Internship report on overview of

Credit Rating Agency of Bangladesh (CRAB)
(with a sample case study)

United *International* University

Submitted to:

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Letter of Transmittal

30th October, 2018

Zinnatun Nesa

School of Business & Economics

United International University

Subject: Submission of internship report on **"Over view of Credit Rating Agency of Bangladesh (CRAB)(with a sample case study)"**

Dear madam,

With due respect, I would like to state that I have completed internship report on the "**overview of (CRAB)(with a sample case study)"** at **Credit Rating Agency of Bangladesh** as a partial requirement of the BBA program.

To prepare this report, I have tried to my best effort and work to find out the study relevant materials. I, therefore, hope that this report will provide necessary information about the credit rating methodology of Credit Rating Agency of Bangladesh. I have tried my best to make this report with proper information and guidelines. I hope that you will consider if there is any mistake or error with an eligible way.

Finally, I hope that, you will enjoy going through this report as I have felt great pleasure to prepare it.

Sincerely yours,

………………………………..

Sharmi Deb Roy

ID: 111 141 153

School of Business & Economics

United International University

ACKNOWLEDGEMENT

First of all, I wish to express our gratitude to the Almighty for giving us the strength to perform our responsibilities and complete the report.

This internship is very helpful to bridge the gap between the theoretical knowledge and real-life experience as part of Bachelor of Business Administration (BBA) program. This report has been designed to have a practical experience through the theoretical understanding.

I also acknowledge our profound sense of gratitude to all the teachers who have been instrumental for providing me the basic knowledge and moral support to complete the internship with full understanding.

It is imperative to show my appreciation for the honorable faculty member Zinnatun Nesa for her undivided attention and help to achieve this milestone. Also, my gratefulness is divine to the United International University, BBA department for providing me a course such as in which I could really work on this internship and materialize it the way I have dreamt of.

I thank my friends and family for their moral support to carve out this internship and always extend their support.

Executive Summary

The terms Credit Rating accesses the credit value of account holder, corporate person, individual and legislature. It is an evaluation which made by the credit rating agency of the borrower's capability to pay back the obligation and the probability of default. CRAB was established in 2009. Credit rating plays an important role in the financial markets, regulating the financial markets, estimating risk premium. However, there are also some disadvantage of the credit rating. These disadvantages are that credit rating can be biased, in absence of proper experience or skill by the credit rating companies can be changing the concerned analyst of a rating and credit ratings cannot be treated as a standalone measure to invest. In 2004, CRAB was first primary moved of the business. The Credit Rating Process of CRAB is procedure by the top management of the Chain command. Then a detail analysis is done on clients' business model, financial condition, industry risk, operation risk, management, background, and credit facility an analysis on the financial variables of the AAA rated organizations has been regulated to oversee the currency related factors as well as it steady or not. The analysis compares the most important ratios- Quick ratio, Times Interest Earned Ratio, Days of Sales outstanding Ratio, P/E ratio, Sustainable growth rate and the z score of the AAA rated companies. Then analyst send an award letter and credit rating report have to be submitted mentioning the rating to its client.

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CHAPTER - ONE

INTRODUCTION

1.1 Introduction:

In order to pressure BBA Degree, one alone cannot acquire knowledge only by the classroom. He or she has to obtain realistic knowledge regarding subject by doing internship. Therefore, it is an opportunity for the students to know about the real-life situation through this program.

The BBA Program of Department of Finance, UIU facilitates its students with internship which ensures practical work opportunity in different local and multinational organizations after the end of 12th Semester (i.e. after the completion of 4-year BBA Program). Internship exercises particular significance as it allows the students to get familiar with the practical organizational activities. This program enables a student to develop practical skills and knowledge because a student gets a chance to work in an organizational environment and learns about the function of the organization.

I am also pleased to get practical experiences from Credit Rating Agency of Bangladesh Ltd, one of the renowned rating agencies in Bangladesh. I'm working in this organization from last 3 months, assigned by my supervisor Zinnatun Nesa, Associate Professor, Department of Finance, United International University.

Basically, the study that I desire to do is conducted to reveal the crucial financial factor that may affect the rating of one particular company. In Bangladesh have numerous organizations like Banks, Corporate, and NBFIs for evaluating to oversee the credit value of these companies, organizations and business.

It's a growing sector in Bangladesh now. For economic development credit ratings plays an important rule overall the worlds. This Rating are achieved the most priority from strategy creators because of their multi-dimensional commitment to the financial condition of a nation. Credit rating measures the value of an organization, individuals, debtors and legislatures performance. It is an evaluation made by a credit rating agency of the debtor's ability to pay back the debt and the likelihood of default. There are eight rating companies currently operating in Bangladesh. This has led to tighter competition among the players and declining rating fees. So we can say that, credit rating is the reflection of account holder credit value, taking about the limit and the borrower eagerness. In any case, the adequacies of the rating inside Bangladesh are remarkable.

This report focuses on analyzing the financial indicators of the company. I try to find out if their lay any consistency or linkage between the major financial indicators of the companies and the rating provided to them.

1.2 Objectives of the report:

The aim of this report is to evaluate the critical factors affecting the performance of CRAB

- To know about the credit rating process properly.
- To know about the competitions and the opportunities of this sector.
- To have a theoretical overview of scope and development of CRAB
- To identify critical success factors of sustainable growth of CRAB

1.3 Origin of Report:

This report on "***Over view of Credit Rating Agency in Bangladesh***" has been prepared as an integral part of BBA program under department of Finance, United International University. I have completed my internship program with the help of my supervisor, *honorable teacher Zinnatun Nesa, assistant professor*, *department of Finance, United International University*.

1.4 Scope of the Report:

Academic course has two different value. One is connected with theory and another is connected with experience. Without experience or practical value, theoretical knowledge is incomplete. So, we need to gain proper knowledge of application, which we can be benefits in our real life. Practical knowledge can be easy to gain. As an example. when any person works in a practically, they can easily connect their theory with application. On the other hand, theory is only course-based study. Internship is the one kind of practical application, which not only connected our life to theoretical but also connect our life with experience. It is the best way to acquiring knowledge of the specific subject. In this way it can be applied in our life. This report especially covers corporate rating procedures and activities of the Credit Rating Agency of Bangladesh.

1.5 Methodology of the Report:

Research Methodology of a study reflects the important assumptions undertaken by the conductor of the report and these assumptions serve as base for the research strategy. Generally, research philosophy has a lot of branches related to a wide range of disciplines. But for conducting this report, I need to focus on mainly of a descriptive nature. Both primary and secondary data were selected as the basic research method.

1 .5.1 Primary Data Collection:

The primary data has been collected from:

- Interviewing the key persons of the company.
- Interviewing officers and staffs;
- Going through files, books study provided by the officers concerned;
- Discussing practical knowledge of officials

1.5.2 Secondary Data Collection:

- Research Papers on Credit Rating Methodology
- Web sites used of Credit Rating Agency of Bangladesh.

1.6 Limitations:

I went through different obstacles. list of them are

- Secondary data may not also be that much representative as primary data those are used
- Study may result in firm level observations only
- Short span of time to collect and analyze data

CHAPTER-Two

CREDIT RATING as a Requirement

2.1 Credit Rating Definition:

A credit rating mainly evaluates the credit worthiness of a debtor, which is including company as well as government. It is ability reflecting a credit rating agency of debtor's ability on they are ability to pay back their debt and the likelihood of default. It's represented the both qualitative and quantitative information for a company or government. Besides credit rating agencies use their judgment and experience finding out what public and private information should be considered in giving a rating to a particular company or government. Rating system used by individuals and entities how they will purchase the bonds issued by companies and governments so that they can determine the likelihood that the government will pay its bond obligations.

List of CRAs:

Name of Company	Daye of issuance of Registration Certificate
Credit Rating Information and Service Ltd.	**21 August, 2002**
Credit Rating Agency of Bangladesh (CRAB)	**24 October,2004**
National credit Rating Ltd.	**22 June, 2010**
Emerging Credit Rating Ltd	**22 June, 2010**
ARGUS Credit Ratting Ltd	**21 July, 2011**
WASO Credit Rating Company(BD) Ltd	**15 February, 2012**
Alpha Credit Rating Ltd	**20 February, 2012**
The Bangladesh Raring Agency Limited	**7 March, 2012**

2.2 Credit Rating Agency of Bangladesh Ltd.

Credit Rating Agency of Bangladesh Ltd (CRAB) has started its journey with the mission to qualitative development of the money and capital markets and increase of the transparency of financial information and credibility of the corporate sector in Bangladesh to ensure the growth of investment

2.3 Credit Rating Necessary:

Credit Rating is an opinion expressed by an expert association, after investigation of every single pertinent factor. The conclusion will be incredible to financial specialists in settling on speculation choices. It also helps to the guarantors of financial obligations to create value accurately as well as to connect with new financial specialist.

Regulators like Bangladesh BANK, and Bangladesh Securities & Exchange Commission often used credit rating to determine eligibility criteria for some instruments. Credit Ratings are also used for determining of risk weights for calculation of Capital Adequacy for BANKS as per Basel II & III guidelines. In general credit rating is expressed to bridge information asymmetry in the market and establish, over a period, a more meaningful relationship between the quality of debt and the yield from it. Credit rating is also a profitable contribution to build up the business connections in different segments.

2.4 Requirement for Rating in Bangladesh Bank:

Bangladesh Bank is also regulating Credit Rating Companies through different Circular Letters, Regulation and Guidelines, Governor's Speeches, policies, Implementation and guidelines for Basel II of Capital Adequacy and Risk Management, Risk based Capital Adequacy for Bank, supervisory review evaluation process, Mapping of External Credit Assessment Institutions (ECAIs) rating scales with Bangladesh Bank (BB) rating Grade, Implementation of Basel-III in Bangladesh, and mapping of SME Rating Scales of the External Credit Assessment Institutions (ECAIs) with Bangladesh Bank's SME Rating Grades etc. (Bangladesh Bank, 2006)

CHAPTER-FOUR

Overview of CRAB

3.1 About CRAB:

Credit Rating Agency of Bangladesh Ltd (CRAB) is committed to providing the financial markets with reliable, timely and prospective credit options. Built on a foundation of standardized approach in credit rating incorporating international best practices and local dynamics, CRAB is recognized around the world and across all industrial sectors as a market leader in credit rating and research.

