

**Internship Report**  
**on**  
**Credit Rating Analysis: A Case on Credit Rating**  
**Information and Services Limited**

Submitted by:

Name: Md. Imran Hossain  
Student ID: BBA1801013067  
Program: BBA  
Major: Finance  
Semester: Spring: 2021

Submitted to:

Department of Business Administration  
Sonargaon University (SU)

Submitted for the partial fulfillment of the degree of BBA



**Sonargaon University (SU)**

Dhaka- 1215

**Date of Submission: 5<sup>th</sup> May 2021**

**Internship Report**  
**on**  
**Credit Rating Analysis: A Case on Credit Rating**  
**Information and Services Limited**

**Prepared by:** Name: Md. Imran Hossain  
Student ID: BBA1801013067  
Program: BBA  
Major: Finance  
Semester: Spring: 2021

**Prepared for:**  
Md. Shahbub Alam  
Lecturer  
Department of Business Administration  
Sonargaon University (SU)

Submitted for the partial fulfillment of the degree of BBA



Sonargaon University (SU)

Dhaka- 1215

**Date of Submission: 5<sup>th</sup> May 2021**

## Letter of Transmittal

May 5, 2021

Md. Shahbub Alam

Lecturer

Department of Business Administration

Sonargaon University (SU)

Subject: Submission of Internship report

Dear Sir,

With humble honor and respect, I am submitting my internship report on “Credit Rating Analysis: A Case on Credit Rating Information and Services Limited”. As per partial accomplishment of the requirements for the BBA degree, this thesis has been carried out under the supervision of you.

This report is an integral part of our academic courses in completion of the BBA program which has given me the opportunity to have an insight into the **Case on Credit Rating Information and Services Limited**. I hope this report reflects on the contemporary issues on the finance area that are being practiced by organizations in our country.

In completing the report, I tried my best to blend all my knowledge and imparted every available detail and also attempted to avoid unnecessary amplification of the report.

I humbly request you to accept this report for your kind evaluation.

Sincerely,

---

Name: Md. Imran Hossain

Student ID: BBA1801013067

Department of Business Administration

Sonargaon University (SU)

## **SUPERVISOR DECLARATION**

Certified that this project report titled “**Credit Rating Analysis: A Case on Credit Rating Information and Services Limited**” is the bona fide work of, **Md. Imran Hossain** who carried out the study under my supervision. Certified further that to the best of my knowledge the work reported herein does not form part of any other project report or dissertation on the basis of which a degree or award was conferred on an earlier occasion on this or any other candidate.

.....  
Md. Shahbub Alam  
Lecturer  
Department of Business Administration  
Sonargaon University (SU)

## STUDENT DECLARATION

I, the undersigned, a student of Business Administration, Department of BBA program, Major in Finance of Sonargaon University do hereby declare that the internship report on “**Credit Rating Analysis: A Case on Credit Rating Information and Services Limited**” is the original one and has been prepared by myself and has not been submitted anywhere for any degree, diploma, title or recognition.

The report was prepared under the supervision of, Md. Shahbub Alam, Lecturer of Department of Business Administration, Sonargaon University (SU)

.

Yours Sincerely

.....  
Name: Md. Imran Hossain  
Student ID: BBA1801013067  
Department of Business Administration  
Sonargaon University (Su)

## **ACKNOWLEDGEMENT**

At first I want to express my deep gratitude to the Almighty, the most merciful for His kindness to give me the ability to complete this report successfully. I extend my deep gratitude to my supervisor Md. Shahbub Alam, Lecturer, Department of Business Administration of Sonargaon University (SU) for his guidance, suggestions, and encouragement for the preparation of this report. Without his guidance I could not have finished this work on time. He provided me full support and ideas necessary in analyzing the industry and thus to accomplish my goal. To conclude, I am also grateful to all of the respected teachers of the Bachelor of Business Administration for their continuous inspiration, assistance throughout these years.

## **EXECUTIVE SUMMARY**

Credit rating is an evaluation made by credit rating agency of the debtor's ability to pay back the debt and the likelihood of default. Over the year 2012 and 2013 , the number of credit rating agencies (CRA) has increased by several folds, from only two in 2009 to eight 2013. As a result the competition among the CRA'S for market share has become severe. As credit rating is very sensitive to quality, this increase competition may lead to deteriorated or inflation rating by the CRA'S to retain its clients and keep the cash flow unharmed.

There are several types of credit rating practiced all around the globe. Credit rating types can be based on the subject matter of rating includes issues rating, issuer rating and sovereign rating. Based on the tenure, credit rating can be divided into short term rating and long term rating. other types of credit rating includes structure finance rating , mutual fund secure rating corporate governance and stakeholder value addition rating , micro finance capacity rating and project finance rating. Many of these types are not practiced in Bangladesh.

Credit rating plays a vital role in developing the financial market, regulating the financial markets, estimating risk premium, enhancing transparency in the credit and fixed income, security market and standardization of credit evaluation process. However there are some drawbacks of the credit rating .These drawbacks include that credit rating can be biased. In the absence of proper knowledge management by the credit rating companies changing the concerned analyst of a rating assignment may lead to discrepancies and credit rating cannot be treated as a standard measure to invest.

The history of credit rating in Bangladesh is very few. The first credit rating law was enforced in 1996, followed by establishment of CRISL. In 2012 Bangladesh Securities and Exchange Commission permitted two more credit rating agencies. There are credit rating agencies. By 2012, there are eight credit rating agencies operating in Bangladesh. This number is significantly high compared to the number of credit rating agencies working all over the world.

According to the business model followed by the credit rating agencies in Bangladesh a source of business are the commercial banks implementing the BASEL 2.

## **LIST OF ACRONYMS**

BB	Bangladesh Bank
SEC	Securities and Exchange Commission
CRA	Credit Rating Agencies
CRISL	Credit Rating Information and Services Limited
WCRCL	WASO Credit Rating Company (BD) Limited
CRAB	Credit Rating Agency of Bangladesh
ECRL	Emerging Credit Rating Limited
NCRL	National Credit Rating Limited
ARCRSL	Argus Credit Rating Services Limited
ECAI	External Credit Assessment Institutions
IRC	Internal Review Committee
ACRAA	Association of Credit Rating Agencies in Asia



## **Table of Content**

Title Page	(i)
Letter of Transmittal	(iii)
Supervisor Declaration	(iv)
Student Declaration	(v)
Acknowledgement	(vi)
Executive Summary	(vii)
List of Acronyms	(viii)

<b>Chapter – 1 : Introduction</b>	
1.1 Introduction	1
1.2 Background of the study	2
1.3 Objective of the study	3
1.4 Methodology of the study	3
1.5 Limitations of the study	4
<b>Chapter – 2 : Credit rating</b>	5
2.1 Credit rating definition	6
2.2 Purposes of credit rating	6
2.3 Classification of credit rating	6
2.4 Importance of credit rating	7
2.5 History of credit rating	8
2.6 Credit rating industry in Bangladesh	9
<b>Chapter – 3 : Credit Rating Information and Service Limited</b>	12
3.1 Overview of Credit Rating Information and Service Limited (CRISL)	13
3.2 Mission and Vision	13

3.3 Historical background of CRISL	14
3.4 CRISL credit rating service	15
3.5 Other rating services of CRISL	16
3.6 CRISL rating process	16
3.7 Role of CRISL in bank loan rating	18
3.8 Mapping of CRISL rating with BB rating Grading	19
3.9 Implication of loan rating	19
3.10 Scope and limitation of CRISL rating	20
3.11 Performance of CRISL at a glance	20
3.11.1 CRISL sector wise rating distribution	21
3.11.2 Progress of CRISL rating	22

<b>Chapter – 4 : Credit Rating Methodology of CRISL</b>	23
4.1 Credit rating methodology of CRISL	24
4.2 Methodology for bank and financial instruction	24
4.2.1 Qualitative factor analysis	25
4.2.2 Quantitative factor analysis	27
4.3 Long term bank and financial institution	29
4.4 Short term-banks and financial institution	30
4.5 Rating methodology for corporate	30
4.6 Rating methodology for SME	31
4.6.1 Rating Scale of SME	31
<b>Chapter – 5 : Impact of credit of CRISL</b>	35
<b>Chapter – 6 : Findings and Recommendations</b>	37
<b>Chapter – 7: Conclusion</b>	41

# Chapter 1

## Introduction

## 1.1 Introduction

Financing in Bangladesh economy is more bank loan oriented compared to capital market or bond market. Clients prefer availing banking facilities to finance their business for its easy accessibility and business-friendly relationship. In addition, the private sector is more "private limited" company oriented and structurally access to capital market for private limited companies is not open therefore, these companies are not required to go through stringent regulatory compliance to get finance. However, commercial banks are required to assess risk in standard format against all loans before the same is sanctioned. Considering the increase in risk in all economic sectors due to various reasons, the central bank asked all commercial banks to assess the client risk and tie the same with its capital adequacy requirement. These risks are to be assessed by External Credit Assessment Institutions (ECAI) as recognized by the Bangladesh Bank under Basel II Capital Adequacy framework.

The 'Capital Adequacy' for bank simply means, a bank must have adequate capital for risk absorption that is arising from various risks including financing.

