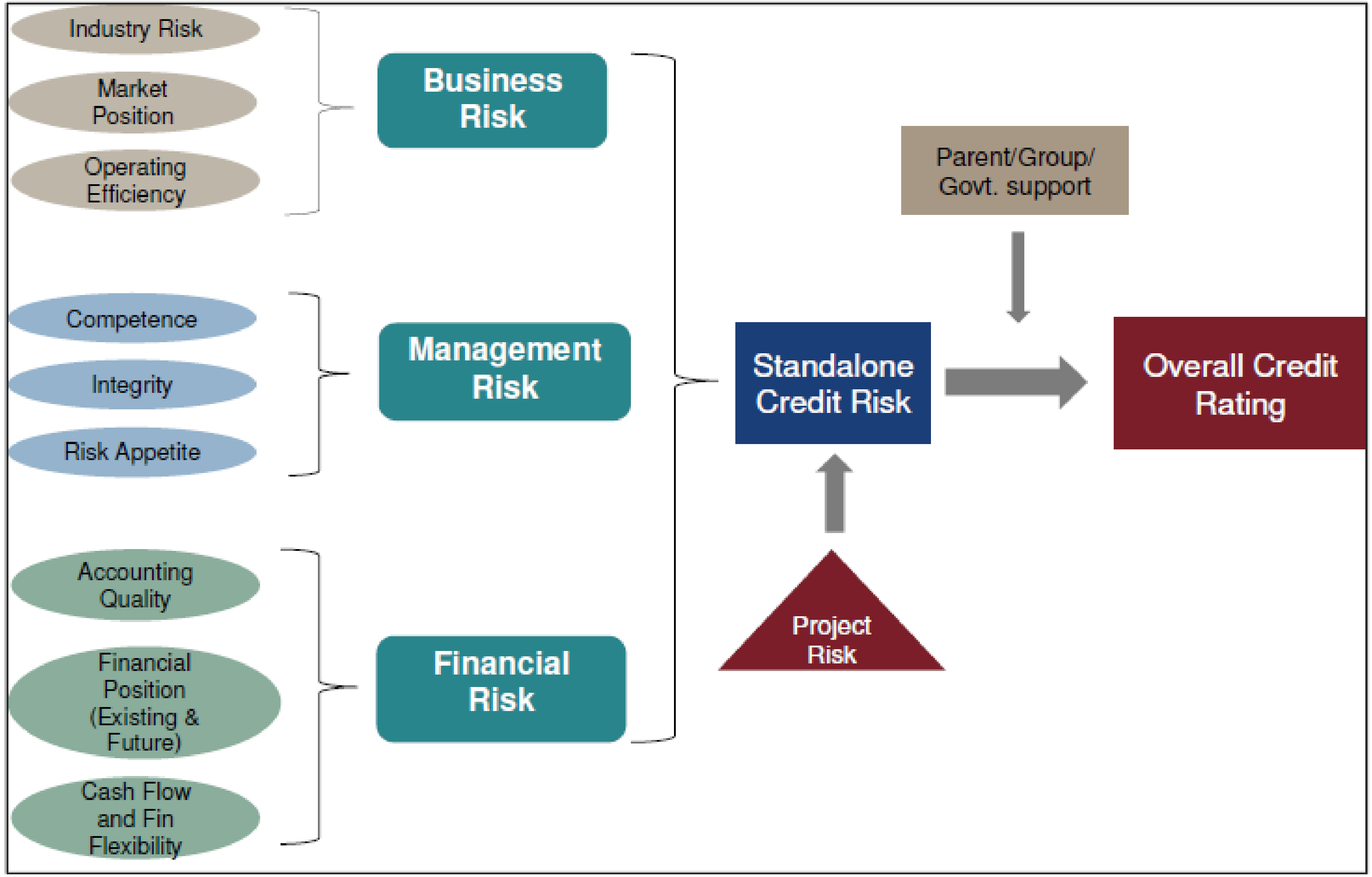
7 CRAs are advised to refrain from giving Indicative Ratings without having a written agreement in place.

