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**AN APPRAISAL
OF
CREDIT RATING AGENCY
OF BANGLADESH LIMITED**

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AN APPRAISAL OF CREDIT RATING AGENCY OF BANGLADESH LIMITED

Prepared For
Dr. Tanbir Ahmed Chowdhury
Associate Professor
Department of Business Administration

Prepared By
Mozaher Uddin Ahmed
I.D. No: 2000-3-10-012

Internship Report
Submitted To
Business Administration Department
East West University

December 2004

26 December 2004

Dr. Tanbir Ahmed Chowdhury
Associate Professor
Dept. of Business Administration
East West University
Mohakhali, Dhaka

Sub: Submission of Internship Report.

Dear Sir,

It is my pleasure to submit the report on “An Appraisal of Credit Rating Agency of Bangladesh” as a part of my Internship program. I tried my level best to prepare this report.

I get more practical knowledge about Credit Rating Agency, which will help my future career. If you need any information to evaluate this report, I will be pleased to furnish this information. Thank for your kind cooperation and accommodation.

Thank you

Sincerely yours



Mozaher Uddin Ahmed
ID# 2000-3-10-012
East West University

ACKNOWLEDGEMENT

I would like to express gratitude and thanks to my supervisor and teacher Mr. Dr. Tanbir Ahmed Chowdhury, Associate Professor, Dept. of Business Administration, East West University for his support and helpful advice to prepare this report. He gives me the opportunity to work for this internship on “An Appraisal of Credit Rating Agency of Bangladesh”. His enriched and powerfully structured discussion has been a great help in each step of this report.

I also express my gratitude and thanks to my other supervisor H S Sohrawardhi, Senior Financial Analysts, Credit Rating Agency of Bangladesh Ltd. His support helped me to know the different section of Rating Agency. And he also helps me to prepare this report.

Finally I thank my friends and my parents for encouraging me throughout the report work. I thank them all with my deepest feeling.

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Executive Summary

Credit Rating Agency of Bangladesh Ltd. (CRAB) is the second credit rating agency in Bangladesh. Credit Rating Agency of Bangladesh Ltd. started their journey on 5 April 2004. Credit Rating Agency of Bangladesh Ltd. has a technical collaboration with Investment Information and Credit Rating Agency (ICRA) of India, one of the leading credit rating agency in India. As the second credit rating agency in Bangladesh CRAB has already done some rating assignment, now they are doing couple of rating and they have some potential client to doing the rating assignment. The main objectives of Credit Rating Agency of Bangladesh Ltd. are to provide information to the investors, to provide consultancy and advisory services to their clients, to perform rating services, to perform grading services. The sponsors of the Credit Rating Agency of Bangladesh Ltd. are the country's most reputed personalities. To perform the rating services CRAB followed some steps. And in these steps there are all things that shows how CRAB doing their rating. Such as, CRAB has a rating team to do their rating, CRAB arrange a rating committee meeting before submission of final rating etc. CRAB has own rating framework that are help them to submit the rating awards to their clients. Such as industry characteristics, market position, new project risks, management quality, financial flexibility etc. And finally CRAB has their own rating symbols. And from these rating symbols CRAB give rating award to their clients. For example, if any instrument are very safety and not too much risk involved and earning prospect is very high then this instrument rating is very good such as AAA, AA, A1 and if any instrument that is not too much safe, there are lots of risk involved and earning prospect is bad then this instrument rating is low such as CCC, CC, C.

Chapter One

Introduction

1.1. Introduction:

Internship program is a compulsory work to achieve a BBA degree from East West University. In internship program university sent students to various organization to complete this program. From this internship program students can get idea about the organization. This internship program can give students chance to do with real world as a practical people. It gives students the best opportunities to build up their interpersonal skills, theoretical explanation and so on. After an internship program students must prepare a report.

This report is about Credit Rating Agency of Bangladesh Ltd. (CRAB). Credit Rating Agency of Bangladesh Ltd. is a second rating agency of Bangladesh. In this report there are lots of information provide about the Credit Rating Agency of Bangladesh Ltd.

1.2. The Concept of Rating

Ratings, usually expressed in alphabetical or alphanumeric symbols, are a simple and easily understood tool enabling the investor to make judgments on investments decisions in different securities including debt and equity instruments on the basis of their underlying quality. Credit rating of debt instruments indicates the current opinion of the relative capability of the issuer to service its debt obligation in a timely fashion, with specific reference to the instrument being rated. In case of Equity instruments the rating indicates the current opinion on prospects of return from the equity. Thus rating is focused on communicating to the investors, the relative ranking of the default loss probability for a given investment, in comparison with other rated instruments.

A rating is specific to an instrument and is intended as a grade, an analysis of the risk associated with the particular instrument. In case of debt rating it is based upon the relative capability and willingness of the issuer of the instrument to service the debt obligations (both principle and interest) as per the terms of the contract. For the equity instruments judgment is made on the sensitivity of the return from the equity

instruments to changing market conditions and offer the greatest stability of returns to shareholders.

The primary objective of rating is to provide guidance to investors/creditors in determining risk associated with a debt instrument or equity investment. It does not amount to a recommendation to buy, hold or sell an instrument, as it does not take into consideration factors such as market prices, personal risks preferences and other considerations, which may influence an investment decision. The rating process is itself based on certain 'givens'. The agency, for instance, does not perform an audit. Instead, it is required to rely on information provided by the issuer and collected by analysts from different sources, including interactions in person with various entities.

“In determining a rating, both quantitative and qualitative analyses are employed. The judgment is qualitative in nature and the role of the quantitative analysis is to help make the best possible overall qualitative judgment because ultimately a rating is an opinion.” Standard & Poor’s.

“A rating is an opinion on the future ability and legal obligation of the issuer to make timely payments of principal and interest on a specific fixed income security. The rating measures the probability that the issuer will default on the security over its life, which depending on the instrument may be a matter of days to 30 years or more. In addition, long-term ratings incorporate an assessment of the expected monetary loss should a default occur.” Moody’s

“Credit ratings help investors by providing an easily recognizable, simple tool that couples a possibly unknown issuer with an informative and meaningful symbol of credit quality.” Standard & Poor’s.