Under Basel II Capital adequacy framework as adopted by Bangladesh Bank vide Circular No 9 dated 31st December 2008 and subsequently revised on December 29, 2010, the risk weight is to be carried out on the basis of the ratings of ECAI. If loans are not rated, for Tk.100 corporate exposure/loan, the risk weighted assets would be Tk. 125 (125% of the exposure) which translates to 12.5% capital requirement. The above is only in respect of credit risk. Bangladesh Bank also asked the scheduled banks [which Banks are licensed under the Bank Company Act, 1991 (Amended up to 2013).] to maintain capital for Operational Risk as well as for Market Risk. The above Bangladesh Bank circular warrants or permits the banks to have more capital compared to the present amount in the bank reserves. Therefore, banks will be required to rate its loan portfolio by recognized rating agencies in order to keep the capital requirement lower.

A credit rating assesses the credit worthiness of an individual, corporation, or even a country. It is an evaluation made by credit bureaus of a borrower's overall credit history. Credit ratings are calculated from financial history and current assets and liabilities. Typically, a credit rating tells a lender or investor the probability of the subject being able to pay back a loan. However, in recent years, credit ratings have also been used to adjust insurance premiums, determine employment eligibility, and establish the amount of a utility or leasing deposit. As a pioneer rating agency, CRISL plays an important role towards the growth and economic development of Bangladesh.

This report is an attempt to analyze and discuss the "Credit Rating Methodology" of Credit Rating Information & Services Ltd. (CRISL) used for rating different industry in Bangladesh.

## **1.2 Background of the Study**

In the present world most of the economic activities are largely depended on credit. Investment in productive sectors and other business activities needs to be financed from a variety of sources. Of course, before granting the credit facility the lender will try to be ensured that the borrower is capable to repay the loan. For this the rating service is designed to provide both the parties with reliable information. In modern economy the government has to raise fund from both domestic and international institutions to finance its operations. For this reason, the need for sovereign credit rating is increasing day by day.

As a developing country Bangladesh government took the initiative to rate itself in 2006. The Bangladesh Bank requested two credit rating agencies, Standard & poor's and Moody's which assigned ratings **BB-** and **Ba3** as on 06 April and 12 April of this year respectively. Both of the ratings reflect the better creditworthiness as same as some emerging economic countries such as Vietnam and Indonesia. These rating also unveil the opportunities of foreign direct investment and access to international finance for Bangladesh.

The concept of credit rating emerged in early 1900s in the financial market of USA but still the concept is to be familiar in the financial market of Bangladesh. Rules to regulate the credit rating agencies of Bangladesh came into force in 1996. After six years of those rules, the first ever entity was rated in 2002 by the premier credit rating firm CRISL. Now-a-days, about thousands of rating report is published each year by eight rating agencies of the country – CRISL, CRAB, ECR, NCR, WASO, BDRL, Argus Credit Rating, DCRL. These rating reports are affecting our capital market, money market and the economy as well.

Initially, all credit risk assessments were done internally by SEC Bangladesh (Security Exchange Commission of Bangladesh), which acts as the regulatory body of the external rating institutions. This scenario has been changing slowly as dependency and trust on ECAI grow steadily.

### **1.3 Objectives of the Report**

The objective of the internship program is to familiarize students with real world situation, to compare with them with the business theories & at last stage make a report on assigned task. The main objective of the report is to have an assessment about rating methodology of Credit Rating Information & Services Ltd. (CRISL), Chittagong Branch. In addition, the study seeks to achieve the following objectives:

- To give an overview of credit rating and its classification.
- To illustrate the present scenario of credit rating industry in Bangladesh.
- To illustrate the sovereign credit rating methodologies used by S&P's and Moody's.
- To describe the impacts of sovereign rating to Bangladesh economy.
- To analyze and identify the quantitative factors of rating methodology of CRISL.
- Find out those key ratios significantly contributing differences in credit rating.
- Predicting the potential impacts of CRAs on our financial market
- Finally provide some recommendations to improve the activities of the bank and credit rating practices of the country to better coup with the international practice.

### **1.4 Methodology of the Study**

#### **Primary information Collection:**

- Interviewing with the financial analyst of CRISL, Dhaka Branch.
- Official records and observing practical work.
- Practical desk work.
- Face to face conversation with the analyst.

#### **The secondary information collection:**

- Direct observations.
- Published Booklet of CRISL.
- Website of CRISL.
- Various published documents
- Circulation and announcement of Bangladesh Bank
- Circulations of Stock Exchange Commission and BRPD.

The data and information thus collected have been process manually. The current study is conducted primarily in participatory research analysis method and secondary on practical and theoretical analysis. The statistical tools like percentage and graphical representations (Trend Analysis) had been used in the study to make it more informative and analytical to the readers.

## **1.5 Limitations of the study**

The Report is likely to have following limitations:

- Due to shortage of time, we analyzed within a limited area.
- Lack of adequate knowledge about credit rating system.
- For the reason of confidentiality, some useful information cannot be expressed in this report,
- Because of lacking experience, hamper the analyzing of the data.
- Sufficient records, publications, facts and figures are not available. These constraints narrowed the scope of the real analysis.
- Confidentiality of data was another important barrier that was faced during the conduct of this study.

The depth of the analysis has been limited to the extent of information collected from different sources.

## **1.6 Practical Experience on Internship:**

I was fortunate to learn lot of important things while my time at CRISL for internship purpose. Few are described below

- How a bank sanction a loan to a client.
- What documents does bank demand while disbursing a loan.
- What's the limiting factor or sensitivity on a loan
- How is Defaulter recovered by the bank with effective steps.
- How much of asset does the client needs so have to be eligible for a corporate loan.

# CHAPTER 2

## Credit rating



## **2.1 What is Credit Rating?**

A credit rating estimates the credit worthiness of an individual, corporation, or even a country based upon the history of borrowing and repayment, as well as the availability of assets and extent of liabilities.

In other words, it is an estimate based on a company or person's history of borrowing and repayment and/or available financial resources that is used by creditors to determine the maximum amount of credit it can extend to the company or person without undue or excessive risk.

A credit rating is an opinion on the creditworthiness of a debt issue or issuer. The rating does not provide guidance on other aspects essential for investment decisions, such as market liquidity or price volatility. Each rating agency has its own rating methodologies and scales, market participants have often treated similarly rated securities as generally fungible or replaceable by another identical item.

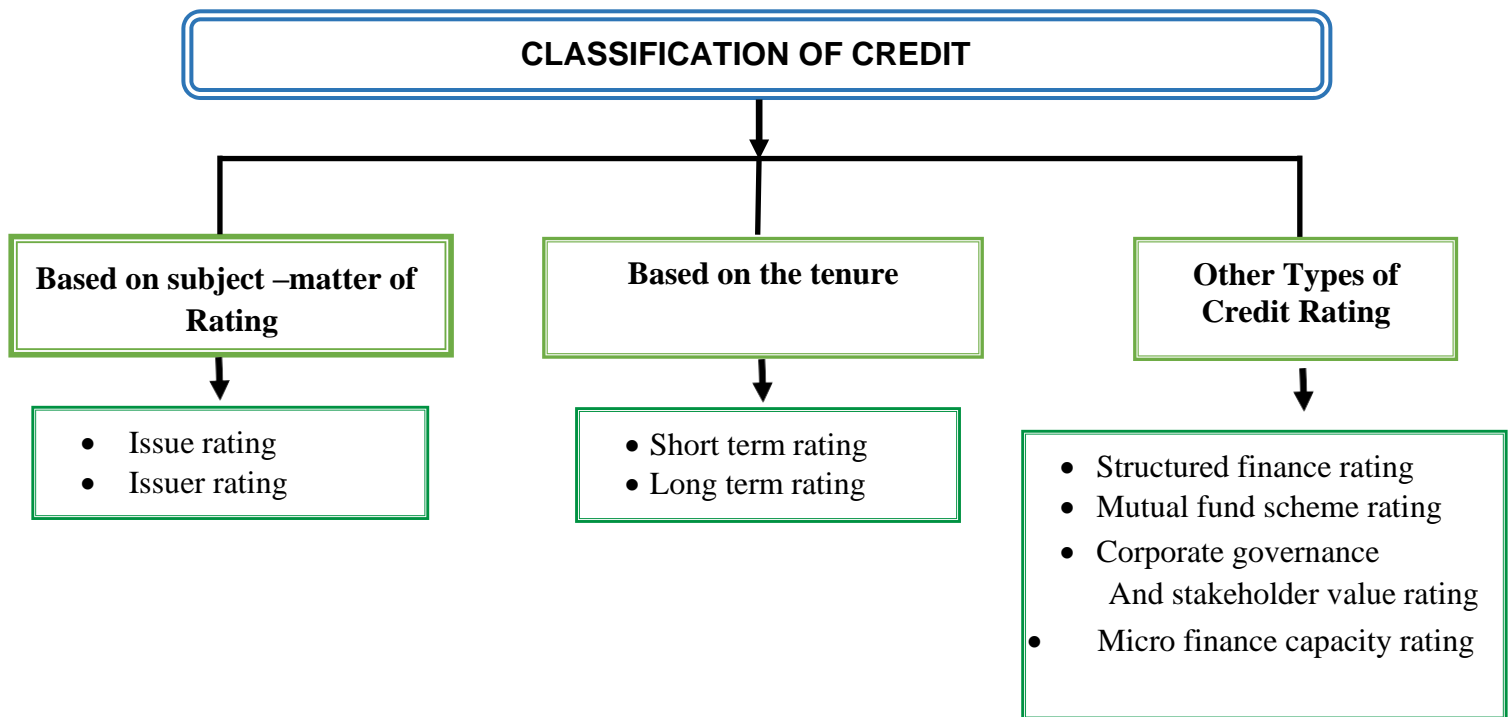
## **2.2 Purposes of Credit Rating**

Credit ratings are aimed at reducing information asymmetries by providing information on the rated security. They can also help solve some principal-agent problems, such as capping or limiting the amount of risk that the agent can take on behalf of the principal. In addition, ratings can solve collective action problems of dispersed or different debt investors by helping them to monitor performance, with downgrades serving as a signal to take action.