CRITERIA DISCLOSURES

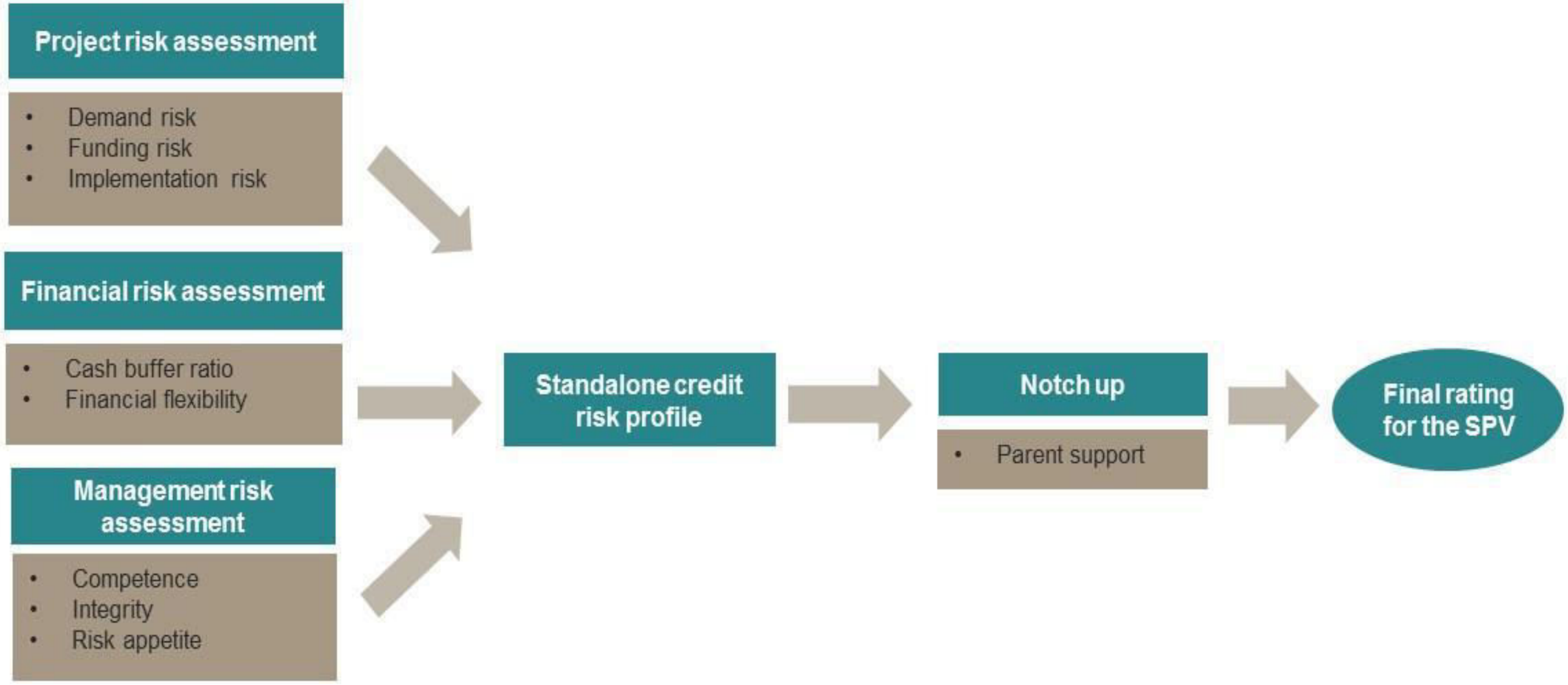
- Default recognition and post-default curing period
- Financial ratios (including adjustments for the interpretation of financial ratios)
- Consolidation of companies
- Parent support/group/government support
- Manufacturing, trading companies, and services sector
- Banks and financial institutions
- Securitization transactions
- Public finance
- Infrastructure ratings