1.3. Overview of Credit Rating Agency

Credit rating agencies attempt to provide independent reports on the credit worthiness of a range of institutions, government, and public bodies, international and domestic active companies. They produce available reports analysis supporting their rating of credit worthiness, which are publicly available for purchase / view by subscription or on a one-off basis electronically or in hard copy form.

The publication of credit reports and analysis is triggered by one of a variety of factors. Reports may be published periodically, as part of a routine update and review of the institution or sector. They are frequently published because a rating agency perceives that certain events, which have either occurred or it foresees happening, will influence the credit worthiness of the institution.

The rating of the institution, by the rating agency, can have an impact on the perception of investors and lending institution towards it. This can materially affect the rate of interest at which it can borrow funds, make bond issues, as well as influencing the price of its stock if it is a corporation listed on an exchange.

The rating agencies compete against each other for business in two specific ways. As the institution, which is rated, pays for the services of the rating agencies they compete for business from the institutions. Furthermore, they compete in terms of the quality of the material they publish for sale to end user investor and lending organizations. Some gain a better reputation than others in specific sectors. For example, a rating agency may be more highly respected for its credit ratings Sovereign Countries than for its ratings in the corporate bond market. Credit rating agencies are typically subject to little formal regulation or oversight in most countries.

The methodologies, criteria and formulae, which determine the ratings, are “the trade secrets” of the rating agency. They are not disclosed to the institution being rated or to those who purchase and use the rating agency’s publications.

1.4. Objectives of the study:

The objective of this report is to get practical knowledge about the Credit Rating Agency of Bangladesh Ltd. It will also help to know about different sector of Credit Rating Agency of Bangladesh Ltd. What is their task, how they perform their task, what is their main objective etc.

1.5. Scope of the study:

This report is on the Credit Rating Agency of Bangladesh Ltd. In this report there are some information provide about Credit Rating Agency of Bangladesh Ltd. such as overview, importance, objectives, mission, framework, and symbols.

1.6. Methodology of the study:

The report has been written on the basis of Primary data and Secondary data. The primary data has been collected from the interview of the company's employee and secondary data has been collected from the company's brochure.

1.7. Limitations of the study:

As Credit Rating Agency of Bangladesh Ltd. is a new organization in Bangladesh and they yet not published their annual report so, I could not find their financial position. Another thing there are some confidential information, which they do not want to disclose in front of me.

Chapter Two

**An Overview of the Principal Activities of Credit
Rating Agency of Bangladesh Limited**

2.1. Overview of Credit Rating Agency of Bangladesh Ltd.

Credit Rating Agency of Bangladesh Ltd. (CRAB) was incorporated as a public limited company under the Registrar of Joint Stock Companies in August 2003 and received its certificate for commencement of business in November 2003. It has been granted license by the Securities and Exchange Commission (SEC) of Bangladesh for operating as a credit rating company in February 2004. The formal launching of the company was held on 5 April 2004.

As the second credit rating company of the country, CRAB has already completed and is presently engaged in undertaking the rating of a number of instruments and entities in the areas of financial services, manufacturing, real estate development, engineering and other services. CRAB has been involved in carrying out ratings of debentures, equity shares, bank loan portfolios; corporate governance and stakeholders value addition rating.

2.2. Sponsors and Management of CRAB

CRAB has been promoted by some of the country's most reputed business and financial sector personalities and institutions like the Investment Corporation of Bangladesh. The sponsors of CRAB have elected Mr. M. Syeduzzaman, former Finance Minister of the Government of Bangladesh as the first Chairman, Mr. Anwaruddin Chowdhury, a former President of the ICAB has been appointed as the first Managing Director. The Industrial Development Leasing Company of Bangladesh Limited's Nominee Director has recently joined the CRAB Board.

Board of Directors of CRAB

Chairman

- **Mr. M. Syeduzzaman**

Directors:

- **Mr. M. Syeduzzaman**
Chairman, Bank Asia
- **Mr. Md. Matiul Islam, FCA**
Chairman, Industrial and Infrastructure Development Finance Company Ltd.
- **Mr. Samson H. Chowdhury**
Chairman, Astras Ltd.
- **Mr. Syed Manzur Elahi**
Chairman, Apex Footwear Ltd. & Apex Tannery Ltd.

- **Mr. M. Anis Ud Dowla**
Managing Director, ACI Ltd.
- **Mr. Md. Ziaul Haque Khondker**
Managing Director, Investment Corporation of Bangladesh
- **Mr. M. Haider Chowdhury**
Chairman, National Life Insurance Co. Limited
- **Mr. A K M Rafiqul Islam, FCA**
Managing Director, Pragati Insurance Ltd.
- **Mr. Mir Mustafizur Rahman**
Chairman, Fareast Finance & Investment Ltd.
- **Mr. A.S.M. Quasem**
Vice President, International Chambers of Commerce Bangladesh
Chairman, New Age Group
- **Mr. Abu Zafar Humayun**
Chairman, Unicorn Equities Ltd.
- **Mr. M Faizur Rahman**
Chairman, Union Capital Ltd.
- **Mr. Anis A Khan**
Managing Director & CEO
Industrial Development Leasing Company (IDLC) of Bangladesh Ltd.

Managing Director

- **Mr. Anwaruddin Chowdhury, FCA**

2.3. Importance of CRAB

- CRAB plays an important role in modern capital markets.
- CRAB is important to the investors because of CRAB's rating investors will decide whether they invest or not.
- From the CRAB's rating investors can know the borrower's strength and weaknesses.
- CRAB reduces the investor's risk and uncertainty.
- CRAB is also important to the issuer/borrower because if the rating is good and investors are willing to invest certain areas then issuer/borrower can raise their capital.

- CRAB also provides information about the issuer/ borrower's credit history.
- Investors and lenders typically insist on being compensated for uncertainty and when taking on debt, issuers pay for the uncertainty through higher interest rates. CRAB's rating that help reduce uncertainty for investors and also help reduce the cost of capital for issuers.

2.4. Mission of CRAB

CRAB has the mission to contribute significantly towards enhancing the quality and operation of the money and capital markets in the country providing reliable information and guidance to institutional and individual investors and creditors.