Indeed, a rating from a recognized rating agency, while not intended to do so, effectively reduces the burden on investors to research the credit-worthiness of a security or issuer. Credit ratings are typically among the main tools used by portfolio managers in their investment decisions and by lenders in their credit decisions. The reliance on ratings also reflects regulatory requirements in most countries.

## **2.3 Classification of Credit Rating**

The existence of various types of credit rating allows the topic to become very complex, but with a little assistance it can be easy to understand. The issue of types of credit scores can be discussed both with a national and international focus. This credit score or rating allows the consumer to understand their financial capabilities, as well as, alerts potential lenders about a good or bad risk. When looking at types of credit rating, one needs to understand a few essentials. Typically, the lower the credit score, the more derogatory is the standing or position of that individual. Along with Standard & Poor's' and Moody's Investors Service most of the internationally recognized credit rating agencies provide rating services in the following market segments.



**Figure: Classification of Credit Rating**

## **2.4 Importance of Credit Rating**

Credit ratings are extensively used by investors, regulators and debt issuers. Most corporate bonds are only issued after evaluation by a major rating agency and in the majority of cases the rating process is initiated at the issuer’s request. Issuers willing to dissolve some of the asymmetric information risk with respect to their creditworthiness and yet not wishing to disclose private information can use rating agencies as certifiers. In such a case, ratings are supposed to convey new information to investors. The benefits of credit rating to the issuers, investors, creditors and its values to the economy and capital market is described below:

### **Benefits to the Issuers:**

- Credit Rating of an issue would ensure due compliance with the relevant legal regulatory provisions of the Securities & Exchange Commission and the central bank of the country.
- Credit rating agency’s opinion would help the issuer company to broaden the market for their instruments. As ‘name recognition’ is replaced by objective opinions, the issuer company may access the securities market more comfortably.
- Credit rating may help in stabilizing issuers’ access to the market even when the market price of listed equities is relatively unfavorable in the prevailing market conditions.
- Credit ratings of Bank/FIs would confer upon the companies a greater confidence of the market and enhance a greater access to the financing sources

### **Values to the Investors & Creditors:**

- Credit rating gives market participants timely access to unbiased, objective, independent, expert, professional opinion on the quality of securities in a user friendly manner that may be relied upon for investment decisions
- Rating opinion would facilitate the investors to decide their portfolios by choosing investment options in the market according to their profiles and preferences.
- Credit rating would affect significant contribution towards developing the stock market investor confidence and enhancing the quality and perfection of the securities market, through provision of credible information for guidance of institutional and individual investors.

### **Values to the Economy & the Capital Market:**

- Credit rating assists the regulators in promotion and enhancement of the precision of the financial markets.
  - Assists in qualitative development of the money and capital markets and enhancement of transparency of financial information and governance of the corporate sector in Bangladesh.

## **2.5 History of Credit Rating**

The use of credit ratings arose in the U.S. out of the desire by the growing investing class to have more information about the many new securities – especially railroad bonds – that were being issued and traded. In the middle of the 19th century, the U.S. railroad industry began expanding across the continent and into undeveloped territories. The industry's demand for capital exceeded the ability or willingness of banks and direct investors to provide it. In order to reach a broader and deeper capital market, railroads and other corporations began raising new capital through the market for private corporate bonds. The growth in the sale of many different corporate bonds to a broad investing public generated the need for better, cheaper and more readily available information about these debtors and debt securities. In response to this development, Henry Varnum Poor first published in 1868 the Manual of the Railroads of the United States. His publication contained operating and financial statistics for the major railroad companies, and provided an independent source of information on the business conditions of these corporate borrowers. John Moody took the process another step forward in 1909 by issuing the first credit ratings in the United States.

Prior to this independent source of information, banks played a key role in shaping investor perceptions of corporate borrowers. After all, banks had greater knowledge from the inside information they obtained in their role as direct lenders and as bond underwriters. By lending and underwriting, banks were putting their money and reputations on the line. If the borrower failed to meet its obligations, the reputation of the bank would be damaged and that would make it harder for the bank to retain existing and attract new clients. In essence the bank certified the quality of the bonds to the public with the bank's reputation. Alternatively, the

Bank as creditor would become more involved in the business of the corporation and become an insider. Bond investors, however, did not have the same access to information. This created an asymmetry in the availability of information in the U.S. capital markets. The impact of rating agencies was to help level the playing field and improve the efficiency of capital markets.

The role of credit ratings and rating agencies would go on to solve other asymmetric information problems -- that between investors and asset managers. The use of credit ratings help police the conflicts of interest between the asset managers and their clients whose money the managers invest. Asset managers may be tempted to invest in higher risk securities even though investors would not knowingly approve of such investments. The use of ratings by investment policies can limit the risk<sup>4</sup> in the asset manager's investments at a low monitoring cost and thus benefit the investors.

According to the BIS, there are 130 to 150 credit rating agencies worldwide. Many of these agencies are smaller and focus on a niche market based on sector or geography. The three most prominent credit rating agencies that rate sovereign countries are Standard & Poor's, Moody's and Fitch Ratings. Only a few are officially recognized by governments for regulatory purposes. On average, the 10 member countries of the Basel Committee for Banking Supervision (BCBS) recognize six agencies.<sup>6</sup> In the U.S., the Securities and Exchange Commission (SEC) recognizes only four at present. These four include the major three agencies plus Dominion Bond Ratings, a Canadian firm, which was granted the status of Nationally Recognized Statistical Rating Organization (NRSRO) in February 2003.<sup>7</sup>

In 1999 the Basel Committee on Banking Supervision (BCBS) sent a proposal to its members on criteria for recognizing agencies. The criteria included a systematic, rigorous and a historically validated methodology for assigning ratings as well as independence from external political and economic influences. Different members responded with different measures, some of which included the BCBS proposals, and some which included additional measures based on market usage, credibility and adequacy of staff.

## **2.6 Credit Rating Industry in Bangladesh**

The credit information industry is an essential component of the financial system. Its evolution in Bangladesh over the past decade has been very successful, but also with unexpected side effects. These side effects now seriously impede the further development of the industry. It is now imperative, for the health of the financial industry, that the provision of credit information and ratings be expanded, deepened, and the negative side effects be remedied. This agenda calls for a serious and sustained effort to stimulate the emergence of new credit information companies able to provide relevant data to the financial sector.

Bangladesh has also adopted Basel and has started to implement it from January 2009. That is why the market for rating agencies is increasing in line with growth of the private sector. More and more issuers and borrowers are being forced by banks to rate them to potentially save capital under the new capital accord. Different rating agency of Bangladesh is given below:

SL No.	Name of the Company	Registration Date	Office Address
01	Credit Rating Information & Services Ltd. (CRISL)	21/08/02	Nakshi Homes (4 <sup>th</sup> and 5 <sup>th</sup> floor), 6/1A, Segunbagicha, Dhaka-1000
02	Credit Rating Agency of Bangladesh (CRAB)	24/02/04	Chamber Building (6 <sup>th</sup> Floor), 122-124 Motijheel C/A, Dhaka-1000
03	National Credit Ratings Limited (NCR)	22/06/2010	3 BijoyNagor, 3rd floor, Dhaka-1000
04	Emerging Credit Rating Limited (ECR)	22/06/2010	SHAMS Rangs, House #104, Park Road, Flat# A1, A2, Baridhara, Dhaka-1212
05	ARGUS Credit Rating Services Limited	21/07/2011	7 Suhrawardy Avenue, Baridhara, Dhaka-1212
06	WASO Credit Rating Company (BD) Limited	15/02/2012	Haque Chamber (Level-5), 89/2 West Panthopath, Dhaka-1205
07	Alpha Credit Rating Limited	20/02/2012	Navana Rahim Ardent (1st floor), 39 Kakrail, Dhaka-1000
08	The Bangladesh Rating Agency Limited	07/03/2012	47 Karwan Bazar, Latif Tower (12 <sup>th</sup> floor), Dhaka-1215

The credit information industry collects information and provides analyzed data to financial institutions to assist in the allocation of funds to particular users. This industry brings together data management, capacity to discover facts, and analytical ability to assess the probability of payment whether it is a borrower, an issuer of debt instruments for sale to the public, the soundness of equity issues, or likelihood of an insurance company making a payment. Every organization that takes money from a saver represents some risk to the saver

that an expected payment will not take place. The credit rating estimates the probability of default by the person or organization that took the saver's funds. Credit information facilitates the operation of financial markets by creating specialists in the assessment of risk, lowering the cost of data acquisition, and providing information to all forms of financial inter-mediation.