Credit Rating Agency of Bangladesh Ltd (CRAB) was established in 2003.CRAB was incorporate as a public limited company in 2003 and was granted license by the Bangladesh Securities & Exchange Commission (BSEC) in2004. Within short span of time, CRAB has established its reputation as a reliable source of independent opinion on risks based on systematics and standardized analysis done by professionals.

CRAB is a member of the Association of Credit Rating Agencies. In Asia (ACRAA). ACRAA, established in 2001, is a federation of domestic rating agencies of the Asian Continent, formed with support and cooperation of the Asian Development Bank (ADB). As a member of the best practices committee of ACRA and actively participates in all its activities (web: www.acraa.com). CRAB is also a founder member of Association of Credit Rating Agencies in Bangladesh (CRAB).

3.2 ECAI STATUS:

Bangladesh Bank accredited CRAB as an External Credit Assessment Institution (ECAI) in April 2009. Under the standardized approach for calculating risk weighted assets against credit risk, the credit rating is to be determined on the basic of risk profile assessed by the ECAIs. Bank will use the ratings of the EACIs and corresponding risk weight for calculating RWA for credit risk under the standardized approach. In 2013 CRAB's SME rating was approved by Bangladesh Bank.

3.3 Product /Service offered:

- **Customer portfolio:**

. The analysis rating of company's ownership strength, profitability, liquidity, operational and financial leverage, capital adequacy, and asset/Liability management CRAB has in its portfolio the leading banks, financial institutions, insurance companies, corporate leaders of different industrial segments including local and multinational organizations. CRAB is the most preferred rating agency because of its credibility among investors and stakeholders.

- **Acceptability of bank and financial institutions:**

CRAB is of the Rating Agencies whose bank loan of Credit Rating are recognized by the Bangladesh Bank in the context of risk allocation against exposures. Given its back ground and the highest number of Rating assignment it has executed over the years. CRAB enjoys very high credibility among banks, financial institution, investors, the capital markets community and other users of its Rating services.

- **Agreements should Be Made with Banks or Its Client**

The Rating deal must be made between Bank's Client and Credit Rating Agency. The Rating must be solicited and accepted by a client for its used by bank for capital adequacy calculation purpose. Banks may request and refer their clients for ratings.

3.4 Types of companies will be rated by CRAB:

CRAB will rate all types of company's loans& working capital facilities of banks. The loan of credit rating includes project loans, corporate loans, general purpose loan, working capital demand loans, cash credit facilities and non-funded-based facilities like letters of credit and bank guarantees.

3.5 Rating be validity:

Usually Initial rating of a company's will be valid for one year. In case of loan rating the long-term rating will be valid for one year, while the short-term rating validity will be for 6 months or shorter in-case of an exposure with shorter maturity.

3.6 Rating services

CRAB's are not only doing the rates corporate (private & public) and SME sectors. They are also rating other sectors. Like-

- Banking Rating sectors
- Financial Institution sectors
- General Life Insurance sectors
- NGO sectors rating
- Power project rating
- Other organizations

- **Bank and Financial Institutions:**

CRAB's assessing the creditworthiness of different financial institutions, like- Commercial and merchant banks, non-bank finance companies, housing finance companies etc.

- **General and Life Insurance:**

CRAB ratings of Insurance Companies assess the ability of the insurers concerned to honor policy holder claims and obligations on time. Rating provides an opinion on the financial strength of the insurer from a policy- holder's perspective, which may act as important input influencing the consumer's choice of insurance companies and products method.

- **Corporate:**

CRAB's corporate rating methodology is developed for analysis of nonfinancial organizations operating in manufacturing, assembling, service sector etc. The generic factors are common for all entities/issuers, while criterion specific for different industries are used for rating.

- **SME:**

CRAB's reflects the credit worthiness of the SME and relationship to the others SMEs. These rating are entity-specific. The SME sector has its own unique features. CRAB's credit rating methodology for evaluating SMEs is comprehensive and covers risk in five broad categories 1. Industry, 2. Business & Operation 3. Management 4. Financial 5. Project specific assessment. CRAB's unique SME rating service ensures direct interact of the analysts with the businesses and exchange of knowledge of the industry, investors, lenders, rating process and clients.

- **Project Rating:**

CRAB's assess the ability of paying timely interest and debt securities.

3.7 Business Types of CRAB

CRAB doing the rating three types of business category.

- Category 1: Trading
- Category 2: Service
- Category 3: Manufacturing

3.8 Role of Financial Institution in SME of Bangladesh:

To diversify the loan portfolio, bank leading to SME is growing at an increasing rate over the very recent years because of their commitment to deploy their fund to this untapped SME market Majority of the PFLS have opened dedicated SME Banking Department already while some others have opened SME unit officers of SME centers. Bank that have a special interest in SME lending and demonstrated their urge through operational initiatives are found to be raising their loan advance at higher-than higher average

3.9 Current Scenario of SME and Corporate Financing in Bangladesh:

In Bangladesh's economy, Small and Medium Enterprise and corporate have already become the most powerful and sustainable pillars covering both non-traditional manufacturing and service sectors. It worth mentoring that the growth of SME and corporate loan disbursement recently witnessed upward trends as the central bank has strengthened further its monitoring and supervision over the SME Corporate loan disbursement activities of the bank and financial institution.

3.10 Trend and Growth

Credit Rating Agency of Bangladesh Ltd (CRAB) is committed to provide the financial markets of Bangladesh with reliable, timely and prospective credit ratings or symbols. CRAB is recognized

3.10.1 Trend of Rating in CRAB

In a broader perspective, CRAB has the trend of 2 types of rating. They are-

1. ***Corporate Rating***
2. ***Small & Medium Enterprise (SME) Ratin***

RATING SCALE of CRAB

1. corporate:

CRAB's corporate rating methodology is developed for analysis of nonfinancial organizations operating in manufacturing, assembling, service sector etc. The generic factors are common for all entities/issuers, while criterion specific for different industries are used for rating.

CRAB rating scales and definitions –Long Term (Corporate)

Corporate Entity/ Bank Loan Rating (long term) (Prefix LR is added to symbols for Loan Rating)

AAA (Triple A)	Extremely strong capacity to meet financial commitments. Highest quality. Minimal credit risk.
AA_1, AA_2, AA_3 (Double A)	Strong capacity to meet financial commitments. Very high quality. Very low credit risk.
A_1, A_2, A_3 (Single A)	Strong capacity to meet financial commitments. High quality, low credit risk.
BBB_1, BBB_2, BBB_3 (Triple B)	Adequate capacity to meet financial commitments. Moderate credit risk. Speculative characteristics.
BB_1, BB_2, BB_3 (Double B)	Inadequate capacity to meet financial commitments. Speculative elements. Substantial Credit Risk.
B_1, B_2, B_3 (Single B)	Weak capacity to meet financial commitments. Speculative elements, High credit risk.
CCC_1, CCC_2, CCC_3 (Triple C)	Very weak capacity to meet financial obligation. Very Weak standing. Very high credit risk.
CC (Double C)	Extremely weak capacity to meet financial obligation. Highly speculative. Very near default.
C (Single C)	Highly vulnerable to non-payment of obligations. Payments may have been suspended in accordance with the instruments terms. Typically,

	in de fault, with little prospect for recovery of principal or interest.
D (Default)	Will also be upon the filling of a bankruptcy petition or similar action if payments on an obligation are jeopardizes.

CRAB rating scales and definitions – Short Term (Corporate)

Corporate Entity/ Bank Loan Rating (Short term)

ST-1	**Highest capacity for timely repayment of obligations.**
ST-2	Strong capacity for timely repayment of obligations.
ST-3	Average capacity for timely repayment of Obligations
ST-4	Below Average Capacity for timely repayment of obligations.
ST-5	Inadequate capacity for timely repayment of obligations.
ST-6	High risk of default or are currently in default.

SME (Small & Medium Enterprise) Rating:

CRAB's reflects the credit worthiness of the SME and relationship to the others SMEs. These rating are entity-specific. The SME sector has its own unique features. CRAB's credit rating methodology for evaluating SMEs is comprehensive and covers risk in five broad categories 1. Ind Industry, 2. Business & Operation 3. Management 4. Financial 5. Project specific assessment. CRAB's unique SME rating service ensures direct interact of the analysts with the businesses and exchange of knowledge of the industry, investors, lenders, rating process and clients.The rating scales and risk weights of CRAB's SME ratings are shown in ***Figure 4.9.4*** below

MAPPING OF BANGLADESH BANK SME RATING WITH CRAB SCALE

Exposure Type	Bangladesh Bank SME Rating Grade	Equivalent Rating of CRAB	Risk Weight
Claims on SME	SME 1	CRAB-SE 1/CRAB-ME 1	20%
	SME 2	CRAB-SE 2/CRAB-ME 2	40%
	SME 3	CRAB-SE 3/CRAB-ME 3	60%
	SME 4	CRAB-SE 4/CRAB-ME 4	80%
	SME 5	CRAB-SE 5/CRAB-ME 5	120%
	SME 6	CRAB-SE 6/CRAB-ME 6	150%
		CRAB-SE 7/CRAB-ME 7	
		CRAB-SE 8/CRAB-ME 8	
	Unrated (small enterprise & <BDT 3.00m)		75%
	Unrated (small enterprise having> = BDT 3.00m & Medium Enterprise)		100%

Figure CRAB rating scales for SME (Small & Medium Enterprise)

The Daily Star News Paper: Banks use expired credit ratings for lending

Many banks are adopting unfairness and unpoliced means to up a certain percentage of capital against their loans. As a result, Bd bank issued an order to instruct all the banks to calculate their capital requirement properly, under the BASEL III guidelines, according to the central Bank letter. Now, there are eight credit rating agencies, in which giving Six notches. For example, CRAB'S highest rating is AAA and the lowest CD. The credit rating of a company will be downgraded if its business volume declines. Some bank adopt unfairness by using expired rating of business. It is to be followed that capital should be the major indicator to judge a bank's financial health. Hamaul Huq managing director of the credit Rating Agency of Bangladesh, told The Daily Star that banks might show reluctance in getting the latest rating to avoid additional cost. Banks should adopt updated rating even if sanctions loans. Name of some credit rating agencies are-1. Credit Rating Agencies of bd 2. Emergency Credit Rating 3.; National Credit Rating 4. Argus Credit Rating Services. 5. Alpha Credit Rating, 5. WASO Credit Rating Company (BD) and 5. THE Bangladesh Rating Agency.