2.5. Objectives of CRAB

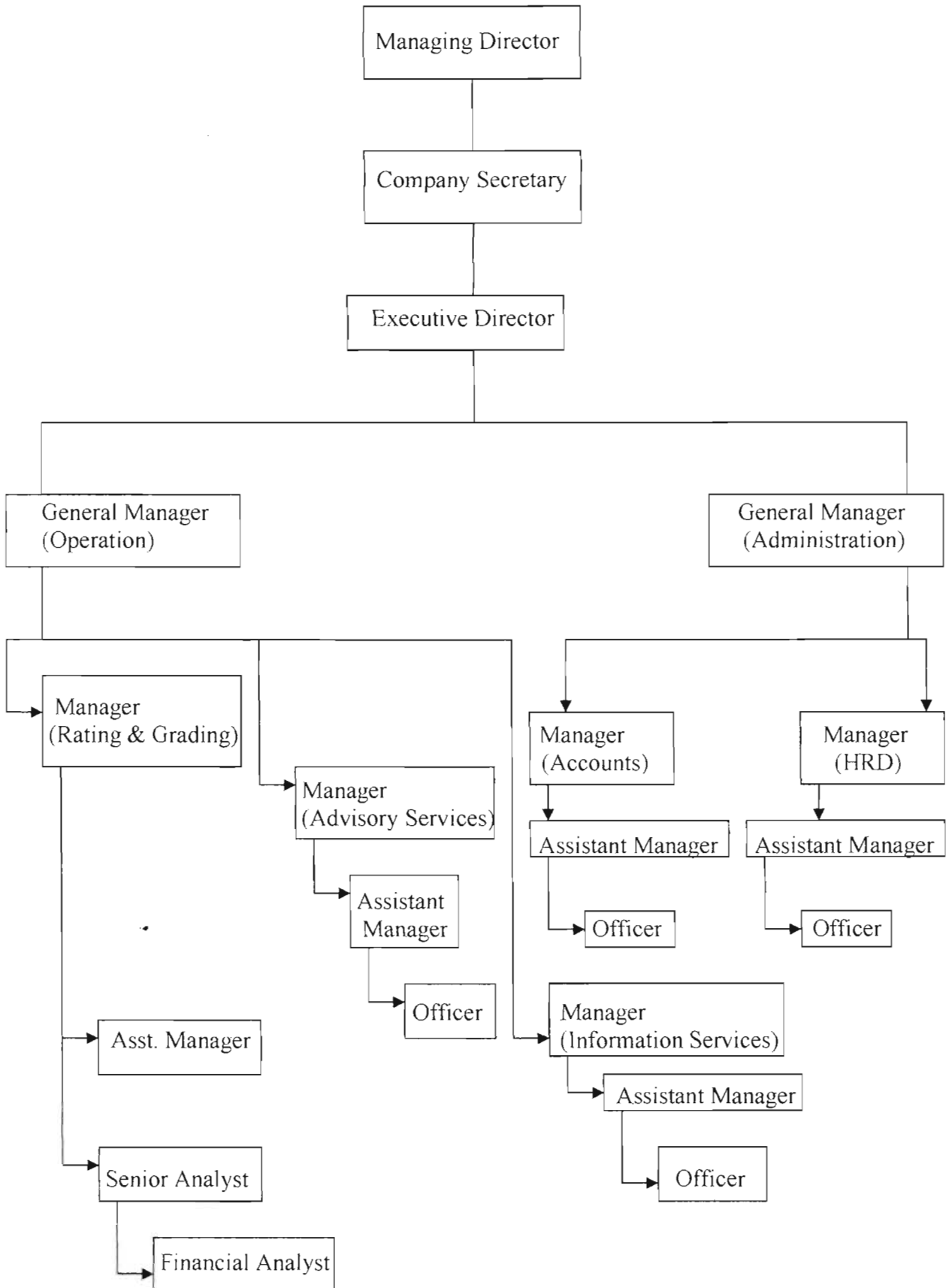
1. To perform grading of various institutions as banks, non banking financial institutions, insurance companies, corporations, non-corporations, societies, trusts or individuals or their clients for purposes requested clients or required by authorities.
2. To accumulate, process and offer information services in broad areas for the use of organization and clients at different levels.
3. To provide consultancy and advisory services in broad areas to their clients at different levels.
4. To act trustees of any debentures, bonds, securities, commercial papers or any other obligations and to exercise the powers of executor, administrator, receiver, treasurer, custodian, in respect of such debts and securities.

2.6. Capital Structure of CRAB

The Authorized Share Capital of the company is 20,000,000.00 (Twenty million) divided into 200,000 Ordinary Shares of TK. 100.00 each, with the rights and privileges and conditions attached thereto as are provided by the Articles of Association of the Company for the time being with power to increase or reduce the capital of the Company to divide the shares in the capital into several classes and to attach thereto such

preferential, deferred, qualified or special rights, privileges or conditions as may be determined by or in accordance with the Articles of Associations of the Company and to vary, modify or abrogate any such rights, privileges or conditions in such manner as may be permitted by the Companies Act 1994 or provided by the Articles of Associations of the company for the time being.

2.7. Organizational Structure of CRAB



2.8. Technical Collaboration of CRAB

CRAB has a “Technical Collaboration Agreement” with Investment Information and Credit Rating Agency (ICRA) Limited of India, one of the leading credit rating agencies of the region, with provisions for development of rating methodologies, performing rating assignments, establishing database, designing advisory and information services and training of personnel. CRAB’s collaboration with ICRA would facilitate advantageous sharing of resources and professional expertise.

2.9. Challenges for CRAB

CRAB intends to make a significant contribution towards enhancing the quality and operation of the financial and capital markets in the country, induce greater financial discipline and provide reliable information and guidance to institutional and individual investors and lenders. It would also facilitate compliance by corporate entities with relevant regulatory provisions of the SEC, enhancing the transparency of the banking and corporate financials. CRAB intends to effect substantial proliferation of rating/grading practices into a wide range of areas and activities.

2.10. Achievements of CRAB

CRAB has done five rating reports. The reports that CRAB’s completed are:

First Security Bank Ltd.	- Rating of Equity Shares IPO at Per Value.
Everest Holding & Technologies Ltd.	- Rating of Privately Placed Debentures.
Akota Composite Mills Ltd.	- Rating of Privately Placed Debentures.
Navana CNG Ltd.	- Rating of Privately Placed Debentures.
Beach Hotel Ltd.	- Rating of Privately Placed Debentures.