FACTORS IN CREDIT RATINGS

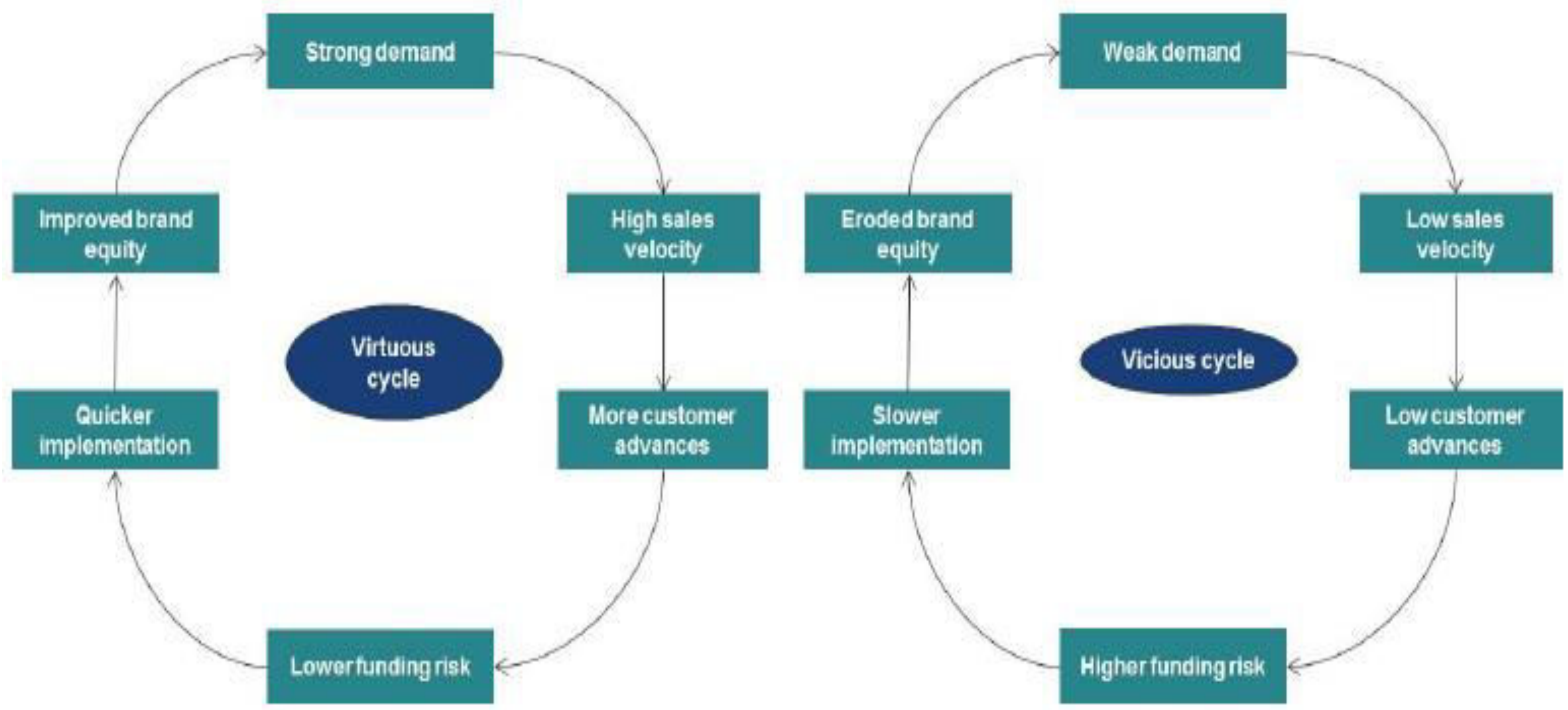
FACTORS IN CREDIT RATING



Framework for Rating –Real Estate



Project Risk Assessment



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ADVISORY ROLE IN RATINGS

ADAPTING CONSULTING SERVICES

01 Strategies for achieving an upgrade and avoid downgrades

02 Understand agency criteria, methods and biases

03 Prepare for quarterly/annual due diligence meetings.

04 Preparation of Industry Insight and Peer Outlook

05 Acquire a first-time credit rating and project rating

06 Structure for managing the rating process under SEBI Guidelines

WHO OPT FOR CREDIT RATING ADVISORY SERVICES?