CHAPTER-Four

PROCESS AND METHOLODY OF CREDIT RATING in CRAB

4.1 Credit Rating Process:

CRAB'S ratings processes are introduced on a receipt of a formal request from the client. A rating consisting of Financial Analysts is related for conducting Rating assignment. The lead analyst is mainly concerned with the rating of relevant and material issued which may have an impact on the credit quality of the issuer Analysts Collected information from the client through documents, data meeting, site visits etc. CRAB is also count on secondary sources of information, including its own research division. Secondary Information are obtained mainly through meetings with the issuers bankers auditors, customers and suppliers After completing the analysis. Analysts prepare a Draft Rating Report, which is discussed in the internal Committee. Other meetings to get direct feedback from different stalk holder, CRAB organize meeting involving bankers, leaders, lawyers, trade union leaders, customers, suppliers, etc. The rating committee is the final authority for assigning Rating. The assigned Rating along with the key issues, is communication to the issuers top management for reception. Like Meeting with the issuer's CEO/CFO to discuss various critical issues Rating team will discuss and come to a decision with the CEO/CFO. It is based on available information and possible interactions after giving the issuers adequacy notice requesting him to co-operative. The ratings are generally reviewed every year, unless the circumstance of the case warrant an earlier, review due to changes in circumstance or major development that was not factored in the rating decision. The rating may be in fluctuate like upgrade, downgrade or retained after the surveillance. CRAB are giving the time Line about one week after getting information and could be longer depending on the adequacy of the discussions with the management and the information provided by the client.

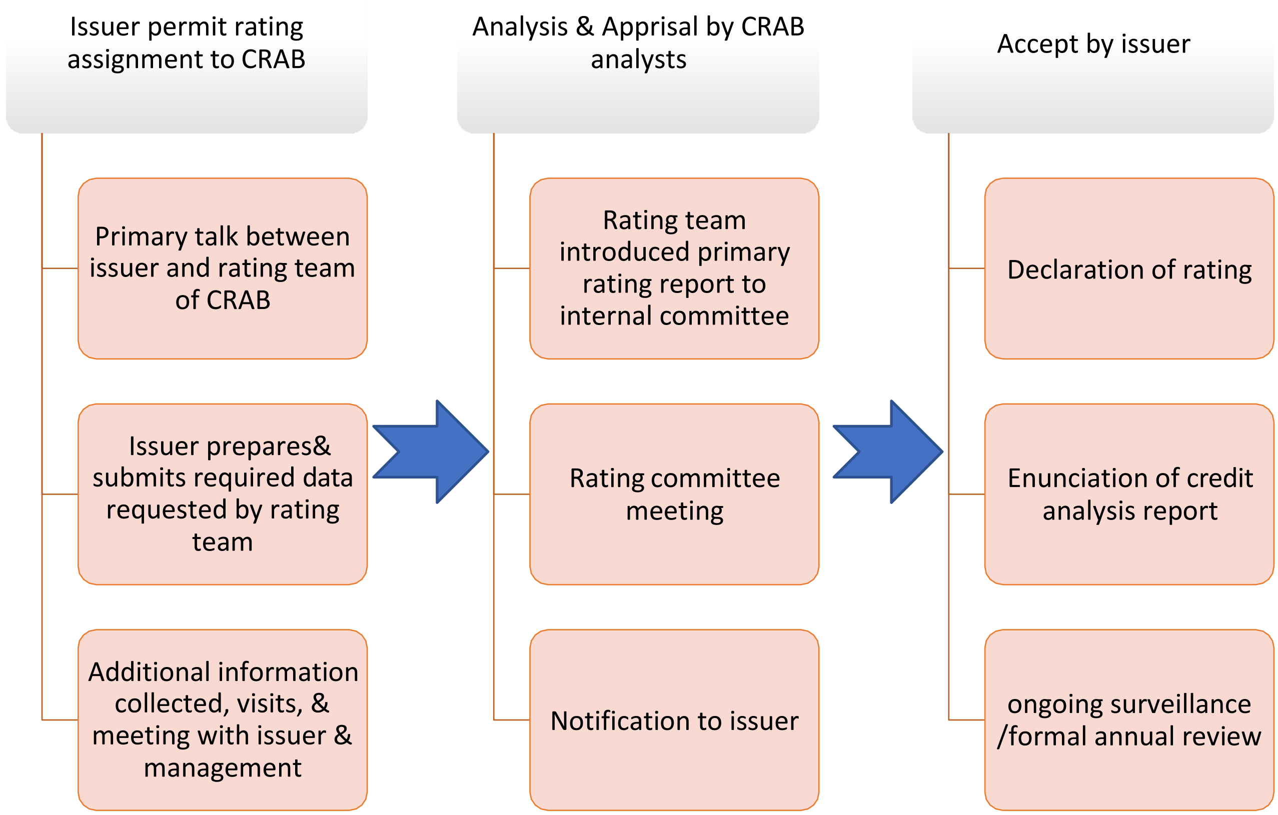

Figure-5.1 credit rating process

4.2 *My role in CRAB as Intern:*

➢ **Client & Factory Visit**:

During my internship at CRAB I used to work under **Mr. Atiqur Rahman and Mr. ArifBrilla ,**who is the financial Analyst and Assistant Vice President& Co-Head (project) of Corporate Rating Unit. CRAB a company that is concerned with rating of big corporate groups and companies has divided there financial year in four quarters namely. I started my internship from 12.02.2018 and ended on 13.5.2018.

I have been shifted to the rating teams of small and medium enterprise and corporates. I was selected from the members by the team leader to go for the factory visit. And as for this internship report I was also required to collect primary data of the small and medium Enterprises,

So, I grab this wonderful opportunity.

I went to visit the Gazipur factory. Here I have learnt how to collect primary data from a survey

In my internship experience I learnt about the primary data collection and also collected the Required Primary data of few companies for the analytical part of this report.

Rating Report:

I learn about the procedures of preparing the rating reports for various clients like- individuals, small and medium enterprise corporates etc. of credit rating of Bangladesh (CRAB). The rating reports mainly varies based on the type of the client and industry. That is, SME and corporate rating standards are different as so does the individual client ratings. But the rating procedures of preparing the reports of different sorts of client. Actually, these reports are based on risk and other various factor analysis of the client or company. And these are compared to the flow of generating income or cash by the organization. And based on that comparison the clients or companies are given different sorts of ratings. So there is no fixed benchmark to provide rating in CRAB , rather it is comparative and intuitive.

- **Secondary Data Collection:**

I Focused on collecting the data required for preparing the research paper in the secondary form.
CRAB has already more than 100 plus small and medium enterprise clients. So From their rating report if last year, I started collecting the personal, business and capital related information with the help of two of the research associates of CRAB Mr. Rawfoon Iqbal, Miss Tonya Roy and Miss Tabassum Taposhy assigned by Mr. Atiqur Rahman.

- **Team Work:**

Since I have worked in different areas of CRAB. I have learned teamwork skills. I have received corporation with different staffs of CRAB so that I can gather sufficient experience in different areas of organization. I observed how the RCM played the leadership role in the monitoring the activities of different staffs of an organization. I learned from my experience at team member in rating department regarding efficient management skills needed to control the work activities of different department of all organization.

- **Strategic Management**:

While working at Credit Rating Agency of Bangladesh, I also learned about how the organizational policy is fulfilled by different employees of an organization. I observed a chain of command maintained in CRAB. In which, the weekly rating committee's meeting (RCM) provides relevant guidance to the respective team leaders. The team leaders of different teams then then provide necessary work regulations maintained by CRAB to the research associates and other staffs. In this regard, I have learned how strategically the activities are delegated to each staff in CRAB.

4.3 Corporate Rating Methodology:

CRAB has developed highly standardized rating methodologies for different entities. The methodologies have been developed considering all the relevant factors affecting the future cash generation capacity of the issuers. Both qualitive and quantity factors should be considered in CRAB. These factors include industry characteristic competitive position of the issuer, operational efficiency, management quality, commitment to new projects and other associate companies, and future funding policies of the issuer. CRAB rating methodology intends to assess the relative comfort level of the issuers to service the obligations and this is reflected in the rating of a debt instrument. In case of equity instruments, the rating reflects the future earning capabilities with reference to the resilience to perform in adverse situations.