Now CRAB is doing two rating reports, which are:

NTV- International Television Channel Ltd. - Rating of Equity Shares IPO at a Premium.

ACI limited - Corporate Governance Rating.

There are some potential clientele of CRAB. And CRAB is going to do their rating report. They are:

Mercantile Bank Ltd. - Devising a Formalized Credit Structure and Assessment of the Credit Status of the Bank's RMG Sector Clientele (50 Entities).

First Lease International Ltd. - Rating of Publicly-offered Equity Shares Rights Issue.

JK. Yarns Ltd. - Rating of Privately Placed Preference Shares.

IPCO Developments (Bangladesh) Ltd. - Rating of Privately Placed Project Financial Assistance

2.11. Steps Followed for Credit Rating by CRAB

Rating is an interactive process with a prospective approach. It involves series of steps.

The main points are described as below:

(a) Rating request:

Ratings are initiated by a formal request (or mandate) from the prospective issuer. This mandate spells out the terms of the rating assignment. Important issues that are covered include: binding the credit rating agency to maintain confidentiality, the right to the issuer to accept or not to accept the rating and binds the issuer to provide information required by the credit rating agency for rating and subsequent surveillance.

(b) Rating team:

The team usually comprises two members. The composition of the team is based on the expertise and skills required for evaluating the business of the issuer.

(c) Information requirements:

Issuers are provided a list of information requirements and the board framework for discussions. These requirements are derived from the experience of the issuers business and broadly conform to all the aspects, which have a bearing on the rating.

(d) Secondary information:

The credit rating agency also draws on the secondary sources of information including its own research division. The credit rating agency also has a panel of industry experts who provide guidance on specific issues to the rating team. The secondary sources generally provide data and trends including policies about the industry.

(e) Management meetings and plant visits:

Rating involves assessment of number of qualitative factors with a view to estimate the future earnings of the issuer. This requires intensive interactions with the issuer's management specifically relating to plans, future outlook and competitive position and funding policies.

Plant visits facilitate understanding of the production process, assess the state of equipment and main facilities, evaluate the quality of technical personnel and form an opinion on the key variables that influence level, quality and cost of production. These visits also help in assessing the progress of projects under implementation.

(f) Preview meeting:

After completing the analysis, the findings are discussed at length in the internal committee, comprising senior analysts of the credit rating agency. All the issues having a bearing on the rating are identified. At this stage, an opinion on the rating is also formed.

(g) Rating committee meeting:

This is the final authority for assigning ratings. The rating team makes a brief presentation about the issuers business and the management. All the issues identified during discussions in the internal committee are discussed. The rating committee also considers the recommendation of the internal committee for the rating. Finally, a rating is assigned and all the issues, which influence the rating, are clearly spelt out.

Rating Committee of CRAB

The credit rating process includes a high-powered Rating Committee composed of personalities of high integrity, judgment and standing, which serve as the authority for awarding of rating/grading to client entities and/or instruments.

Rating Committee Members

Mr. Kazi Fazlur Rahman Chairman	=) Former Advisor to the Caretaker Government of Bangladesh
Professor Muzaffar Ahmed	=) Former Director of Institute of Business Administration (IBA), Dhaka University
Dr. Mohammad Haroonur Rashid	=) Former Chairman of Securities & Exchange Commission
Mr. Manir Uddin Ahmed, FCA	=) Former Chairman of Securities & Exchange Commission
Dr. Atiur Rahman	=) Former Chairman of Janata Bank
Mr. Azizul Huq	=) Former Chairman of Islami Bank
Mr. Gholam Kibria	=) Former Comptroller & Auditor General
Dr. Mohammad Sohrab Uddin	=) Former Deputy Governor of Bangladesh Bank, Former Director General of Bangladesh Institute of Bank Management
Mr. Syed Yusuf Hussain	=) Former Comptroller & Auditor General
Representative	=) ICRA Limited, India
Managing Director	=) Credit Rating Agency of Bangladesh

(h) Rating communication:

The assigned rating along with the key issues is communicated to the issuer's top management for acceptance. The ratings, which are not accepted are either rejected or reviewed. The rejected ratings are not disclosed and complete confidentiality is maintained.

(i) Rating reviews:

If the rating is not acceptable to the issuer, he has a right to appeal for a review of the rating. These reviews are usually taken up only if the issuer provides fresh inputs on the issues that were considered for assigning the rating. Issuers' response is presented to the Rating Committee. If the inputs are convincing, the Committee can revise the initial rating decision.

(j) Surveillance:

It is obligatory on the part of the credit rating agency to monitor the accepted ratings over the tenure of the rated instrument. As has been mentioned earlier, the issuer is bound by the mandate letter to provide information to the credit rating agency. The ratings are generally reviewed every year, unless the circumstances of the case warrant an early review. In surveillance review the initial rating could be retained or revised (upgrade or downgrade).

2.12. CRAB Rating Framework

The basic objective of rating is to provide an opinion on the relative credit risk (or default risk) associated with the instrument being rated. This is a nutshell includes, estimating the cash generation capacity of the issuer through operations (primary cash flows) vis-à-vis its requirements for servicing obligations over the tenure of the instrument. Additionally, an assessment is also made of the available marketable securities (secondary cash flows), which can be liquidated if required, to supplement the primary cash flows. It may be noted that secondary cash flows have a greater bearing in the short-term ratings, while the long-term ratings are generally entirely based on the adequacy of primary cash flows.

All the factors, which have a bearing on future cash generation and claims that require servicing, are considered to assign ratings. These factors can be conceptually classified into business risk and financial risk drivers.