# CHAPTER 3

## Credit Rating Information and Service Limited

### **3.1 Overview of Credit Rating Information & Services Limited (CRISL)**

The Credit Rating Information and Services Ltd. is a private rating company established as a joint venture with three foreign rating agencies, two domestic financial institutions and several individuals. CRISL was established particularly to rate traded financial instruments, both debt and equity. It will also prepare entity ratings for loans, prepare ratings of banks and of the claim paying capacity of insurance companies. With its primary business to prepare ratings related to the capital markets, CRISL has applied to the Securities and Exchange Commission for a license for IPOs, Rights Issue, Mutual funds, and debentures. CRISL is aimed at the high end of the debt and equity market, not SMEs. It has an established corporate structure, training programs for rating analysts, and a rating methodology based on internationally accepted principles. CRISL has a close relationship with Duff and Philips Credit Rating Cop. (DCR) one of the largest U.S. rating organizations. We understand DCR is committed to providing training and quality assurance of CRISL's ratings. CRISL collects information from banks, audited annual reports; other material available to the public through the SEC. CRISL uses its network of contacts to collect information related to companies on which it is preparing ratings. CRISL is really waiting to get started and once its license is granted by the SEC it will be able to work in the offer end of the market of financial instruments. It has no defined relationship with the CIB. As CRISL gets started the key question will arise when companies do not like the credit ratings that they receive. When the credit rating is poor then there will be a threat of pressure of various sorts brought against CRISL to try to obtain a better credit rating with respect to a loan. The same may arise in the case of ratings for companies involved in IPOs or Rights Issues. Any private credit rating organization will be threatened with these kinds of pressures that historically arise both from the economic side but also the political. It is more serious since the appearance of fairness is very important for the acceptance of the ratings.

### **3.2 Mission and Vission**

CRISL is a public limited company incorporated in 1995 with the main objective of rendering rating and related services in the whole investment gamut of Bangladesh. During last couple of years, CRISL has been engaged in extensive research on national and international economy, and established its own database and well set in the field of rating and information management.

#### **Mission**

In order to achieve the above vision, we set our business targets with high degree of professional standard and appropriate business and ethical code.

#### **Vision**

To implement global standards of credit rating services at the national level in order to enhance the image of corporate Bangladesh and eventually to upgrade the corporate, economic and financial management of Bangladesh to international level.



### **3.3 Historical Background of CRISL**

Credit Rating Information and Services Limited (CRISL) is the first credit rating company in Bangladesh. The company was incorporated with the Registrar of Joint Stock Companies (RGSC) in 1992 and Credit Rating Company rules 1996 as a recognized ECAI, and has been operating as the first rating company in the country since 1995. Initially, all credit risk assessments were done internally by SEC Bangladesh (Security Exchange Commission of Bangladesh), which acts as the regulatory body for external rating institutions. This scenario has been changing slowly as dependency on, and trust of, credit rating agencies grow stronger.

The genesis of the CRISL is linked with the Bangladeshi government's efforts to organize the first ever Euro money Conference in Bangladesh in 1994, where a large number of international investors and world investment forum members were invited, with a view to gaining some insight into the financial stability of the South Asian country. The participants concluded that the reason Bangladesh had not been receiving the desired level of investment was that the country did not have a rating agency, and the country had not been rated officially by any international rating body. In absence of the above, some international rating agencies, based on the limited financial information available at the time, gave Bangladesh a 'C' rating, which meant a highly speculative and risky country for investment.

In late 1994, Mr. Muzaffar Ahmed FCMA, FCS, one of the leading financial economists in the country, took the position of CEO at CRISL, a position which other financial experts had considered carried too much responsibility, for too little reward. Dr Ahmed immediately visited several rating agencies in India to get a better understanding of those companies, their operational methods and their prospects. Upon returning to Bangladesh he discussed the project with a few select professionals and business people, making detailed presentations, ultimately convincing them to join with him, and invest in CRISL.

Since its beginnings CRISL has played a major role in reversing the financial mistakes made by the newly independent Bangladeshi government of the 1970's, particularly non-performing loans. Mr. Ahmed recently said: "The Central Bank instructed all banks to be rated every year in the financial sector, which means all the banks have to submit a credit rating to the Central Bank every year. This has a tremendous impact on the economy, since banks are required to report on their compliance status. As a result, in the last 10 years the number of non-performing loans (NPL) of our banks has substantially decreased."

<b>1994:</b>	<b>Conceptualization</b>
<b>1995:</b>	<b>Floataion of company</b>
<b>1996:</b>	<b>Regulatory framework</b>
<b>1997:</b>	<b>Joint Venture</b>
<b>1998:</b>	<b>New Direction from BSEC to take IFC of World Bank as sponsor IFC proposal for New Company</b>
<b>1999 to 2000:</b>	<b>Consistent persuasion with SEC and Legal Notice</b>
<b>2001 to 2002:</b>	<b>Period of Hope for License</b>

### **3.4 CRISL Credit Rating Services**

CRISL is a credit rating agency and as such its services are within the credit rating and related areas. CRISL services consist of the following:

- Corporate/ entity rating for direct listing or for IPO at premium
- Bank/ financial institution rating
- Insurance claim paying ability rating
- Bank counter party rating
- Bank loan exposure/ Facility rating
- Rating of the structured products such as Zero Coupon Bonds. Mortgage backed or asset backed securities, debentures, preference share financings, subordinated debt products
- Securitized transactions
- Project financing ratings
- Micro Finance rating
- MFI- social impact rating
- Educational Institution Rating
- Corporate Governance Rating

### **3.5 Other Rating Services of CRISL**

**Other Product and Services:** CRISL is a credit rating agency and as such its services are within the credit rating and related areas. Apart from credit rating services, CRISL provides the following:

- Due Diligence Services
- Assessments
- Consultancy services
- Advisory Services
- General Credit Analysis for Financing Houses, Business Counterparts, Foreign Investors, Joint Venture counter parts
- Equity Research for the General Investors. Industrial Houses, Foreign Investors, Research Houses and General Public.

### **3.6 CRISL Rating Process**

Step by Step process



1. CRISL performs both solicited and unsolicited ratings. In case of solicited rating, the total rating process takes approximately two to three weeks (depending on the sector), upon the condition that CRISL has received all relevant data and information. In the case of SME rating, it takes at best one week to complete the assignment. The rating process starts after the entity has signed a contract with CRISL and has provided with information and detailed schedules.



2. The rating task is assigned to a rating team. The team is comprised of minimum two analysts. The rating team formally approach the client for primary information through a set Questionnaire with a given timeframe.

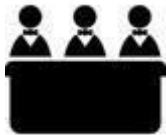


3. The rating team collates and analyzes information collected from the client as well as from CRISL Database and takes into consideration of the information from Market and Client. The team interacts with client, visits site and analyzes data submitted by the Client. The rating team organizes interview with various professional group and simultaneously interacts, exchanges views with

them and prepares Draft Report and forwards the same to Internal Review Committee (IRC) to double check the documents and information on which the analysts prepared the rating report.