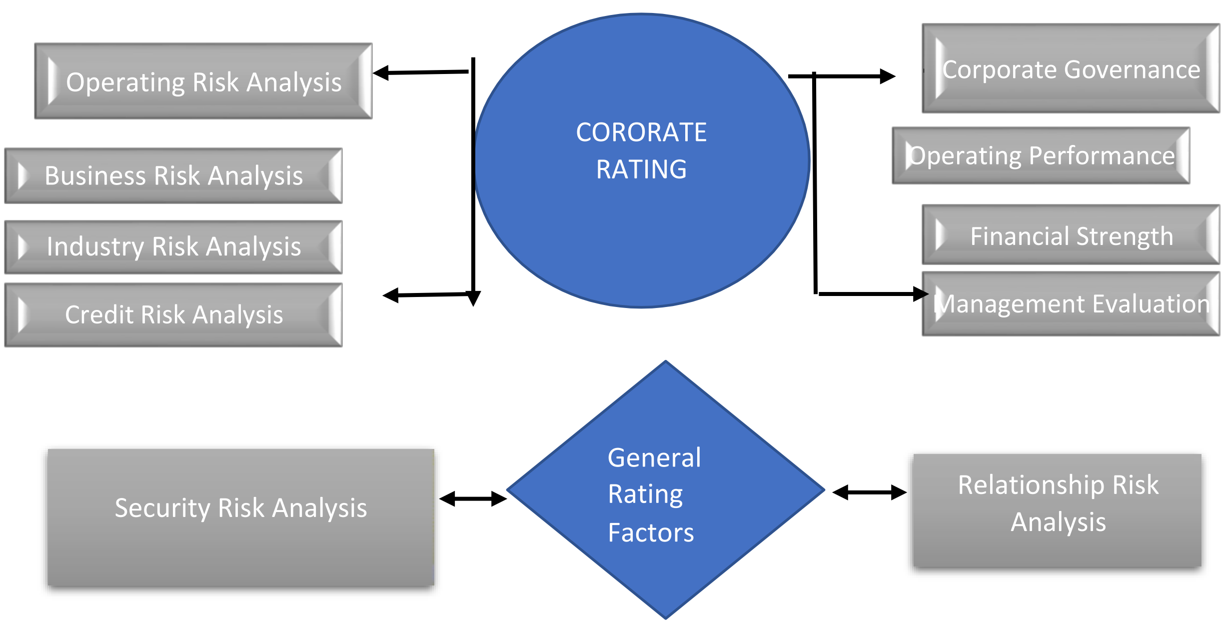

Figure- 5.3 credit rating mythology

AJ FASHION COMPANY RARTING PROCESS:

AJ Fashion Company is one of the largest Manufacture of RMG (Woven Factory) company in Bangladesh. They make top and bottom woven garments for men and women, children. Today they have own embroidery unit like -Elastic, draw string, sewing thread, twill tape, Bunge cord , poly bag, etc. all produced by them. AJ fashion group wants to rating their company, that's why they go to the credit rating company of Bangladesh. CRAB'S started to process their formal request from the AJ fashion group client. Before starting the rating, they gave checklist of the AJ Fashion company and AJ Fashion company fulfilled this checklist. The checklist is given the below-

Information Checklist for the purpose of Credit Rating –

(Whichever Applicable)

[Please note that information requirement is not limited to the contents below]

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1. Legal Documents – NID, TIN, Trade License, Export-Import License, Environment Clearance, Fire-Explosive-Narcotics NOCs and any other
2. Memorandum of Association, Article of Incorporation, Form X & XII, Directors' Profile
3. Net worth Statement of the Proprietor/ Partners /Directors
4. All Sanction Letters (renewed/ proposal letter in case of renewal) from all bankers/Leasing Companies (in case multiple loan exists)
5. Outstanding Position (loan wise)
6. CA/CC/OD Statement for last 2 calendar years (Summary, Debit Sum-Credit Sum)
7. Past Performance Report for last 2 calendar years (loan wise interest/profit income)
8. Export-Import Performance for last 2 calendar years
9. Audited/Management Prepared Financial Statements of last 2 years at least
10. Stock, Receivable-Payable Report (any recent time)
11. Monthly Production and Sales Report for last 2 calendar years
12. List of Machinery and Equipment (latest)
13. List of Fixed Assets with Cost and Current Values
14. List of Top 10 Suppliers and Buyers

15. Cover note of Insurance Policy paper
16. Group Profile – profile of associated concern, financial performance, loan limits and liability position (optional)

Than in order to rating AJ Fashion company it must obtain no refundable, no judicial 300- taka stamp paper before starting a rating assignment. As the rating fee is fixed by the Bangladesh bank there is no point bargain or arguing to reduce the rate. AJ Fashion company have paid without altering a single word for reducing the fees. For providing this service to their customers the main raw material is the overall information specifically the credit information about the client.

- ***Factory visit:***

The lead analyst went to visit their factories to collect all the detail information and they observed what are the proceeding to make clothes and also they collected information regarding like- the number of machineries, sales, During the current year some machineries item, raw materials, work environment, production process, price of the products, employees safety issue, payment of workers, internal process, salary of workers, cost efficiency, utility bills, providing their technical service, future capital expenditure, fire extinguisher system etc. Another thing they observed that they have well equipped medical clinic of their factory. Sometimes they give free treatment of the workers. AJ Fashion Company have arranged children care unit and they provide them with full meal food.

When they are all done to collect information then they go for own research division.

The lead analysts must be known about of AJ Fashion company’s current financial strength and as well as how the financial position may change in future.

Industry Risk Analysis:

Industry risk arises due to change in the market situation and from its own operation infrastructure. AJ Fashion company are focusing on the strength of industry prospects for growth.

- Demand and supply of products
- Technology
- Capital structure
- Market growth

Demand and supply of products: AJ Fashion company are fulfilling the customer's demand. They are trying to produce more varieties of products in a short time and always they are providing a large amount of some products. A consumer is willing to pay and purchasing the product at reasonable prices. Aja fashion company are exporting 30 million in woven and US

15 million in knit garment factory yearly. They are exporting different kind of products like t-shirt, jeans, which Is very good for our country to earn remittances.

Market growth: The lead analysts look into the growth pattern of AJ Fashion company and also see their length and rate. They observed the growth rate, is it flat, accelerating and decline

Technology: They are using modern technology- Kier Machine Boiler Compressor ETP, Opening section Dryer Hydro stators etc.

Control room MWM (Deutz) TCG2020V 16K:

MWM (Deutz) control room

Capital- AFC (AJ FASHION COMPANY) is planning to go for raising capital through IPO worth BDT 1,500.0 million from capital market which is subject to the confirmation of BSEC. The Company estimated the use of IPO proceeds of which full amount is to be utilized to expand business.

AJ Fashion Company several factors are considered, including the nature of its business environment and the principal fund flows from operations.

Industry outlook: Industry outlook risk vary from business to business.

The analysts are considering this thing-

- Demand growth
- Pricing flexibility
- Business framework
- Barriers entry
- Capital intensity

Operation Analysis:

By analyzing CRAB finds out the existence of AJ Fashion Company's strength which comes from the operation of the company. Several Factors have been considered here which are shown below-

Location of the production unit, Relationship with a customer, scale operation, Market Position, Cost Efficiency, Business Model.

Relationship Risk Analysis:

Client and Banking relationship is very important in the rating process. The analyst team visits the branch to meet with the bank professional to collect information about loan payment history, loan limit history, securities against a loan and related issues.

M**anagement Evaluation:**

A team of dedicated experienced managers carry out day to day business operations of the Company. The managers to perform day to day business of the Company competently.

Department heads from each division report to the board time to time with summary reports on the performance of the AJ Fashion Company. Major decisions regarding planning, procurement, sales, strategic and financials are taken by the Managing Director.

Financial Risk: When they are all done to collect of information, then they prepared a financial statement and ratio analysis. Which provide knowledge about how important is to know about the company position as well as their rating. Aj Fashion company ratio analysis which is given below in the word and also showed in the excel file.

- Financial flexibility- Primary source for financial flexibility is cash generated from operations. Cash flow analysis is more important to know the measurement of financial risk. AJ Fashion Company provides the cash flow because they want that their company has more secure credit protection to dependence on external sources.

- Free Cash flow analysis: Free cash flow has to do firms operating decision and operating decision specifically excluding firm financing decision. Cash flow available for distinguishing all the securities holder of an organization.

Collateral Risk:

Collateral risk means risk associated with the collateral which has been given to the Bank or any financial institution for any debt taken by the company.

Key Ratios:

The operating cycle as well as cash conversion cycle prolonged a little bit in FY2016 due to marginal lingered inventory processing period of 88 days (2015: 85 days) and Receivable collection period of 117 days in 2017 (2015: 2705days). Payable payment period of 10 days in 2016 was almost at the same position compared to the previous year. Over the years' trend history of cash conversion cycle indicates scope of improving working capital position for AFC.

The capital composition of the Company remained equity dominated with the increased equity portion of the Company to BDT 267.2 million as of 30 June 2016. Borrowed fund to equity of 0.4x times in 2016 indicated the Company's dependence on equity financing. And level of leverage position.

A j Fashion company ratio analysis which is given below in the word and also showed in the excel file.

Financial ratios are used to make measurement of the financial performance of the AJ Fashion Company. I have done some specific ratio. CRAB rating seeks to understand the basis of management's financial policies before drawing conclusions in this section of the credit analysis. Several ratios are computed to measure debt leverage. The universal standard leverage measure is Total Debt/Equity, which considers all on-balance sheet debt obligations, including such short-term liabilities as bank overdrafts, relative to equity. Equity includes common and irredeemable preferred shares. Short term debt does expose a company to refinancing risk. When appropriate, off-balance sheet financial liabilities such as operating leases, joint venture debt, and guarantees, are considered through adjustments to the standard ratios

- FCF/total debt- It indicates AJ fashion company capacity to pay debt with operating cash flow
- Capital expenditures- a low ratio could indicate problem in the rate of replacement of plant, equipment. A strong ratio may indicate high-growth industries
- FFO/ Capital expenditure- This ratio indicates AJ Fashion company's intern flexibility to meet its capital budget.
- Debt ratio- Debt ratio indicates the leverage position of AJ Fashion Company. A debt ratio was less than .5 which is very less risk for the company.
- Debt to equity: A relationship high debt to equity ratio company indicates an aggressive growth strategy by a company. A debt to equity ratio of 1.5 or lower is consider good. We can see the graph all ratio is below 1.5%., which is good for AJ Fashion company

Credit facility: A credit facility is a variety of different loan that a company brings on to meet its financial needs. If any business or corporate finance in need of operating capital they can loan extended by a bank. They can take several types of loan- short -term loan, long -term loan. Different bank has different facility plan for their clients to give the loan.

Process:

The Company has availed working capital facility from Eastern Bank Limited, Principal Branch, Dutch-Bangla Bank Limited, Local Office, Jamuna Bank Limited, Mohakhali Branch, IDLC Finance Limited and IPDC Finance Limited.

AFC has also availed a foreign term loan-II from DEG (Germany) of equivalent to BDT 578.6 million with quarterly instalment policy.

Detailed bank liability position of the Company is given in the appendix – 1.