Business risk drivers	Financial risk drivers
Industry characteristics	Funding policies
Market position	Financial flexibility
Operational efficiency	
New projects	
Management quality	

1. Industry characteristics:

This is the most important factor in the credit risk assessment. It is a key determinant of the level and volatility in earnings of any business. Other factors remaining the same, industry risk determines the cap for ratings. Some of the factors that are analyzed include:

Demand factors	State of competition
Drivers & potential	Existing & Capacities
Nature of product	Intensity of competition
Nature of demand – seasonal, cyclical	Entry barriers for new entrants
Bargaining position of customers	Exist barriers
	Threat of substitutes

Environmental factors	Bargaining position of suppliers
Role of the industry in the economy	Availability of raw material
Extent of government regulation	Dependence on a particular supplier
Government policies current and future direction	Threat of forward integration
	Switching costs

For credit risk evaluation, stable business (low industry risk) with lower level of cash generation is viewed more favorably compared to businesses with higher cash generation potential but relatively higher degree of volatility (higher industry risk).

2. Market position:

All the factors influencing the relative competitive position of the issuer are examined in detail. Some of these factors include positioning of the products, perceived quality of products or brand equity, proximity to the markets, distribution network and relationship to the customers. In markets where competitiveness is largely determined by costs, the market position determined by the units' operational efficiency. The results of these factors, is reflected in the ability of the issuer to maintain/improve its market share and command differential in pricing. It may be mentioned that the issuers, whose market share is declining, generally do not get favorable long-term ratings.

3. Operational efficiency:

In a competitive market, it is critical for any business unit to control its costs at all levels. This assumes greater importance in commodity or "me too" businesses, where low cost producers almost always have an edge. Cost of production to a large extent is influenced by:

- Location of the production unit(s)
- Access to raw materials
- Scale of operations
- Quality of technology
- Level of integration
- Experience
- And last but not least the ability of the unit to efficiently use its resources.

A comparison with the peers is done to determine the relative efficiency of the unit. Some of the indicators for measuring production efficiency are: resource productivity (both assets and manpower), material usage (or input-output ratios) and energy consumption. Collection efficiency and inventory levels are important indicators of both the market position and operational efficiency.

4. New Project risks:

The scale and nature of new projects can significantly influence the risk profile of any issuer. Unrelated diversifications into new projects are invariably assessed in greater detail.

The main risks from the new projects are:

Time and cost overruns, even non-completion in an extreme case, during construction phase; financing tie-up, operational risks; and market risks. Besides clearly establishing the rationale of new projects, the protective factors that are assessed include: track record of the management in project implementation, experience and quality of the project implementation team, experience and track record of technology supplier, implementation schedule, status of the project, project cost comparisons, financing arrangements, tie-up of raw material sources, composition of operations team and market outlook and plans.

Besides on the assessment of various project risks, assumptions about completion and contribution to/from these projects are incorporated in the issuer's overall projections. It needs to be emphasized that the impact of the project risk on the rating depends on the scale of projects in relation to the size of assets and cash flows of the existing operations.

Management quality:

The importance of this factor cannot be overemphasized. When the business conditions are adverse, it is the strength of management that provides resilience. A detailed discussion is held with the management to understand its objectives, plans & strategies, competitive position and views about the last performance and future outlook of the business.

These discussions provide insights into the quality of the management. It also helps in establishing management priorities. A review of the organization structure and

information system is done to assess whether it aligns with the management's plans and priorities. The interactions with key operating personnel help in determining the quality of the management. Issues like dependence on a particular individual and succession planning are also addressed.

Other important factors are:

Labor relations, track record of meeting promises specifically relating to returns and project implementation, performance of "group" companies, transactions with the "group" companies etc.

Funding policies:

This determines the level of financial risk. Management's views on its funding policies are discussed in detail. These discussions are generally focused on the following issues:

- Future funding requirements
- Level of leveraging
- Views on relating shareholding control
- Target returns for shareholder
- Views on interest rates
- Currency exposures including policies to control the currency risk
- Asset-liability tenure matching.

Financial flexibility:

While the primary source for servicing obligations is the cash generated from operations, an assessment is also made of the ability of the issuer to draw on other sources, both internal (secondary cash flows) and external, during periods of stress.

These sources include:

Availability of liquid investments, unutilized lines of credit, financial strength of group companies, market reputation, relationship with financial institutions and banks, investor's perceptions and experience of tapping funds from different sources.

Generally financial flexibility factor facilitates determination of the relative strength within a rating category (i.e., + or – prefix with the rating) and has a greater bearing on the short-term ratings.

Past financial performance:

The impact of the various risk drivers is reflected in the actual performance of the issuer. Thus while the focus of rating exercise is to be determined the future cash flow adequacy for servicing debt obligations, a detailed review of the past financial statements is critical for better understanding of the influence of all the business and financial risk factors. Evaluation of the existing financial position is also important for determining the sources of secondary cash flows and claims that may have to be serviced in future.

Accounting quality:

Consistent and fair accounting policies are a pre-requisite for financial evaluation and peer group comparisons. It may be mentioned that accounting quality is also an important indicator of the management quality. Rating analyst review the accounting policies, notes to the accounts, and auditors comments in detail. Where necessary, rating analyst adjust the financial statements to reflect the correct position. Over a period of time the focus of financial analysis at the credit rating agency has shifted towards evaluation of cash flow statements as cash flows to a large extent offset the impact of “financial engineering”.

Indicators of financial performance:

Financial indicators over the last few years (typically five years) are analyzed and performance of the issuer is compared with its peers. Comparison with peers is important for better understanding of the industry trends and determining the relative position of the issuer. Some of the important indicators that are analyzed are presented below:

Profitability:

A traditional indicator of success or failure of any business endeavor has been its ability to add value to its wealth or generate profits. New important indicators are, trends in:

- Return on capital employed
- Return on net worth
- Gross operating margins

Higher profitability implies greater cushion to debt holders. Profitability also determines the market perception, which has a bearing on the support of shareholders and other lenders. This support can be an important factor during stress.

Gearing or level of leveraging:

This is an important determinant of the financial risk. Some important indicators are:

- Total debt as a % of net worth
- Long term debt as a % of net worth
- Total outside liabilities as a % of total assets

It needs to be emphasized that business risk is a prime driver, while gearing has a secondary role in determining the overall rating (especially long-term). To illustrate, an issuer whose gearing level is favorable but relative business fundamentals are weak is unlikely to get a favorable long-term rating. This is so because gearing is considered to be a “controllable” factor while business factors are relatively difficult to alter significantly.