- New Company, planning to take funds
- Small Size corporates
- Mid-size Corporates
- Large Multinational Companies

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CLIENTS CASE STUDIES

Manish Jain

CASE STUDIES

➢ Gems & Jewellery

FinMen assisted a mid size jeweler firm to get 4 notches jump in ECR despite of same level performance as compared to last year. We had put forth our views in front of rating agency to consolidate performance of another entity in which promoters were doing same business but rating agency have not earlier taken the same into consideration. FinMen also shared points to agency to take several other qualitative parameters into consideration like benefits of strategic location of its showrooms across the city, loyal customer database of the entity, goodwill which entity have built over decades of operations etc. FinMen also highlighted comfortable liquidity position of the entity and promoters strategy to meet out any unforeseen event which may come up considering the nature of industry in which promoter is operating. Firm will surely get benefit by upgraded rating from its existing and prospective lenders.

➢ Real Estate

Finmen' comprehensive analytical understanding has helped a Pune based real estate player, having bank lines of ~Rs. 30 Crores improve its Credit Rating substantially by 3 notches. The entity is a part of one of the renowned real estate groups of Pune city. FinMen stressed upon in a detailed manner, about the unique selling proposition of the project under consideration. Factors like locational advantage of the property (in a very close vicinity to schools, corporate parks, malls, Hospitals, Railway Station and Airports), Latest amenities of the building etc. were explained through a presentation for better understanding of the project . Despite the project (For which rating was done) being at a very nascent stage, we were successful in analytically convincing the rating agency about the group's execution track record and the cash-flow support from other group projects to the entity being rated in case of any contingencies. In this manner, with the help of this rating, the client successfully saved on the hefty interest costs linked to the rating.

CASE STUDIES

- **Two companies, having large debt-funded capex, got upgraded by three notches at one-go**

FinMen helped two companies - one engaged in manufacture of ferro alloys, and the other engaged in specialty chemicals. The ratings of both these companies were constrained on account of their large debt-funded capital expenditure (capex). FinMen addressed the ability of these companies to implement and ensure off-take of the proposed incremental capacity. Hence, the rating of both these company got upgraded by 3 notches despite large debt-funded capex. This way we have helped the client to save on hefty interest costs and raise easy finance for their debt-funded capex. The effective timeline for each company was less than 2 weeks, against a month committed by Finmen

- **Iron & Steel**

We have assisted one renowned name of iron and steel industry in Chhattisgarh region to achieve investment grade despite decline in turnover and a slight decline in margins. Here we have shown the temporary impact of demonetization on the business of the company and explained the same to rating agency. Finmen also explained the strength of the overall group, and synergies that the company derives from being a part of the group. Finmen also highlighted the risk tolerance capacity at the group level in case of any adversity in the sector. With a good report and an equally strong presentation of the above, the company have got investment grade rating.

CASE STUDIES

➢ Educational Institutions

FinMen has assisted an educational institute to upgrade its existing rating A+ to AA- and thus enabling it to enter into higher level of investment grade. FinMen has presented the case by highlighting their major strengths of strong financial liquidity profile, faculty expertise, efficiency of the management to enable smooth operations in more than 250 institutes with diverse range of courses, core expertise in the industry in which it operates with latest technology and Infrastructure, collaboration with well-known international institutes, vast experience of promoters, excellent placement committee to ensure majority of students are placed. A detailed report was submitted on SWOT analysis highlighting the above mentioned strengths and opportunities available to grab in near future. Therefore, the finMen's team helped the institute to get an upgrade from rating which was already at a creamy layer. Thereby improving the chances of going for an enhancement proposal comfortably in the future and enable them to be one of the best Institutes in India

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➢Automobile Industry

Despite a slowdown in automobile sales, Finmen has assisted a leading luxury car dealer of Delhi NCR region to upgrade its existing rating by one notch, thus enabling if to get BBB grade. Finmen has presented the case strategically by highlighting their major strengths of Management experience, low-risk business model, innovative marketing strategies, professional marketing teams which act as lifestyle manager, increased market share, highlighting awards and support from franchise and dominant position in the existing market. We have submitted a detailed analysis of how the company has managed to maintain its topline despite NGT ban by Government and no new model from the franchise in the Indian market. We have helped them to negotiate with banks for the reduction in interest cost and increase chances of going for an enhancement proposal in the future. All these perceptive would enhance market share in their region few years down the line.

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ANY QUESTIONS ?


Thank you