CRAB has reaffirmed the ratings based on the past track record of the AJ Fashion company, operational performance, balance sheet performance, sanction letter of bank and Financial strength, of AJ Fashion Company. 2016 AJ Fashion company revenue 140 million which is better to previous year and net profit margin 5.0%. The Company reported operating profit margin of 135% where in bottom-line profit margin stood to 5% in the year 2016. It means it is Average for company. Ratio used by the company before awarding credit rating is that it can achieve AAA by following all these criteria Which includes If a company wants to have their sale above 1000 crore they should have leverage position around 1.5. If it's above 2 or 3. It is estimated that a company can easily achieve AAA rating. The less receivable collection period inventories the organization will have a better rating and it will be easily awarded but all ratio varies from industry to industry. If a partial industry has a higher receivable collection period, inventory period and cash conversion cycle and plenty of times the company can easily get a AAA and quick ratio definitely be greater than 1. But in this case AJ Fashion Company net profit is not up to the marks and Long-term loan above 17 core. The lead analysts observed everything's then they gave the rating entity BBB3. Long-term rating BBB3 **(**CRAB considers Over Draft (OD) as long-term facility*)*, and the ratings based on the past track record of the Company outlook stable of company. This rating is done by my perspective due to the lack of report of 2016 not provided by CRAB Company. Analysts prepare a Draft Rating Report, which is discussed in the internal Committee. Next meeting with the issuer's CEO/CFO to discuss various critical issues Rating team will discuss and come to a decision with the CEO/CFO. It is based on available information and possible interactions after giving the issuers adequacy notice requesting him to co-operative***. How they prepared Draft report it has been showed on the Appendix***. As Draft report is very much confidential, company and the name of employees regarding it has been kept secret.

4.4. How CRAB does it survey by focusing on subject of crediting a company

CRAB's mainly focusing on three particular things- Net profit, sales, sales growth. Prescribe that they also focus on weather net profit have been increased from the previous year. The amount of the loan borrowed limitation utilization of it. They also focused on credit sum as well as debit sum of loan amount.

Mainly it depends on the net amount not upon particular Ratio. As there is no regular range of it. The more the best. As a result, they pickup same industry of different company's ratio compare for their rating purpose.

CHAPTER- Five

Ratio Analysis

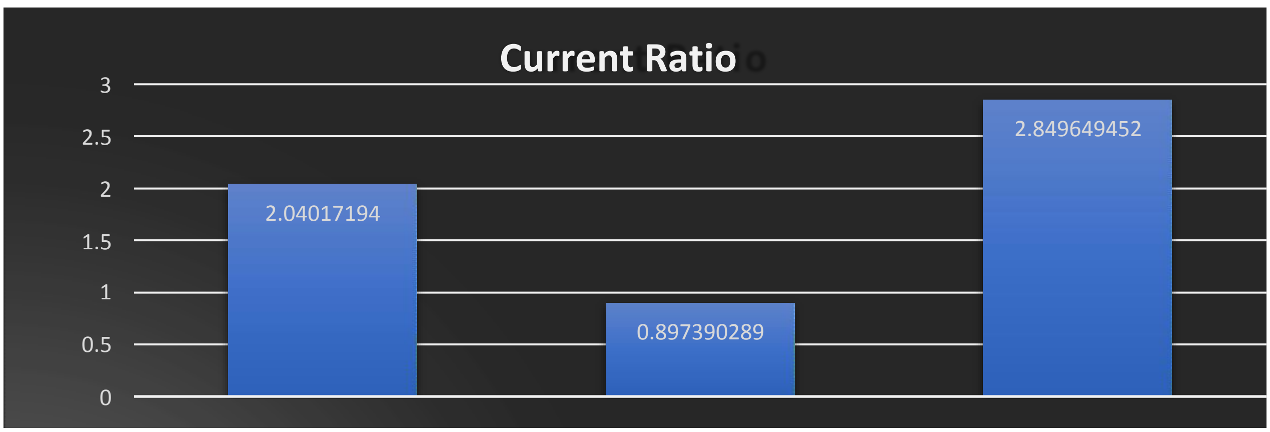
Ratio Analysis

5 .1Liquidity Ratio: Liquidity ratio describe how a company to pay debt obligation and his ability calculate metrics which include current ratio, quick ratio and how it will operate cash flow ratio.

Current Ratio: Current ratio reflects a company ability to pay both short-long term obligation

Formula: current asset/ current liability

Year	2014	2015	2016
Current Ratio	2.8496495	0.8973903	2.0401719

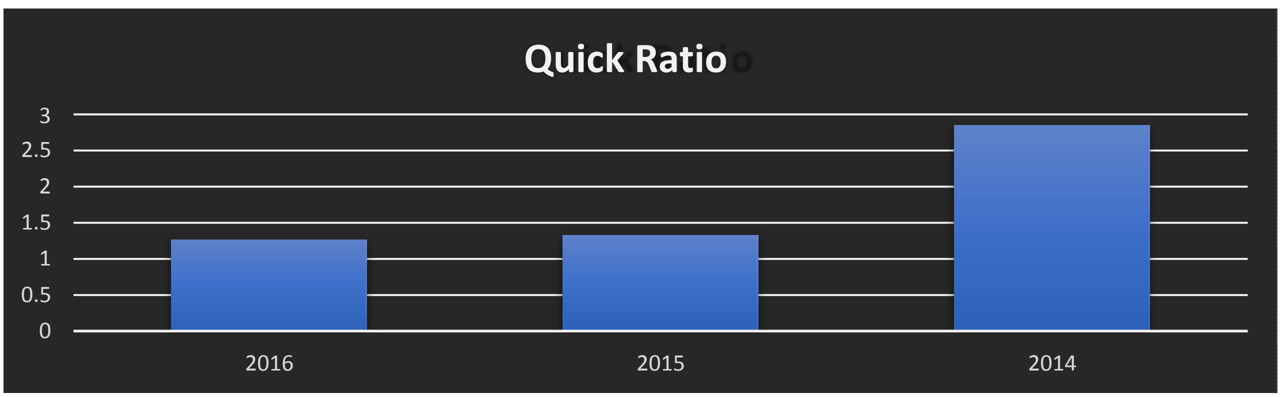


Implication: In 2016 and 2014 the ratio was good with 2.04 but in other hand year 2015 the ratio dropped to 0.89 which is not good for AJ Fashion Company. Increase the ability to pay short-term and long-term Liability.

Quick Ratio: It reflects the ability of a company whether it has sufficient short-term asset to cover when it faces immediate liability.

Formula: (current asset – Inventory)/ Current Liability

Year	2014	2015	2016
Quick Ratio	2.8496495	1.3245392	1.2611307



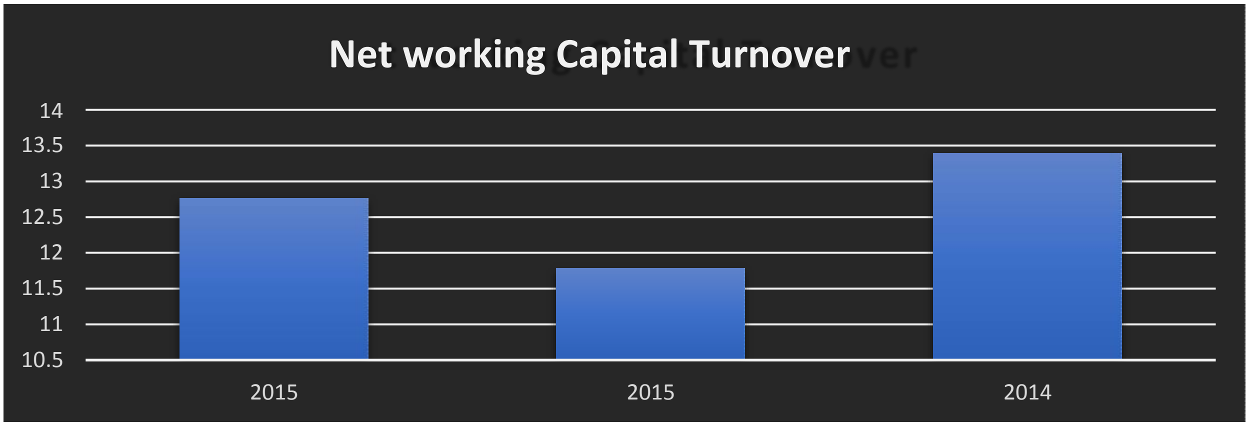
Implication: Companies with an acid -test ratio of less than 1 it's means do not have enough liquid asset to pay their current liabilities. The ratio was increased each year from 2014 to 2016.It is good sign for the company. The ratios remaining more than 1. So, the company has the capability to cover immediate liabilities.

Net Working Capital Turnover: It indicates company's efficiency in using its working capital.

Formula: Net Sales/ Ang. Net W.C

Year	2014	2015	2016

Net working capital turnover	12.761784	11.779768	13.390748

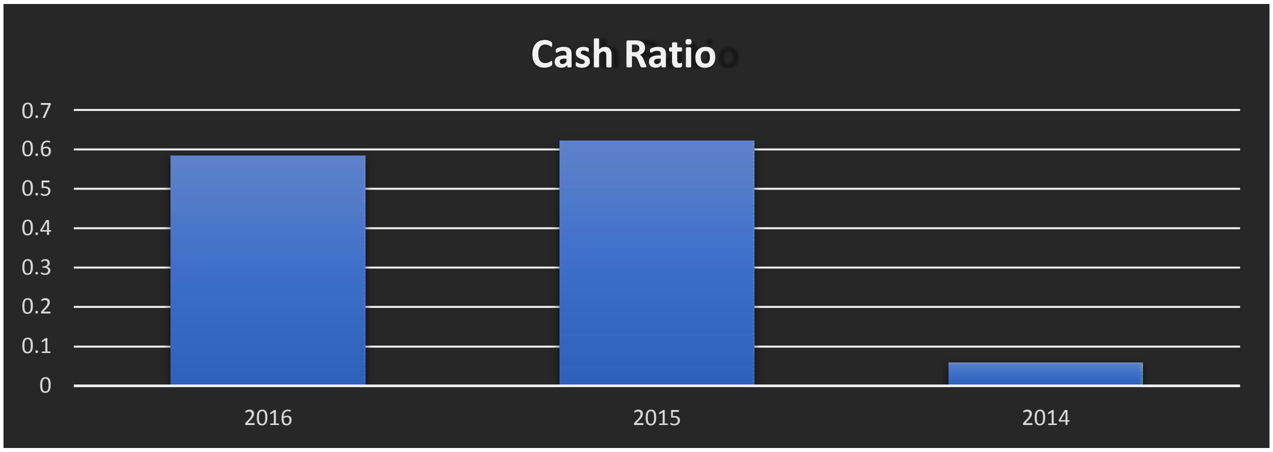


Implication: In 2014 and 2016 the ratio was good with 12.76 & 13.39 but in other year ratio was little bit dropped by 11.78. Lower net working capital indicates that AJ Fashion group less efficient to pay off its current liability.