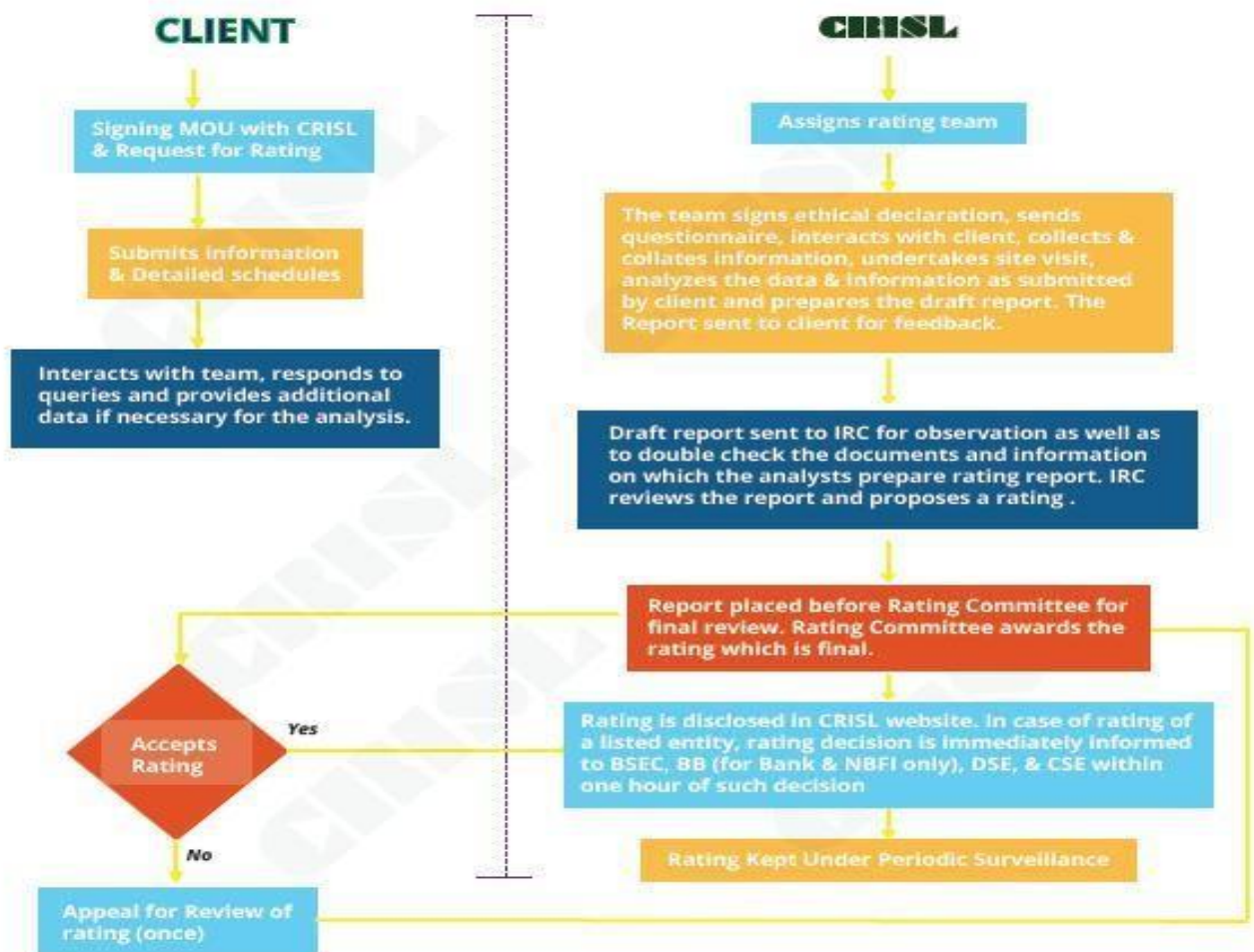


4. After receiving feedback from IRC, rating team forwards a copy of the report to the client for verification, comment and factual confirmation in the report with full supporting data/information. The Client also provides valuable feedback, which is incorporated into the report. The rating team then forwards the report to the Internal Review Committee for final review. The Committee reviews the Report, takes into consideration of the comment of the client, and proposes an initial rating and the report is finally placed before the Rating Committee.



5. The Rating Committee reviews the report and awards final ratings. If the client accepts the report, it is published. If the client is not satisfied with the rating, it may appeal for rating review within one week of rating declaration, with the reasons for not accepting the rating. Rating Committee considers the appeal if it has sufficient valid grounds that has overlooked earlier and convenes a meeting having at least a new member in the Committee; The Rating Committee awards the final rating. After the rating decision, rating is disclosed in CRISL website for public viewing. In case of rating of a listed entity, rating decision is immediately informed to BSEC, DSE, & CSE within one hour of such decision.

### CREDIT RATING PROCESS OF CRISL



## **Rating Team**

CRISL Rating Team consists of minimum two professionals having appropriate knowledge and experience to ensure quality rating. While forming a rating team CRISL collects declaration from the members that they are eligible to be a member of the rating team as per the guideline of CRISL Ethical code. The CRISL Ethical Code barred the following professionals to be a member of the rating team:

1. Has any chance of being influenced in the determination of ratings,
2. Owns securities or derivatives of the rated entity,
3. Owns securities or derivatives of any entity related to a rated entity, the ownership of which may cause or may be perceived as causing a conflict of interest;
4. Has in the preceding one year period employment or other significant business relationships with the rated entity that may cause or may be perceived as causing a conflict of interest;
5. Has a lineal relative(s) who is(are) dependents and currently work(s) for the rated entity; or
6. Has, or had, any other relationship with the rated entity or any related entity thereof that may cause or may be perceived as causing a conflict of interest.

## **Internal Review Committee (IRC)**

IRC consists of mid-level professionals having knowledge and experience in the sector, involved with minimum 400 to 500 rating assignments. The members of IRC must be aware of rating requirement, related methodology, compliance requirements and they must be eligible as per CRISL Ethical Code of Conduct and free of all conflict of interest.

## **Rating Committee**

Rating Committee consists of Senior Professionals of CRISL and at least one person having sectorial knowledge. The members must be aware of CRISL rating system, international rating norms with wide knowledge on the economy and its sectors. The rating awarded by the RC is final. The RC is independent and the Board of CRISL does not have any role / influence on the RC.

## **3.7 Role of CRISL in Bank Loan Rating**

CRISL is a joint venture rating agency operating in Bangladesh since 1996. It also the founder of the Association of Credit Rating Agencies in Asia (ACRAA). During the last 15 years, it has gathered considerable experience in rating and research covering various economic fields. It has also built up huge database on the national economy and has sufficient trained human resources and logistics to support the client rating for Banks. CRISL has been recognized by Bangladesh Bank as External Credit Assessment Institution (ECAI).

### **3.8 Mapping of CRISL Rating with BB rating Grade (For Corporate)**

CRISL assigns blr to the exposure/loan rating of the clients on the same long-term and short-term rating scales as it does with other credit rating. blr ratings can be used by banks to determine risk weights for its loan exposures to the clients in line with the requirement and mapping of Bangladesh Bank.

<b>BB Risk Grading</b>	<b>CRISL Long term Rating</b>	<b>CRISL Short Term Rating</b>	<b>Risk Weight</b>
1	AAA, AA+, AA, AA-	ST-1	20%
2	A+, A, A-	ST-2, ST-3	50%
3	BBB+, BBB, BBB-	ST-4	100%
4	BB+, BB, BB-	-	100%
5&6	B+, B, B-, CCC+, CCC, CCC-, CC+, CC, CC-, C+, C, C-, D	ST-5, ST-6	150%

### **3.9 Implication of CRISL Loan Rating**

#### **For Banks:**

Most of the scheduled banks in Bangladesh have been working with the minimum capital adequacy ratio of 10% or near to that. As per BB guidelines, banks will be required to provide capital for Operational Risk and Market Risk in addition to Credit Risk, which will enhance the capital requirement significantly. CRISL study reveals that existing CAR, on an average, would decrease by 3.00 to 3.50 % under the new framework for enhanced credit risk for unrated exposures, as well as for newly introduced Operational Risk and Market Risk. BB guidelines have, however, provided substantial incentive for the banks for rating its client's exposures.

#### **For Borrowers:**

CRISL loan rating will help borrowers to obtain more precise risk- based pricing on bank loans. Borrowers may also benefit when the capital savings enjoyed by the banks will be reflected in loan pricing. In case of low loan ratings, the clients will know the factors of low rating and get the opportunity to work for improving its ratings in future which ultimately assist them to have more access to financial market.

### **3.10 Scope and Limitations of CRISL Ratings**

As CRISL gets started the key question will arise when companies do not like the credit ratings that they receive. When the credit rating is poor then there will be a threat of pressure of various sorts brought against CRISL to try to obtain a better credit rating with respect to a loan. The same may arise in the case of ratings for companies involved in IPOs or Rights Issues. Any private credit rating organization will be threatened with these kinds of pressures that historically arise both from the economic side but also the political. It is more serious since the appearance of fairness is very important for the acceptance of the ratings.

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

### **3.11 Performance of CRISL at a Glance**

CRISL is a multinational rating agency having regional and international linkage. During last couple of years, CRISL has been engaged in extensive research on national and international economy, and established its own database and well set in the field of rating and information management. Aided by its excellently skilled human resources, CRISL is poised to take any rating assignment pursuing international standards with its proven methodology and research on various economic fields of Bangladesh. In addition to its own professionals of various disciplines, its Rating Team consists of professionals from technical partners who participate in rating through frequent teleconferences and exchange of information.

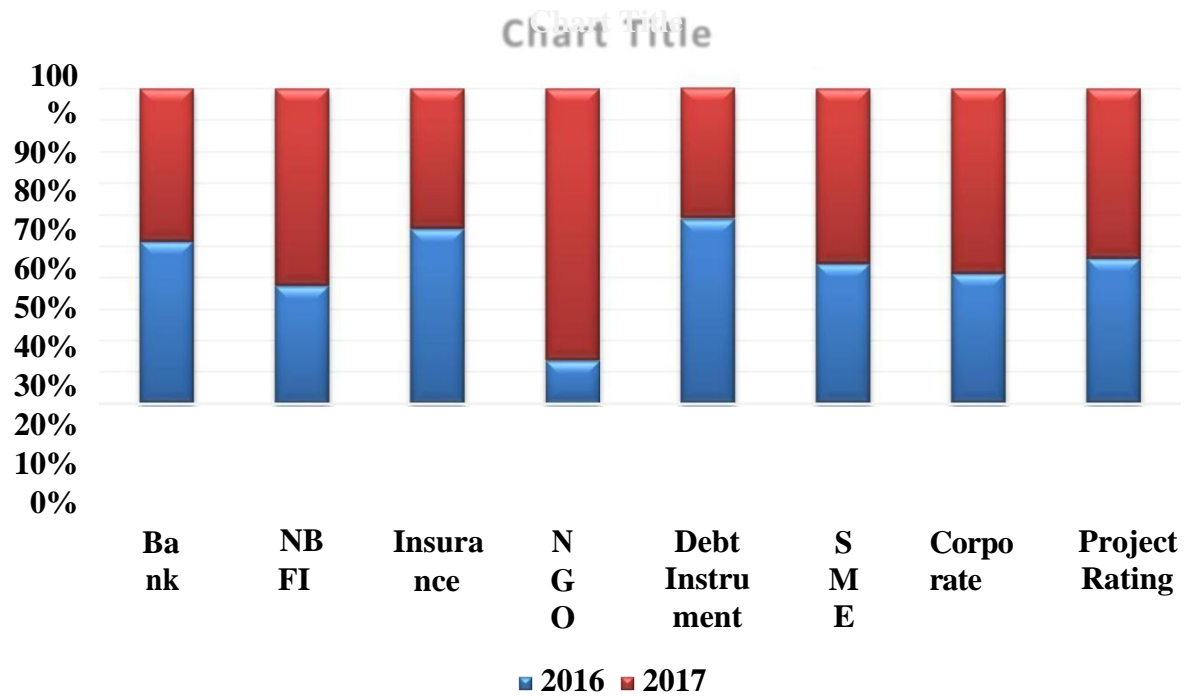
#### **3.11.1 CRISL Sector Wise Rating Distribution**

<b>Sector</b>	<b>Bank</b>	<b>NBFI</b>	<b>Insurance</b>	<b>NGO</b>	<b>Debt Instrument</b>	<b>SME</b>	<b>Corporate</b>	<b>Project Rating</b>	<b>Total</b>
<b>2017</b>	19	3	15	4	17	3142	863	64	4127
<b>2018</b>	18	5	12	25	12	3934	1233	75	5314
<b>Total</b>	37	8	27	29	29	7076	2096	139	9441

*Source: CRISL Database*

### **3.11.2 Progress of CRISL Rating**

CRISL, to its credit, had more than 4000 rating assignments over the last couple of years, having exposure in different business sectors of the country.