Coverage ratios:

Considered to be of primary importance to the debt holders. The important ratios are:

- Interest coverage ratio (OPBDIT/Interest)
- Debt service coverage ratio
- Net cash accruals as a % of total debt

The level of these ratios reflects the result of business risk drivers and the funding policies. Generally speaking, higher the level of coverage, higher is the rating. However as mentioned earlier, business with lower level of coverage can get higher ratings if the earnings are steady (i.e. business with low industry risk).

Liquidity position:

The indicators of liquidity position are, the levels of:

- Inventory
- Receivables
- Payables

The state of competition, issuer’s market position & policies, relationship with customers and suppliers are the important factors that impact the above levels. Comparison with peers on these indicators helps to determine the relative position of the issuer in the

industry. The funding profile with respect to matching of assets-liability tenures also has an important bearing on the liquidity position.

Cash flow analysis:

Cash is required to service obligations. Thus, any financial evaluation would be incomplete if cash flow analysis is not carried out. Cash flows reflect the sources from which cash is generated and its deployment. As has been mentioned earlier, cash flows also to a very large extent offset the impact of diverse accounting policies and hence facilitate peer comparisons.

The coverage ratios enumerated above can be modified to factor the impact of actual cash flows only. Issuers, which are not able to generate sufficient cash to service obligations do not normally get favorable ratings.

Future cash flow adequacy:

The ultimate objective of the rating is to determine the adequacy of cash generation to service obligations. A number of assumptions based on the future outlook of the business are made to draw projections of financial statements. Invariably, the financial projections are carried out for a number of scenarios incorporating a range of possibilities in the set of assumptions for the key cash flow drivers. A few important drivers are expectations of growth, selling prices, input costs, working capital requirements, value of currencies etc.

2.13. CRAB Rating Symbols

A. Debt Rating Symbols

A.1. Long Term Debt-Debentures, Bonds, and Preference Shares

Symbols	Definition
AAA	Highest Safety. Instrument rated in this category are recommended to have fundamentally strong position. Risk factors are negligible. Adverse circumstances may affect the degree of safety but these are not likely not to affect the timely payment of principal and as per terms.
AA1 AA2 AA3	High Safety Risk factors are modest and may vary slightly. The protective factors are strong and the prospect of timely payment of principal and interest as per terms under adverse circumstances, as may visualized from Highest Safety category.
A1 A2 A3	Adequate Safety Risk factors are more variable and greater in period's economic stress. The protective factors are average and any adverse change in circumstances, as may be visualized, may alter the fundamental strength and affect the timely payment of principal and interest as per terms.
BBB1 BBB2 BBB3	Moderate Safety Considerable variability in the risk factors. Average changes in business/economic circumstances are likely to affect the timely payment of principal and interest as per time.
BB1 BB2 BB3	Inadequate Safety The timely payment of interest and principal and interest are more likely to be affected by person or prospective changes in business/economic circumstances. The protective factors fluctuate in case of changes in economy/business conditions.
B1 B2 B3	Risk Prone Risk factors indicate that obligations may not be met when due. The protective factors are narrow. Adverse changes in business/economic conditions could result in inability/unwillingness to service debts on time as per terms.
C1 C2 C3	Substantial Risk There are inherent elements of risk and timely servicing of obligations could be possible only in case of continued existence of favorable circumstances.
D	Default Extremely speculative. Either already in default in payment of interest and/or principal as per terms or expected to default. Recovery is likely only on liquidation or reorganization.

A.2. Debt Rating Symbols: Short Term Instrument

Symbols	Definition
DR 1	Instrument would have superior capacity for repayment of short-term promissory obligations. Issues of such instruments will normally be characterized by leading market positions in established industries, high rates of return on funds employed etc.
DR 2	Instrument would have strong capacity for repayment of short-term promissory obligations. Issuers would have most of the characteristics as for those with PR-1 instrument but to a lesser degree.
DR 3	Instruments have an adequate capacity for repayment of short-term promissory obligations. The effect of industry characteristics and market composition may be more pronounced. Variability in earnings and profitability may result in changes in the level of debt protection.
DR 4	Instruments have minimal degree of safety regarding timely payment of short-term promissory obligations and the safety is likely to be adversely affected by short-term adversity or less favorable conditions.
DR 5	The instrument is in default or is likely to be in default on maturity.

B. Equity Instruments (Shares at IPO and Rights)

Symbols	Definition
AAA	Highest Earnings Prospect Fundamentally an exceptionally strong position. Equity returns have extremely low sensitivity to changing market conditions and offer the greatest stability of returns to shareholders.
AA1 AA2 AA3	Very High Earning Prospect Fundamentally a very strong position. Equity returns have very low sensitivity to changing market conditions and offer the greatest stability of returns to shareholders over the intermediate to long-term horizon.
A1 A2 A3	High Earning Prospect Equity returns have low sensitivity to changing market conditions. While displaying variability of returns to shareholders, these possess adequate stability over a long of holding.
BBB1 BBB2 BBB3	Moderate Earning Prospect Equity returns are sensitive to changing market conditions, and may possess speculative investment characteristics. Returns could be volatile over the holding period.
BB1 BB2 BB3	Inadequate Earning Prospect Equity returns are much sensitive to changing market conditions, and may possess speculative investment characteristics. Returns could be volatile over the holding period.
B1 B2 B3	Weak Earning Prospect Equity returns are very much sensitive to changing market conditions, and may possess speculative investment characteristics. Returns could be volatile over the holding period.

C1	Poor Earning Prospect
C2	Equity returns are speculative. Acceptable returns to shareholders are dependent on favorable market condition.
C3	
D	Extremely Speculative Equity returns are extremely speculative. Acceptable returns to shareholders are dependent on favorable market condition.