Cash Ratio: It reflects how a company can quickly repay its short-term debt.

Formula: Cash/ Current liability.

Year	2014	2015	2016
Cash Ratio	0.0578589	0.6212967	0.5831049

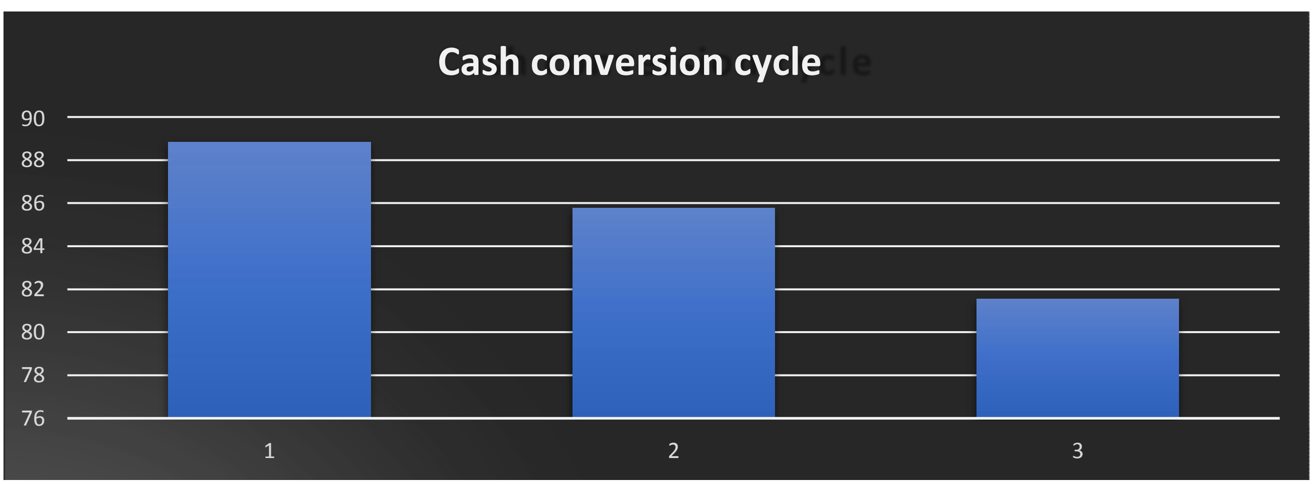


Implication: AJ Fashion company cash ratio is less than 1; there are more current liability than cash and cash equivalents. In the situation, there is insufficient cash on hand to pay off short term debt.

Cash Conversion Cycle:

Formula: (inventory/cost of goods sold) *365+(account receivable/net sales)*365+(account payable/ cost of goods sold)*365)*

Year	2014	2015	2016
Cash Conversion Cycle	81.534295	85.766785	88.843016

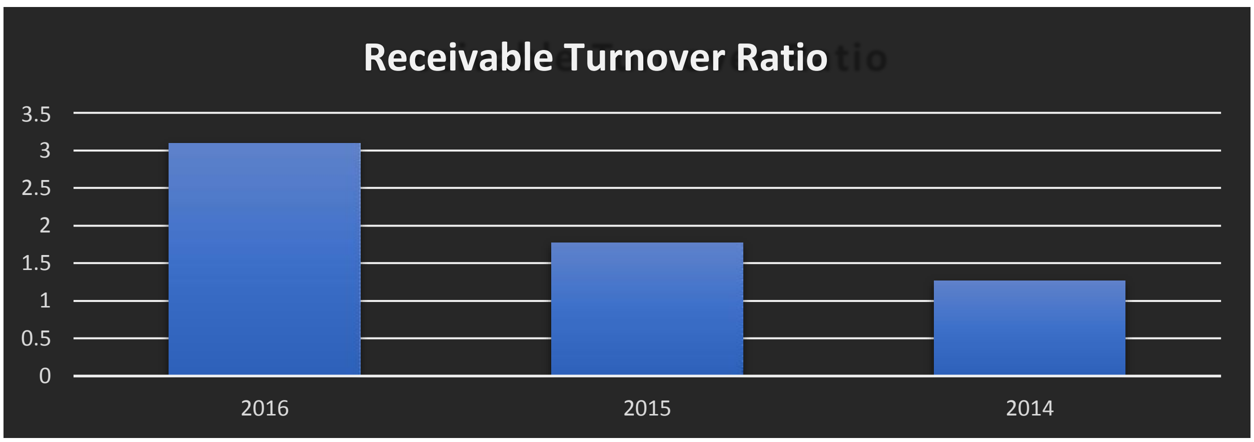


Implication: Lower cash conversion are better. In 2014 cash conversion cycle is better than the other ratios.

Receivable Turnover: It reflects the ability to measure the effectiveness in extending credits and in collecting debt on according this credit.

Formula: credit sales/ avg. receivable

Year	2014	2015	2016
Receivable Turnover	1.2646927	1.7739811	3.0950865

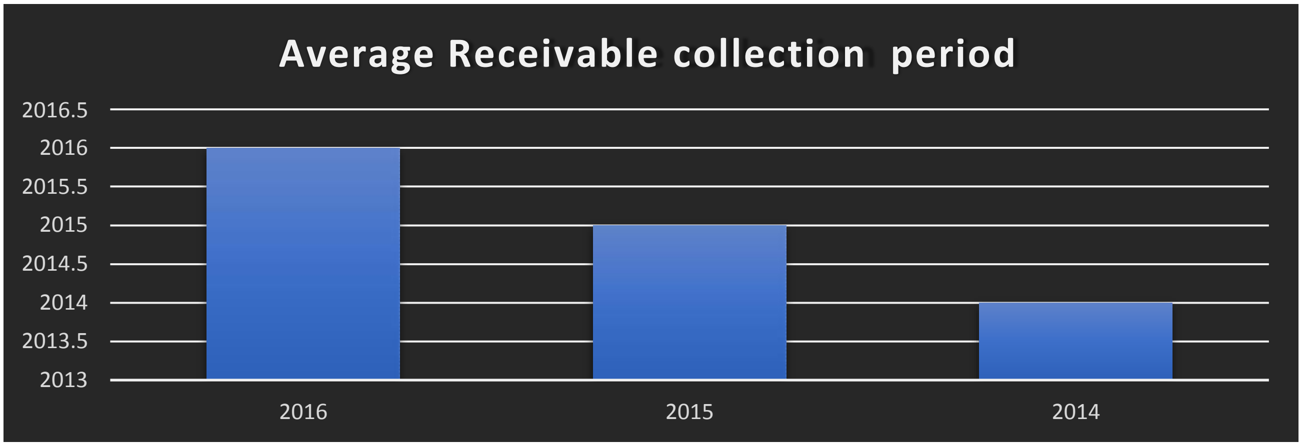


Implication: In 2015 and 2014, Receivable ratio is 1.77 & 1.26 times and 2016 it is 3.095times which indicates credit sales in marketing effort. Increasing credit sales is not good for the company.

Receivable Collection Period: It is the period of time during which the debt and credit sales is made and the days when payment it received from credit sales.

Formula: 365/receivable turnover

Year	2014	2015	2016
Receivable collection period	288.60765	205.75191	117.92885

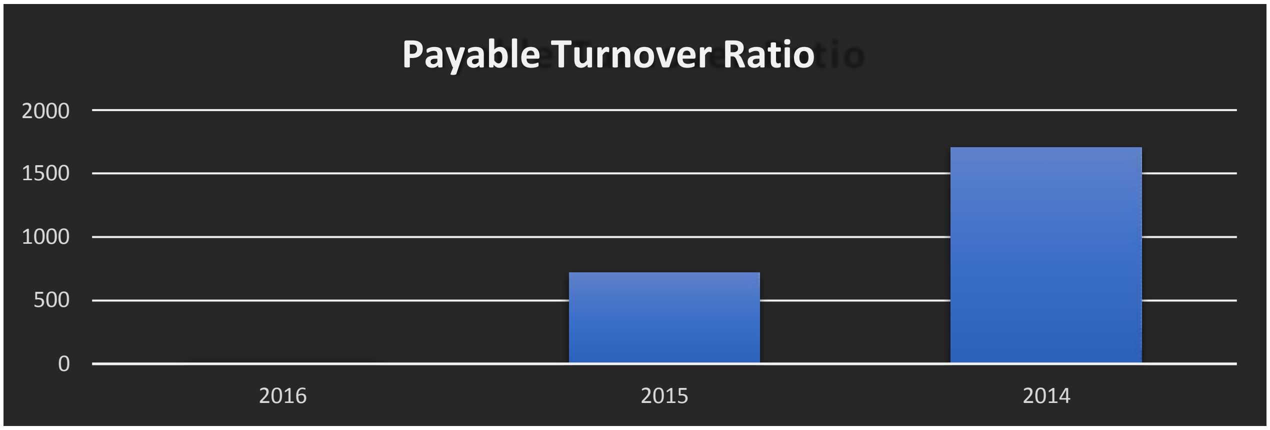


Implication: A lower average collection period is more favorable than a higher average collection period. A lower average collection period indicates that the organization is collecting payment faster. In 2016 collection period is 117 days which is better for company but 2015 and 2014 it increased 205days & 288 days which indicates that more days need to collect receivable.

Payable Turnover: It's the ratio which it's used to quantified the rate the companies pays off to its suppliers.