**Figure: Sector Wise Comparative Rating Distribution over the last couple of years**





## Credit Rating Information & Services Limited

<b>Name of the Company</b>	<i>Credit Rating Information &amp; Services Ltd.</i>
<b>Legal Form</b>	<i>Technical collaboration with RAM Ltd of Malaysia</i>
<b>Date of Incorporation</b>	<i>1995</i>
<b>Date of Commencement</b>	<i>February 2002</i>
<b>Date of getting License</b>	<i>5 April 1996.</i>
<b>Operation Structure</b>	<i>To serve to the growing market demands, CRISL has been proactive in widening its service offerings, executing assignments including credit ratings, equity ratings, project ratings, performance grading, advisory services and mandated studies in different industrial sectors.</i>
<b>Head Office Address</b>	<i>Nakshi Homes (4th &amp; 5th Floor) Dhaka ;6/1A, Segunbagicha ;– 1000; Bangladesh</i>
<b>Contact</b>	<i>Tel: (02) 9530991-4; Fax: (8802) 9530995; Email: <a href="mailto:info@crislbd.com">info@crislbd.com</a></i>
<b>Chittagong Regional Office</b>	<i>EPIC Ittehad Point (4th Floor); 618 Nur Ahmed Sarak; Enayet bazaar; Chittagong</i>
<b>Contact</b>	<i>Tel: (031) 2867785-6 ;Fax: (031) 286-7784; Email: <a href="mailto:info@crisl.org">info@crisl.org</a></i>
<b>Khulna Regional Office</b>	<i>Malik Shopping Complex (5th Floor); 99 Khan-e-Sabur Road: Khulna</i>
<b>Contact</b>	<i>Tel: 01972747513 Email: <a href="mailto:criskhl@crislbd.com">criskhl@crislbd.com</a></i>
<b>Number of Employees</b>	<i>74</i>
<b>Web Site</b>	<a href="http://www.crislbd.com">www.crislbd.com</a>

# Chapter 4

## Credit Rating Methodology of CRISL

## **4.1 Credit Rating Methodology of CRISL**

While rating a particular organization, CRISL follows specific sector-wise rating methodology. The methodologies have been designed after due consideration to the specific insights of each sector with appropriate weightage to both qualitative and quantitative factors of each sector. The qualitative and quantitative factors are converted to specific traits with appropriate weightage for highest performance, lowest performance, industrial average etc. to arrive at a meaningful rating of an organization. CRISL methodologies covers Banks, Financial institutions, Micro Finance Institutions, Insurance Sector (both General and life), Telecommunication sector, Mortgage Back securitization, Asset backed Securitization, Zero-Coupon Bonds etc.

- **Methodology for Bank and Financial Institutions**
- **Methodology for Merchant Banks**
- **Methodology for Microfinance Institutions**
- **Rating Methodology for Manufacturing Corporate**
- **Rating Methodology for SME**

## **4.2 Methodology for Bank & Financial Institution**

CRISL follows structured rating methodologies for each sectors of the national economy and accordingly it has developed distinct Methodology for rating Banks/FIs. The basic philosophy of CRISL Bank rating is arising from the fact that the banks and financial institutions are highly leveraged. A bank in Bangladesh with an average owners' equity of 5% are undertaking a liability of 95% with 100% guarantees to repay in timely manner. The funds collected through the above guarantees are invested with 100% risk to earn a net interest margin of 2% to 4% through undertaking high Credit Risk, Operational Risk and Market Risk. The above situation puts the banks and financial institutions in such a vulnerable position that any mistake in the process may put the bank in a distress situation. Keeping in view the above globally banks are managed through a very cautious Asset Liability Management system (ALM). Keeping in view the above CRISL has developed its own methodology precisely called as CAMEL PLUS based on basic bank rating system of CAMEL. While the word "CAMEL" stands for Capital Adequacy, Asset Quality, Management, Earnings and Liquidity, the CAMEL PLUS takes into account the size of the bank, its capacity of external fund mobilization, regulatory environment, and strong emphasis Corporate governance together with shareholding pattern, market position with franchise value, Application of Information Technology in addition to CAMEL.

CRISL Bank/FI Rating Methodology consists of two important heads such as

- **Qualitative Factor Analysis**
- **Quantitative Factor Analysis**

## **4.2.1 Qualitative factor analysis**

### **Asset Quality:**

Asset quality reflects how the Banks/ FIs are managing its credit/investment portfolio at an expected level. In reviewing the asset quality, CRISL places due importance to the Banks/ FIs credit appraisal mechanism, Credit Risk Grading Management system, portfolio management system, problem asset resolution strategy, repayment rescheduling philosophy etc. In the rating process the quality and nature of security/collateral at gross level are also reviewed to have an understanding about its controlling asset value in default.

### **Management:**

The quality of management in banking/FI sector gets highest priority since it plays the key role in Asset and Liability Management (ALM). Banks/FIs are basically considered as human resource based institutions where development of human capital gets due attention in serving to its large clientele. CRISL places strong emphasis on the quality of management, experience and educational background of the senior, mid-level and junior management, management philosophy, goals and strategies, management appetite towards risk taking.

### **Earning Prospects:**

Earning is the gateway to increase shareholders value of any organization. While reviewing the earnings and its prospects, CRISL reviews the level of earning, its diversity, interest rate management, basic earning before provisioning and tax, sustainability of the earnings. Earnings are compared in terms of Return On Assets (ROA), Return On Equity (ROE), earnings as the percentage of net loan, interest rate management and Banks/ FIs policy in this regard, non-funded business prospects and its contribution towards earnings etc.

### **Capital Adequacy:**

Under the Basel II perspective, each bank should have its own capital assessment process to have an extra cushion against the risk exposure. CRISL places due consideration to those factors in the rating process and also evaluate the banks' status in managing those risk exposure and determines the capital requirement, maintaining the capital level in any form, growth in internal capital generation to achieve the target, maintenance of the regulatory capital and the buffer against heavy shock.

### **Corporate Governance:**

Corporate governance in the financial sector is being viewed by the regulators of the country seriously in view of the absence of many common fundamentals of the governance norms in the sector. CRISL analytical rigor covers a wide range of factors such as ownership/

shareholding pattern, composition of board and its committees, delegation of power at required level of management, , personnel policy and employee satisfaction, recruitment and training, application of information technology in the system, policy about IT Audit function etc.

### **Liquidity and Funding:**

The banks are required to maintain high liquidity against demand and time liabilities. The central bank also requires the bank to maintain SLR and CRR at certain percentage, depending on monetary policy and compliance thereof. CRISL evaluates the asset-liability maturity structure, deposit renewal ratios, proportion of liquid assets to total assets and the extent to which core assets are funded by core liabilities side by side with the Loan to Deposit Ratio. CRISL also considers the core and non-core deposit mix and identifies various indicators to assess the mix of corporate and retail deposits, concentration of deposit mix to top 50/100 deposit size, etc.

### **Size of the Bank/ FI & Market Position:**

The funding base and branch network plays an important role in assessing the competitive position of the Bank/FI. The number of branch network plays an important role in having low cost and diversified deposits. In Bangladesh economy both small and large banks are coexisting with different market niche which are given due importance in the CRISL rating process.

### **Application of Information Technology:**

Bank management today is almost impossible without appropriate application of Information Technology. CRISL reviews the IT infrastructure, its application in business operation especially in Risk management, database management, credit risk analysis, data transfer mechanism, data disaster management system etc in order to assess the strength of the system.

### **Regulatory and Environmental Compliances:**

Bangladesh Bank has issued a number of instructive circulars and best practice guidelines for the Banks covering a wide range of operational areas such as maintenance of CRR/ SLR, Audit committee, maintenance of capital adequacy, role of the Board members and the Chairman, appointment and removable of the CEO, credit rating, foreign exchange management, risk management, lending risk analysis, internal control, delegation of power at operating level, large loan policy, loan classification policy, loan against shares, Debenture, disclosure system, Compliance of Basel II and SEC regulations and so on so forth.

### **Capacity of External Fund Mobilization:**

CRISL evaluates the Bank/FIs in terms of its ability to raise fund through stable sources in cost effective manner. The banks normally rely on its deposit base while the FIs are dependent mostly on wholesale fund. CRISL analysis covers wide range of areas such as size of deposit base and its diversity, deposit mix, growth potential, cost of deposit etc.