C. Insurance Rating Symbols (Claims paying ability)

Symbols	Definition
AAA	Highest Claims Paying Ability Indicates fundamentally strong position. Prospect of meeting policyholder obligations is the best.
AA	High Claim Paying Ability Risk factors are modest may very slightly. Prospect of meeting policyholder obligations are high and differ from AAA.
A	Adequate Claims Paying Ability Prospect of meeting policyholder obligations are Adequate. The risk factors are more variable and greater in periods of economic stress and any adverse changes in business/economic circumstances as may be visualized, may alter the fundamental strength.
BBB	Moderate Claims Paying Ability The prospective factors are below average and greater in periods of economic stress and any adverse changes in business/economic circumstances are likely to affect the prospect of meeting policyholder obligations.
BB	Inadequate Claims Paying Ability The prospective factors fluctuate encase of changes in business/economic conditions and prospect of meeting policyholder obligations are more likely to be affected by such changes.
B	Weak Claims Paying Ability Risk factors indicate that policyholder obligations may not be met when due. Adverse changes in business/economic condition could result in inability/unwillingness to service policy obligation.
C	Lowest Claims Paying Ability Indicates fundamentally poor position. Such company may often be in default on policyholder obligation and may be or likely to be placed under supervision insurance regulators.

D. Mutual Fund Rating Scale

D.1. Performance Rating Scale

Symbols	Definition
Mf1	Indicates highest category based on a composite of risk-adjusted returns and sensitivity to associated risks.
Mf2	Indicates above category based on a composite of risk-adjusted returns and sensitivity to associated risks.
Mf3	Indicates average category based on a composite of risk-adjusted returns and sensitivity to associated risks.
Mf4	Indicates below average category based on a composite of risk-adjusted returns and sensitivity to associated risks.
Mf5	Indicates lowest category based on a composite of risk-adjusted returns and sensitivity to associated risks.

D.2. Credit Risk Rating Scale

Symbols	Definition
MfAAA	Indicate highest quality. The investment quality is of highest grade and is similar to that of fixed income obligations of highest safety.
MfAA	Indicate high quality. The investment quality is of high grade and is similar to that of fixed income obligations of high safety.
MfA	Indicate adequate quality. The investment quality is of upper medium grade and is similar to that of fixed income obligations of adequate safety.
MfBBB	Indicate moderate quality. The investment quality is of medium grade and is similar to that of fixed income obligations of moderate safety.
MfBB	Indicate inadequate quality. The investment quality is of highest grade and is similar to that of fixed income obligations of inadequate safety.
MfB	Indicate poor quality. The investment quality is of lowest grade and is similar to that of fixed income obligations of lowest safety.

E. Loan Rating

E.1. Long Term Loan

Symbols	Definition
AAA	Loans carrying this rating are considered to be of the best quality, carrying negligible investment risk. Debt service payments are protected by stable cash flows with good margin. While the underlying assumptions may change, such changes as can be visualized are most unlikely to impair the strong position of such loans.
AA	Loans carrying this rating are judged to be of high quality by all standards. They are also classified as high investment grade. They are rated lower than

	CRAB AAA loans because of somewhat lower margins of protection. Changes in assumptions may have a greater impact or the long-term risks may be somewhat larger. Overall, the difference with CRAB AAA rated loans is marginal.
A	Loans with this rating are considered upper medium grade and have many favorable investment attributes. Safety for principal and interest are considered adequate. Assumptions that do not materialize may have a greater impact as compared to the loans rated higher.
BBB	Such loans are considered to be of investment grade. They indicate sufficient safety for payment of interest and principal, at the time of rating. However adverse changes in assumptions are more likely to weaken the debt servicing capability compared to the higher rated loans.
BB	Such loans are considered to be speculative, with inadequate protection for interest and principal payments.
B	Loans with such rating are generally classified susceptible to default. While interest and principal payments are being met, adverse changes in business conditions are likely to lead to default.
C	Such loans carry high investment risk with likelihood of default in the payment of interest and principal.
D	Such loans are of the lowest category. They are either in default or are likely to be in default soon.

E.2. Short Term Loans

Symbols	Definition
PL1	Superior capacity for repayment of interest and principal on the loan.
PL2	Strong capacity for repayment of interest and principal on the loan. They are rated lower than PL-1 because of somewhat lower margins of protection. Changes in assumptions may have a greater impact.
PL3	Adequate capacity for repayment of interest and principal on the loan. Variability in earnings and profitability may result in significant changes in the level of debt servicing capability. The effect of industry characteristics may be more pronounced.
PL4	Minimal degree of safety regarding timely payment of interest and principal and the safety is likely to be adversely affected by short-term adversity or less favorable conditions.
PL5	The loan is in default or is likely to be in default on maturity.

F. Corporate Governance Rating Scale

Symbols	Definition
CG1	The rated company offers assurance to its financial stakeholders with highest quality of corporate governance.
CG2	The rated company offers assurance to its financial stakeholders with high quality of corporate governance.

CG3	The rated company offers assurance to its financial stakeholders with adequate quality of corporate governance.
CG4	The rated company offers assurance to its financial stakeholders with moderate quality of corporate governance.
CG5	The rated company offers assurance to its financial stakeholders with inadequate quality of corporate governance.
CG6	The rated company offers assurance to its financial stakeholders with low-level quality of corporate governance.

G. Other Rating and Grading Services

CRAB provides rating and grading services to different industries and organizations as required by individuals, organizations, local and international regulatory organizations, association's etc. CRAB develops required methodology for the related rating or grading in collaboration with their technical partner with the help of their expertise and resources.

2.14. Services of CRAB

CRAB will provide rating and related services in the following areas:

- Credit Rating Services
- Gradation Services
- Advisory Services
- Information Services
- Training Services

Credit Rating Services

- Debt Instrument Rating (Debentures, Bonds and Preference Shares)
- Entity Rating of Individual Companies
- Equity Rating of Ordinary Shares
- Insurance Companies Rating (Claims Paying Ability)
- Loan Rating
- Mutual Funds Schemes Rating
- Corporate Governance Rating
- Stake holder Valuation & Governance Rating
- Project Finance Rating
- Other Rating Services

Gradation Services

- Bank Clientele Grading
- Real Estate Developers Grading
- Health Care Diagnostics & Clinic Grading
- Private Universities & Educational Institutions Grading
- Private Security Firms Grading
- Other Grading Services

Advisory Services

- Strategy Formulation
- Risk Management
- Regulatory Compliance
- Customized Research

Information Services

- Industry and Sector Research
- Rating Profile
- Customized Research

Training Services

- Corporate Governance
- Regulatory Compliance
- Customized Training

CRAB Advisory Services

Strategy Formulation

CRAB thinks that Strategy is all about enhancing competitiveness. Organizations compete for resources, and no organization can afford not to be competitive - even organizations that are not-for-profit. CRAB work with a wide variety of organizations to help them fulfill their objectives by offering insight into the levers of value creation. CRAB work in Strategy planning and implementation spans the following areas:

Functional Areas:

- Business Planning
- Corporate Finance
- Cost Reduction
- Alliances
- Operations Improvement
- Organization Design
- Process Re-engineering
- Corporate Restructuring
- Business Valuation and Due Diligence
- Turnaround Management
- Marketing Strategy
- Information Systems Design
- Mergers & Acquisitions
- E-Commerce
- Human Resource Management

Risk Management

The Risk Management Practice advises clients on efficient management of credit risks, market risks and operational risks. CRAB's clients include commercial banks, financial institutions, multilateral agencies, non-banking finance companies, project financiers, equity investors, venture capital firms, insurance firms and manufacturing firms. For

manufacturing and service companies, CRAB Advisory offers consultancy in risk measurement, planning and control.

CRAB Advisory Services has an alliance with ICRA, India, (a partner of Moody's) for extending state-of-the-art technology in Credit Risk Management for banks and other lenders.

Regulatory Compliance

CRAB Advisory Services focuses on issues concerned with economic aspects of regulation. Instances of CRAB regulatory practice would be assisting in policy formulation with regard to pricing of public goods, competition, efficient market making mechanisms, consumer protection and fair trade practices, subsidies, and public-private partnership structures. Clients of CRAB's Regulatory Practice are Governments, regulatory authorities and municipalities who formulate economic and financial policies. CRAB also work with corporate entities in formulating their strategies in dealing with regulatory issues.

Transaction

CRAB Advisory's Transaction Practice focuses on providing consulting services at a transaction level (vis-à-vis policy level consulting services) to infrastructure projects. As most of the projects in the infrastructure sector call for non-recourse financing, risk management and mitigation are a central task. CRAB's Transaction Practice has accumulated substantial experience and skills in financial modeling, evaluating payment and security mechanisms, formulating bidding strategies, drafting concession agreements and structuring solutions. CRAB work on projects in a wide variety of sectors, such as power, telecommunications, gas, airports, ports and urban infrastructure.

Functional Areas

- Risk assessment of infrastructure projects
- Conducting feasibility studies for infrastructure projects
- Assessment of project sponsors
- Assessment of incumbent utility/government entity
- Financial modeling for projects
- Project/contract structuring for financial closure
- Designing security mechanisms for projects

- Assistance in preparing RFQ/RFP documents
- Bid process management
- Designing concession agreements

CRAB Information Services

Industry and Sector Research

CRAB's industry studies present an in-depth analysis of different sectors/industries, providing an insight into industry competitiveness, the imperatives of succeeding in a global scenario and the relative positions of industry participants. The studies are tailored to meet the requirements of all those who have an interest in contemporary developments in the country's economy and in the specific industries covered. The studies would be useful to researchers, academics, practitioners in the financial services world and corporate managers. These studies have a distinct corporate orientation and are designed to be a useful information and analytical tool for investment and portfolio managers. The key elements that govern the business environment of the industry, the likely future direction and the performance of the major corporate entities, form the substance of the series.

Rating Profile

The Rating Profile is a publication with the ratings assigned by CRAB features:

- Ratings in use
- Rationales for Ratings assigned
- Rating Symbols & Implications

Rating Profile is useful to

- Investors & Lenders
- Fund managers and financial analysts of investing institutions; Also lending officers at commercial banks and sovereign lending institutions.
- Borrowers, Treasurers, finance directors and other senior executives at issuing corporations, institutions and sovereign entities.

- Intermediaries, Merchant and investment banks, security houses, brokers and market makers

Customized Research

The increasing magnitude and scale of cross border investments and the rising level of complexity and volatility in the corporate environment are globally witnessed phenomena today. A multitude of seemingly lucrative investment opportunities have become available to investors, as the wave of liberalization sweeps across previously insulated economies of the world. However, the investor community is increasingly recognizing the merits of gaining a thorough understanding of the business environment and key investment related issues, which could have a far-reaching impact on the returns that they can expect. It is, therefore, not surprising that investors are dedicating increasing amounts of time and resources to a thorough assessment of their investment options before making commitments of magnitude. This has given rise to an increasing demand for need based solutions among investors. To address such needs, CRAB Information Services undertakes mandate-based exercises, which are customized to address the unique needs and requirements of individual clients. CRAB need based information solutions are ratified by a thorough verification of facts thus providing an information advantage to the investor.

Grading Services

In line with perceived market needs, CRAB has developed highly specialized evaluation methodologies, which address unique, domain specific requirements under the umbrella of CRAB grading services. These methodologies are designed to provide an objective, credible and independent opinion on the quality of entities being examined with specific reference to parameters and issues unique to the domain.

Chapter Three

Conclusion

3.1. Conclusion

Credit rating agency is a new concept in Bangladesh. I think day by day this credit rating agency will be grown up in a rapid way. In this world credit rating agency is very much important to both investors and borrower. Because from the credit rating agency's report they can set their mind what to do.

In this report I have tried to present the overall performance of Credit Rating Agency of Bangladesh Ltd. I found several thing of Credit Rating Agency of Bangladesh Ltd. like what is their main tasks, how they perform their tasks, what steps they followed to perform their tasks. As Credit Rating Agency of Bangladesh ltd. started journey on 5 April 2004, so they are not too big organization, I think it will take time to expand their business all over the world.

Chapter Four

Problems and Suggestions for CRAB

4.1. Problems of CRAB:

The following problems are mainly on my observations of CRAB:

- There have only one office.
- They don't have any website.
- They don't any customer service division.
- They don't have more financial analyst.

4.2. Suggestions for CRAB:

It has been only 9 (nine) months that Credit Rating Agency of Bangladesh is in service. So one cannot expect that the CRAB would perform like other rating agencies that are in service so on. The following suggestions are my own opinion put into words:

- The CRAB should open more offices.
- They should open their own website.
- They should open customer service division.
- Must be engage in more promotional activities.
- They should recruit more financial analyst for the rating.

References:

1. Company brochure of Credit Rating Agency of Bangladesh Limited.
2. Website of Credit Rating Agency.