Formula: credit purchase/ Avg. payable

Year	2014	2015	2016
Credit purchase	1707.0689	718.76023	34.034924

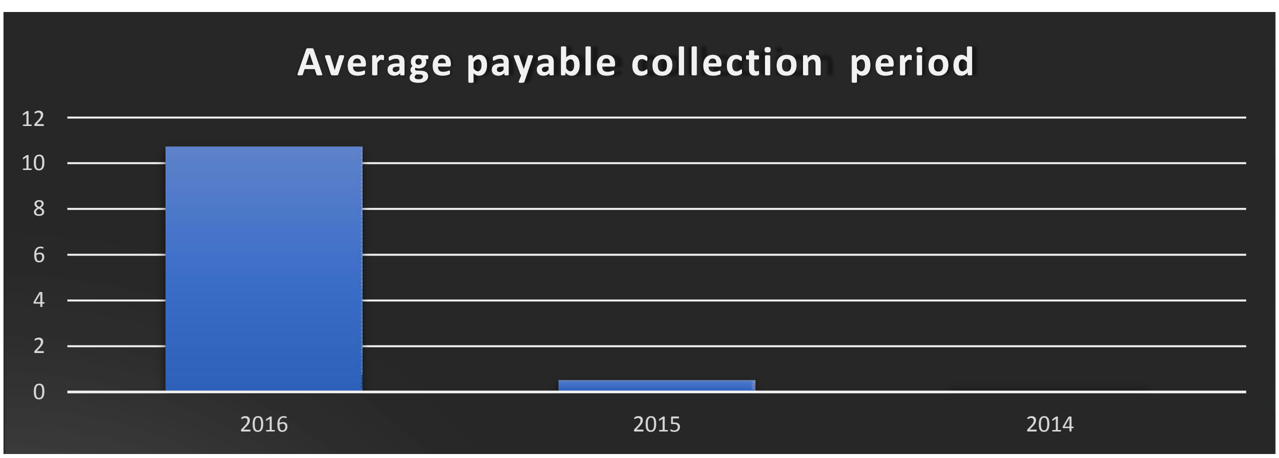


Implication: In 2016, Account payable turnover ratio is 34 and next two year it is 718.76 &1707.06, which indicates the more efficiency company can delay the payment.

Payable collection period: It is the number of bases taken by the company to pay its account payable.

Formula: 365/ payable turnover ratio:

Year	2014	2015	2016
Payable collection period	0.2138168	0.5078189	10.724278

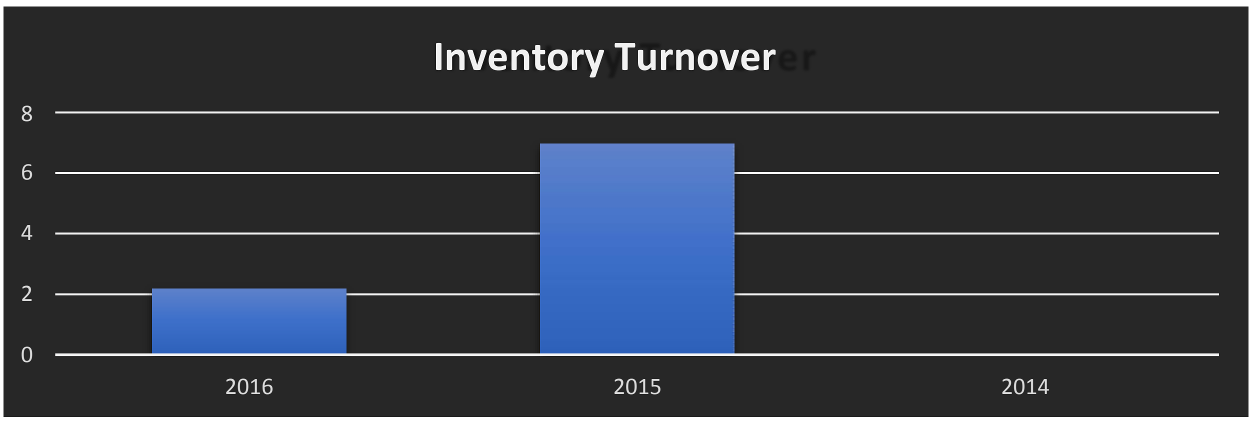


Implication: The number of days has decreased in year 2014 & 2015 than the year in 2016 which shows higher capability of paying trade credit. This is a good sign of AJ Fashion company.

Inventory Turnover: It reflects the ratio for period of time which show how efficiently inventory to manage by comparing cost of goods sold.

Formula: COGS/Avg. inventory

Year	2014	2015	2016
Inventory Turnover	Nil	6.9570503	2.1690754



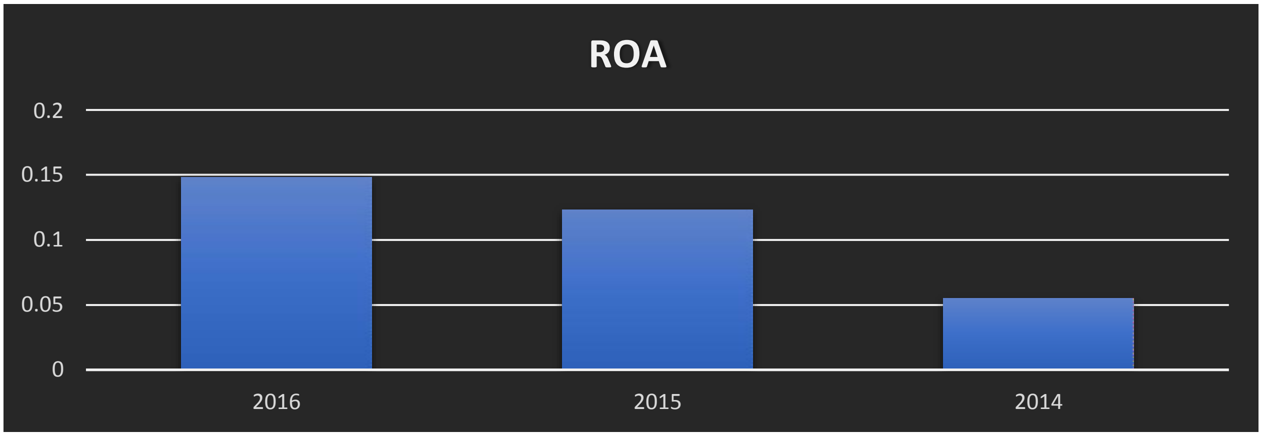
Implication: AJ Fashion company Ltd. In2015, Inventory Turnover ratio is 6.95 times which seems preferable in respect to 2016, decreased in 2.169 times. Over all AJ Fashion company, they are efficient to manage their inventory. In 2014 there is no inventory in this company. Don't know how to they manage on that time.

Profitability: Its analysis the difference public sector on their ability of profitability ratios.

Return on Asset: It's a percentage which reflects how efficiency management can be done generate earnings in a comparison among peers in the same industry.

Formula: Net Profit/ Total asset

Year	2014	2015	2016
ROA	0.0549394	0.1231691	0.1481233

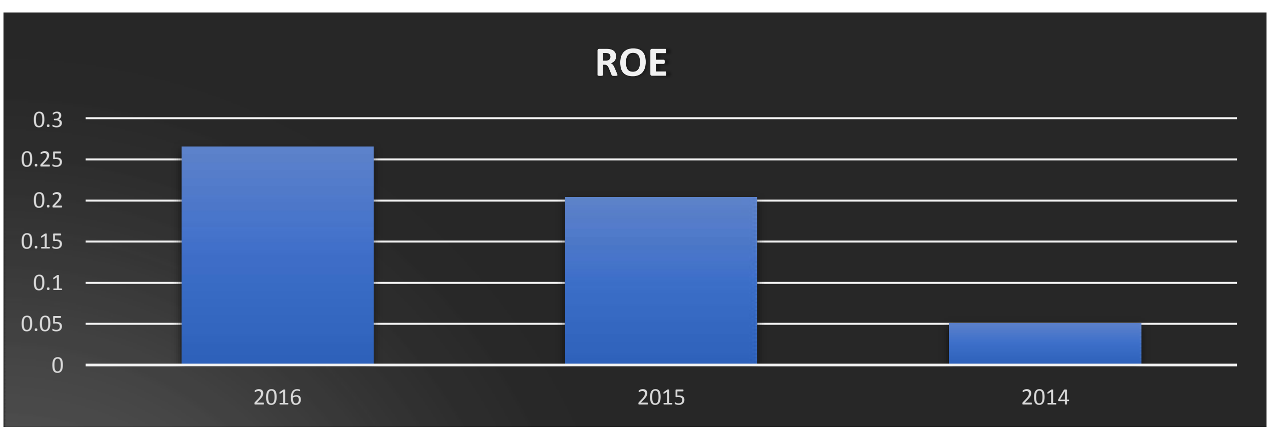


Implication: Here we calculate AJ Fashion Company ROA by dividing Net income by total asset, we find net income from income statement which is reported on an annual report. So, In the graph we can that ROA is highest in the year 2016 like 14% & also in the 2015 like 12%. It means in the year of 2016 &2015 company used their asset more efficiently. More over in the year 2014 the ROA is look like 5% which indicates their management inefficiency.

Return on Equity: It indicates the ratio that we investors used to measure how a company income is returned as shareholder equity.

Formula: Net profit/ Shareholder Equity

Year	2014	2015	2016
ROE	0.0508758	0.2036147	0.2650059

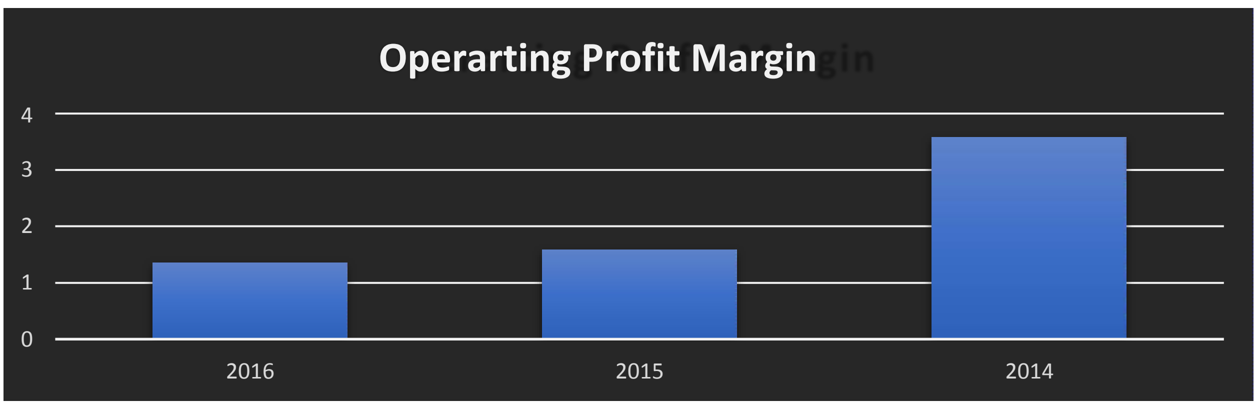


Implication: ROE AJ Fashion Company is highest at the year of 2016. It indicates at the year 2016 their investment was more effective than the other year.2016 highly drop down but at the year of 2015 ROE also increase.