### **Risk Management & Sensitivity to Market Risk:**

Risk management function plays the key role in assessing the overall risk of the bank. The CRISL analysis covers various aspects of risk management in the areas of Credit Risk, Operational Risk and Market risk. Hence, CRISL reviews the structure and activities of the Risk Management Department and its review process.

### **Accounting Quality:**

Financial disclosure to reflect the business and its result plays very important role in rating. Financial disclosure as per requirement of IAS/ BAS/IFRS/BFRS vis a vis Bangladesh Bank guidelines are given due weight in CRISL evaluation. The policies of income recognition, capitalization, equity build up, provisioning policy, write off, asset revaluation, investment valuation, quality of audit are reviewed objectively.

### **Franchise Value:**

In reviewing the franchise value, CRISL considers strategic alliance, global linkage, technical collaboration, client base, national and international awards and recognitions, product diversity, CSR activities, capital market perception etc.

### **BASEL-II Compliances:**

International Convergence of Capital Measurement and Capital Standards, popularly known as BASEL-II has already been implemented by Bangladesh Bank. Under BASEL-II banks are required to comply with a new set of risk management system covering its credit risk, market risk, operational risk and disclosure management. BASEL-II emphasized on the adequate disclosure of banks risk management system which is also considered by CRISL in the evaluation process.

## **4.2.2 Quantitative factor analysis**

Quantitative Factors Analysis help to find out the current position of some rated banks and show the important ratios, which affect at the time of credit rating.

### **• Profitability Ratio:**

- o Return on Average Assets
- o Return on Average Equity
- o Efficiency Ratio
- o Net Interest Margin

- **Capital Adequacy Ratio:**

- o Shareholders' fund to total assets
- o Shareholders' fund to Deposits and Borrowings
- o Shareholders' fund to Net Loans and Advances
- o Risk Weighted Capital Adequacy Ratio

- **Funding and Liquidity Ratio:**

- o Net loans to total Deposits and Borrowings
- o Saving deposits/ Total Deposits

### **4.3 CRISL'S LONG TERM - BANKS AND FINANCIAL INSTITUTIONS**

<b>Rating</b>	<b>Definition</b>
<b>AAA</b> Triple A (Highest Safety)	Bank/FIs 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 banks.
<b>AA+, AA, AA-</b> (Double A) (High Safety)	Bank/ FIS 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.
<b>A+, A, A-</b> Single A (Adequate Safety)	Bank/FIs 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.
<b>BBB+, BBB, BBB-</b> Triple B (Moderate Safety)	Bank/FIs 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 bank is under-performing in some areas. These entities are however, considered to have the capability to overcome the above-mentioned limitations with special care and cautious operation. Risk factors are more variable in periods of economic stress than those rated in the higher categories.
<b>BB+, BB, BB-</b> Double B (Inadequate Safety)	Bank/FIs rated in this category are adjudged to lack of key protection factors, which results in an inadequate safety. This level of rating indicates a bank 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, B-</b> Single B (Risky)	Bank/FIs 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, continuance of this would depend upon favorable economic conditions or on some degree of external support.
<b>CCC+, CCC, CCC-</b> Triple C (Vulnerable)	Bank/FIs rated in this category are adjudged to be with vulnerable protection factors. This rating indicates that the degree of certainty regarding timely payment of financial obligations is doubtful unless circumstances are favourable.
<b>CC+, CC, CC-</b> Double C (High Vulnerable)	Bank/FIs rated in this category are adjudged to be with high vulnerable position. This rating indicates that the degree of certainty regarding timely payment of financial obligations is quite lower unless overall circumstances are favourable or there is possibility of high degree external support.
<b>C</b> (Near to Default)	Bank/FIs rated in this category are adjudged to be with near to default in timely repayment of financial obligations. This type rating may be used to cover a situation where a insolvency petition has been filed or similar action has been taken, but payments on the obligation are being continued with high degree of external support.
<b>D</b> (Default)	Bank/FIs rated in this category are adjudged to be either currently in default or expected to be in default. This level of rating indicates that the entities are unlikely to meet maturing financial obligations and calls for immediate external support of a high order.



## **4.4 SHORT TERM - BANKS AND FINANCIAL INSTITUTIONS**

	<b>Highest Grade</b>
<b>ST-1</b>	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.
<b>ST-2</b>	<b>High Grade</b> High certainty of timely payment. Liquidity factors are strong and supported by good fundamental protection factors. Risk factors are very small.
<b>ST-3</b>	<b>Good Grade</b> 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.
	<b>Satisfactory Grade</b>
<b>ST-4</b>	Satisfactory liquidity and other protection factors qualify issues as to investment grade. Risk factors are larger and subject to more variation.
<b>ST-5</b>	<b>Non-Investment Grade</b> 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.
<b>ST-6</b>	<b>Default</b> Issuer failed to meet scheduled principal and/or interest payments.

## **4.5 Rating Methodology for Corporate/ Manufacturing**

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

## **4.6 Rating Methodology for SME**

Small and Medium Enterprises, popularly known as SME, are playing an unique role in a developing economy like Bangladesh and contributing significantly towards GDP. In the declining trend of agricultural land and limited absorptive capacity of large industries, SMEs in Bangladesh have an important role to play in generating employment opportunities for nearly a million new entrants to the labor force every year. In order to cater to the need of the growing export sector, the linkage support services are creating a congenial atmosphere for the growth of SMEs side by side with the Export oriented industries. Present encouragement of the government and its policy reforms supported by growth of domestic demand for SME products and services are creating a level playing ground for the sector to exist, side by side with large industries in the country. There is increasing realization at the policy level that efforts towards development of SME need to be integrated with the mainstream poverty reduction strategy. Keeping the view in mind Government and lending institutes are keen to support the sector. Realizing the importance, some of the banks have already opened separate SME branch. At present SME lending constitutes more than 20% of the total lending portfolio of banks.

The recognition criteria of Bangladesh Bank for small and medium enterprises are fixed assets (excluding land and building) and number of workforce. The latest criteria for SMEs as given by Bangladesh Bank are given below:

<b>A. Medium Industry/Enterprises:</b>		
Recognition Criteria	Manufacturing	Service/ Trading
Fixed Assets in Mill. TK Workforces	100-300 or 100-250	10 to 150 or 50-100
<b>B.Small Industry/Enterprises:</b>		
Recognition Criteria	Manufacturing	Service / Trading
Fixed Assets* Workforce	5 to 100 or 25-99	0.50 to 10 or10-25

### **4.6.1 Rating Scale of SME**

CRISL Small and Medium Enterprise rating scales have been made different from corporate rating scale to depict clear distinction of its operation from traditional corporate entities. Considering the nature of finance CRISL offers only long term rating. For long term SME rating, CRISL uses rating scale with a prefix “CRISL-Me for medium enterprises and CRISL-Se” for small enterprise rating. The loan facilities/exposures being enjoyed by those enterprises with the prefix blr like the bank facilities being enjoyed by the corporate or any other organizations.

## CRISL Rating Scales for Medium Enterprises

<p><b>CRISL Me 1</b> <b>(Highest Safety)</b></p>	<p><b>Highest Investment Grade</b> Medium Enterprises 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 entities.</p>
<p><b>CRISL Me 2</b> <b>(Higher Safety)</b></p>	<p><b>High Investment grade</b> Medium Enterprises Rated in this category are adjudged to be of high quality, offer higher safety and have high credit quality. This level of rating indicates an 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</p>
<p><b>CRISL Me 3</b> <b>(Adequate Safety)</b></p>	<p><b>Investment Grade</b> Medium Enterprises rated in this category are adjudged to offer adequate safety for timely repayment of financial obligations. This level of rating indicates an enterprise with an adequate credit profile. Risk factors are more variable and greater in periods of economic stress than those rated in the higher categories</p>
<p><b>CRISL Me 4</b> <b>(Moderate Safety)</b></p>	<p>Medium Enterprises rated in this category are adjudged to offer moderate degree of safety for timely repayment of financial obligations. This level of rating indicates that an Enterprises may also have some under-performing areas due to economic, financial or operational environment. Risk factors are more variable in periods of economic stress than those rated in the higher categories. These Enterprises are however considered to have the capability to overcome the above-mentioned limitations.</p>
<p><b>CRISL Me 5</b> <b>(Inadequate Safety)</b></p>	<p><b>Speculative Grade</b> Medium Enterprises rated in this category are adjudged to lack key protection factors, which results in an inadequate safety. This level of rating indicates an enterprises as below investment grade but deemed likely to meet obligations when due. Overall quality may move up or down frequently within this category.</p>
<p><b>CRISL Me 6</b> <b>(Risky)</b></p>	<p>Medium Enterprises rated in this category are adjudged to be with high risk. Timely repayment of financial obligations are impaired by serious problems, which the enterprise is faced with. Whilst an enterprises 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.</p>
<p><b>CRISL Me 7</b> <b>(Vulnerable)</b></p>	<p><b>Non-investment grade</b></p>

	Medium Enterprises 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.
<b>CRISL Me 8 (Highly Vulnerable)</b>	Medium Enterprises 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.
<b>CRISL Me 9 (Extremely vulnerable)</b>	Medium Enterprises rated in this category are adjudged to be extremely speculative in timely repayment of financial obligations. This level of rating indicates Enterprises with very serious problems and unless external support is provided, they would be unable to meet financial obligations.
<b>CRISL Me 10 (Default)</b>	<b>Default Grade</b> Medium Enterprises rated in this Category are adjudged to be either already in default or expected to be in default.

**CRISL Rating Scales for Small Enterprises**

<b>CRISL Se 1 (Highest Safety)</b>	<b>Highest Investment Grade</b> Small Enterprises 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 entities
<b>CRISL Se 2 (Higher Safety)</b>	<b>High Investment grade</b> Enterprises 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 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.
<b>CRISL Se 3 (Adequate Safety)</b>	<b>Investment Grade</b> Small Enterprises rated in this category are adjudged to offer adequate safety for timely repayment of financial obligations. This level of rating indicates an enterprise with an adequate credit profile. Risk factors are more variable and greater in periods of economic stress than those rated in the higher categories
<b>CRISL Se 4 (Moderate Safety)</b>	Small Enterprises rated in this category are adjudged to offer moderate degree of safety for timely repayment of financial obligations. This level of rating indicates that an Enterprise may also have some under-performing areas due to economic, financial or operational environment. Risk factors are more variable in periods of economic stress than those rated in the higher categories. These Enterprises are, however, considered to have the capability to overcome the above-mentioned limitations

<b>CRISL Se 5 (Inadequate Safety)</b>	<b>Speculative Grade</b> Small Enterprises rated in this category are adjudged to lack key protection factors, which results in an inadequate safety. This level of rating indicates an Enterprises as below investment grade but deemed likely to meet obligations when due. Overall quality may move up or down frequently within this category
<b>CRISL Se 6 (Risky)</b>	Small Enterprises rated in this category are adjudged to be with high risk. Timely repayment of financial obligations is impaired by serious problems, which the SME is faced with. Whilst an Enterprises 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
<b>CRISL Se 7 (Vulnerable)</b>	<b>Non-Investment grade</b> Small Enterprises 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.
<b>CRISL Se 9 (Extremely Vulnerable)</b>	Small Enterprises rated in this category are adjudged to be extremely speculative in timely repayment of financial obligations. This level of rating indicates Enterprises with very serious problems and unless external support is provided, they would be unable to meet financial obligations.
<b>CRISL Se10 (Default)</b>	<b>Default Grade</b> Entities rated in this category are adjudged to be either already in default or expected to be in default.

# Chapter 5

## Impact of credit of CRISL

## **5.0 Impact of Credit Rating of CRISL on Bangladesh Economy:**

The ratings by CRISL reflect the economic parameters of the country. The ratings will help bring Bangladesh to the attention of investors.

It is expected that the rating by CRISL will have following impacts on Bangladesh economy:

- Credit rating has given Bangladesh much needed access to foreign financial markets and made it a lucrative destination for foreign investors.
- The private sector will now get advantage in getting foreign loans and it will reduce import and export costs.
- Importers will be benefited as letter of credit confirmation and guarantee costs will be lower as the whole world now knows the economic condition of the country.
- The rating provides a strong vote of confidence in the future economic prospect.
- The rating would help reduce costs of international trades.
- The rating will help the private sector float bonds in the international market.
- The cost of country risk for unrated Bangladesh is about two to three per cent and it is expected that the rate will reduce by 0.5 to 1.0 percentage points.
- The rating also enables the government to raise low-cost capital in the overseas financial markets and further diversify its funding sources.
- Many international agencies time to time release different reports on Bangladesh and it will eliminate any confusion about the country.

In brief, we can say that now Bangladesh is appearing on the investor radar simply because of its fundamental appeal. The ratings discussed above prove the positive sign of Bangladesh as it has positive demographics, rising consumption, and stable growth.

# Chapter 6

## Findings and Recommendations



## Findings

Despite of the fact that CRISL try to analyze all of its clients' financial condition as ethically and accurately in details as possible even then some clients are dropping gradually due to "Rating Shopping". There are many credit rating agencies in Bangladesh who does rating of companies unethically. These rating agencies make a contract with clients to award them a high rating than they actually deserve at a lower fee. This is termed as "Rating Shopping". They do not conduct detail analysis of the annual reports nor do they go to factory visits or site visits. Other rating agencies charges a lower fee to attract clients, which at times goes lower than the benchmark fixed. Some clients show unwillingness to continue rating service after one or two years with CRISL whereas a contract of 4 years (Initial year + 3 years of Surveillance) is signed. The fact that CRISL goes to factory visits and performs a detail analysis increases the cost so CRISL charges comparatively higher rating fees from clients to meet up for the cost. Because of this "Rating Shopping" and price war CRISL clients are becoming reluctant which is gradually pulling back revenue growth.

One of the reasons why rating agencies are not being able to prosper in Bangladesh is because these are not many financial products in Bangladesh.

Availability and disclosure of information: in some cases clients does not record all the information, while some clients have information but not well organized. In other circumstances, a company is big enough for maintaining Management Information System (MIS) but does not implant one, or even if a client has MIS even then they are not willing to disclose confidential information to Rating Agency. Clients sometimes think the confidentiality would be broken but they do not understand that all sorts of detail information are required for analyzing the firm and award them a rating, and that the confidentiality is maintained of the information provided. This is due to lack of knowledge about the credit rating process as a whole.

Unavailability of market or industry information.

## **Recommendations**

More regulations from the regulatory bodies, Bangladesh Bank and (Securities and Exchange Commission) SEC. The regulatory bodies must rigidly monitor all the Credit Rating Agencies in Bangladesh. In 2014 all the registered credit rating agencies, Bangladesh Bank and SEC have created an association, Association of Credit Rating Agencies of Bangladesh, ACRAB, to regulate the credit rating agencies. ACRAB must closely monitor the activities of all eight agencies in Bangladesh; how ethical they are working, what fees they are charging, whether they are charging fees below the benchmark or not. They must come forward in reducing the “Price war” and “Rating Shopping”. Banks must also be strict about the authenticity of the report before accepting it. Some of the renowned banks and Bangladesh Bank only accept the credit rating report only from CRISL. But all other banks should be cautious.

More financial products should be introduced in Bangladesh for Credit Rating Agency to flourish. The more financial products (like bond market, mutual fund) will increase in Bangladesh the more demanding, wealthy and attractive credit rating agencies would become. A bond rating fee could be charged around Taka Fifty Lac, in addition mutual fund rating could be charged around Taka One Crore. If financial products increase then the revenue would climb drastically.

Mass people should be educated about credit rating services through seminars, by including it in the educational studies.

CRISL’s administrative expenses should be reduced. Some clients unfortunately become reluctant before the end of the contract as CRISL charges high rating fees. This is because in order to maintain a standard CRISL pays high salary to its Officers and Financial Analysts. Also the Analysts gather detail information, thoroughly analyze them, and make factory visits almost to all of the clients every time surveillance is done and in the initial rating. These incur lots of costs, which in turn increases the fee structure. Moreover, since CRISL analyzes ethically so often the rating comes low. But other credit rating agencies act significantly unethically and come to a contract with a client to increase the rating. Also other credit rating agencies take the advantage of the existing price war between the credit rating agencies by offering comparatively low fee. As clients get better rating at a lower fee which is extremely beneficial for clients in getting loan from banks so they sometimes switch to other credit rating agencies. In addition, in some circumstances, company’s performance extremely deteriorates which ultimately makes them defaulter. So they automatically stop rating.

There is no database in Bangladesh that is publically available of a particular industry or market situation. The rating agencies works on hundreds of organizations of the same industry. CRISL itself has worked on almost five hundred to six hundred organizations of the same industry of more or less all industry sectors. With the information CRISL has it is

enough to analyze the current industry situation, industry trend and market trend and current market scenario. They should plan to create a database of each industry through which they can perform trend analysis of particular industries and market. CRISL needs to hire industry experts who can help them in this work and also in the analysis.

Individual Financial Analyst should continue to maintain ethics and moral norms.

# Chapter 7

## Conclusion

## **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 Information and Services Limited (CRISL). I found several thing of CRISL. Like what is their main tasks, how they perform their tasks, what steps they followed to perform their tasks. This is a brief analysis on rating procedure of Credit Rating Information and Services Limited (CRISL). The main purpose of this analysis is to understand the current credit rating procedure of CRISL. This report also includes a detail idea about credit rating, its history, different rating company and Credit Rating Information and Services Limited (CRISL). I have successfully done my internship in CRISL. It was really a great experience of working with financial analysts of CRISL. My major duties and responsibilities were collecting information, assisting financial analysts, learning corporate culture, learning rating process, analyzing financial statements, preparing credit rating reports etc. During Internship program a student undergoes practical learning process in an organization. It is a good blend of theoretical and practical knowledge. This Internship Program gives the students an opportunity to get ourselves introduced to the corporate world. It works as an ice-breaking before they step into their working life. So, I can say that I really had the best orientation in my corporate life.

## References

1. Annual report of CRISL2017
2. <http://www.crislbd.com/credit-rating-services/>
3. <http://en.wikipedia.org/wiki/CRISL>
4. <http://www.crislbd.com/crisl-business-review/>
5. <http://www.crislbd.com/training/>
6. <http://www.crislbd.com/history/>
7. Shekder & shekder ,credit rating theory and practices , 8<sup>th</sup> edition
8. <http://www.crislbd.com/management-profile/>
9. <http://www.crislbd.com/crisl-rating-methodology/>