Operating Profit Margin: It reflects the operational efficiency of the firm and its ability to cover the expenses in operating system.

Formula: operating income/ net sales

Year	2014	2015	2016
Operating profit Margin	4	1.5803319	1.3531913

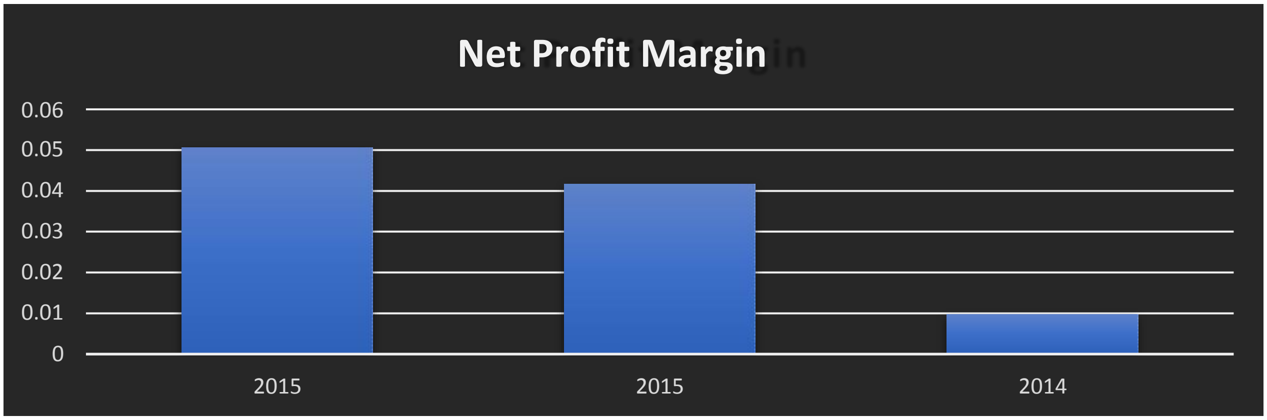


Implication: In2014 the ration is higher and in 2015 & 2016 the ratio is lower. A higher operating margin is more favorable compare with a lower ratio because this shows that company is making enough money from its ongoing operation to pay for its variable cost as well as its fee cost.

Net profit margin: It reflects the overall efficiently in operating to the business and used to measure relationship between net profit and sales.

Formula: Net profit/ Sales

Year	2014	2015	2016
Net Profit Margin	0.0096738	0.0416322	0.0505991

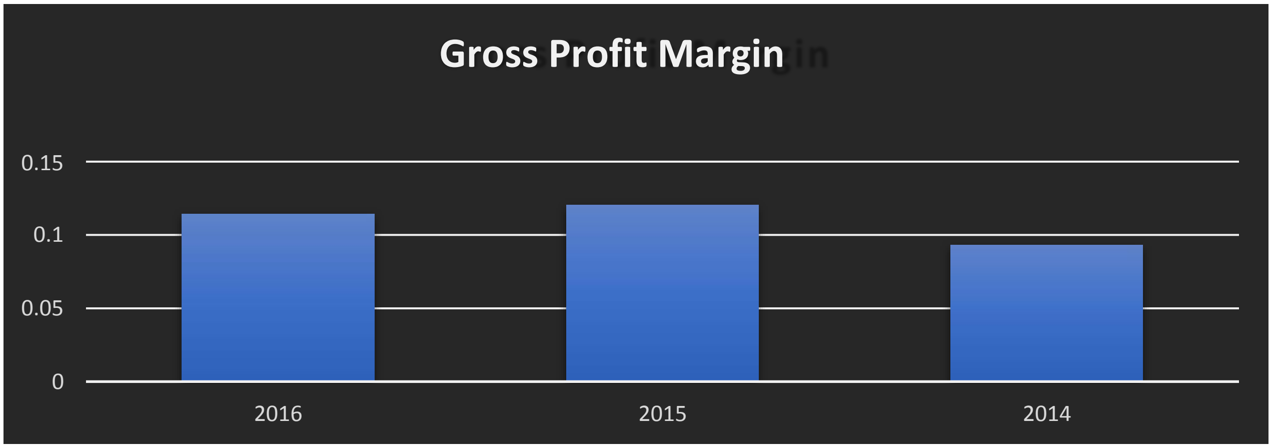


Implication: In 2016 the result was 0.051 or 5.1%, on the other-hand in 2015 & 2014 the net profit was 0.041 or 4.1% and 0.9%. Between the years in 20106the company had a handsome profit margin in percentages and oppositely in 2015 net profit margin was better than the year 2014

Gross profit Margin: It indicates how to measure the percentage of gross profit in comparison to sales.

Formula: (revenue- cogs)/revenue

Year	2014	2015	2016
Gross profit margin	0.0932148	0.1203315	0.1143251



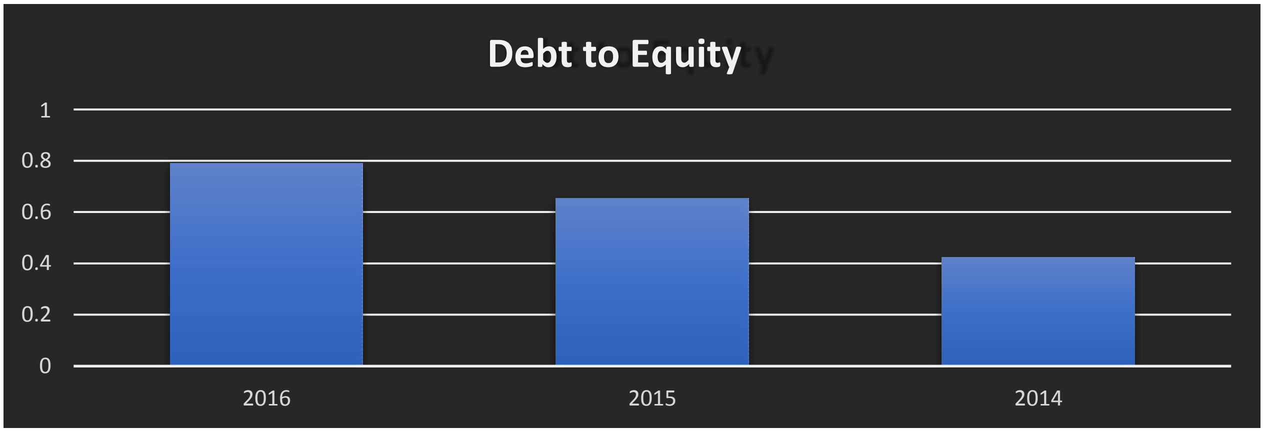
Implication: In 2015 & 2016 the ratio was 12% and 11% which means it's a good for AJ fashion company. A higher gross profit means company did well manage its cost of sales. In 2014 gross profit margin little bit decrease than the other ratio**.**

Solvency Ratio:It reflect ability of a company meet its debt and other obligations both short and long- term liabilities

Debt to Equity: It indicates the ratio of amount of debt and equity to finance a company asset.

Formula: Total liabilities/ total shareholder.

Year	2014	2015	2016
Debt to equity	0.4246687	0.6531311	0.7890896

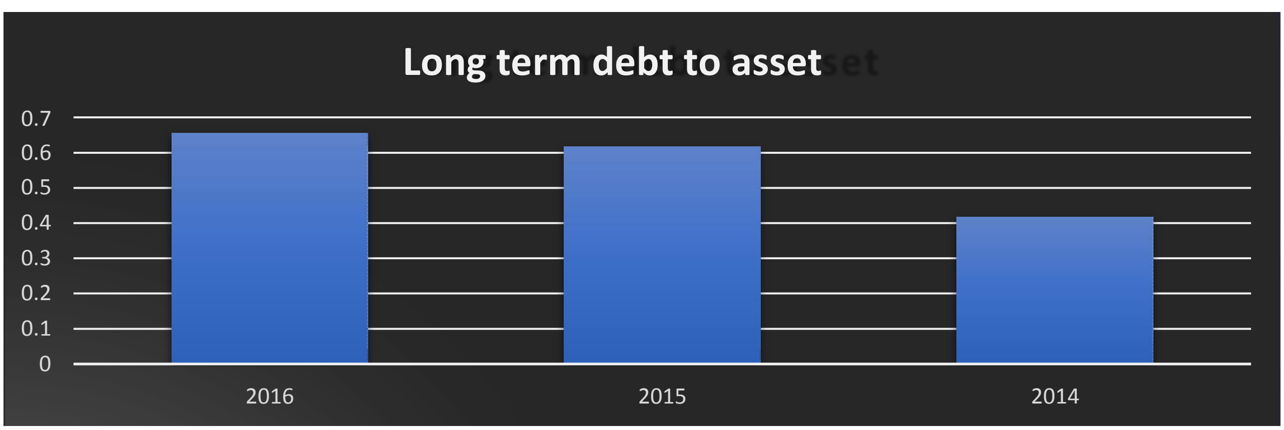


Implication: A relationship high debt to equity ratio company indicates an aggressive growth strategy by a company. A debt to equity ratio of 1.5 or lower is consider good. We can see the graph all ratio is below 1.5%., which is good for AJ Fashion company.

Long term debt to asset: The long-term debt to total assets ratio is a measurement representing the percentage of a corporation's assets finance with loans and other debt obligation lasting more than one year.

Formula: long- term debt/ total asset

Year	2014	2015	2016
Long Term debt to asset	0.4173226	0.6166713	0.6557061

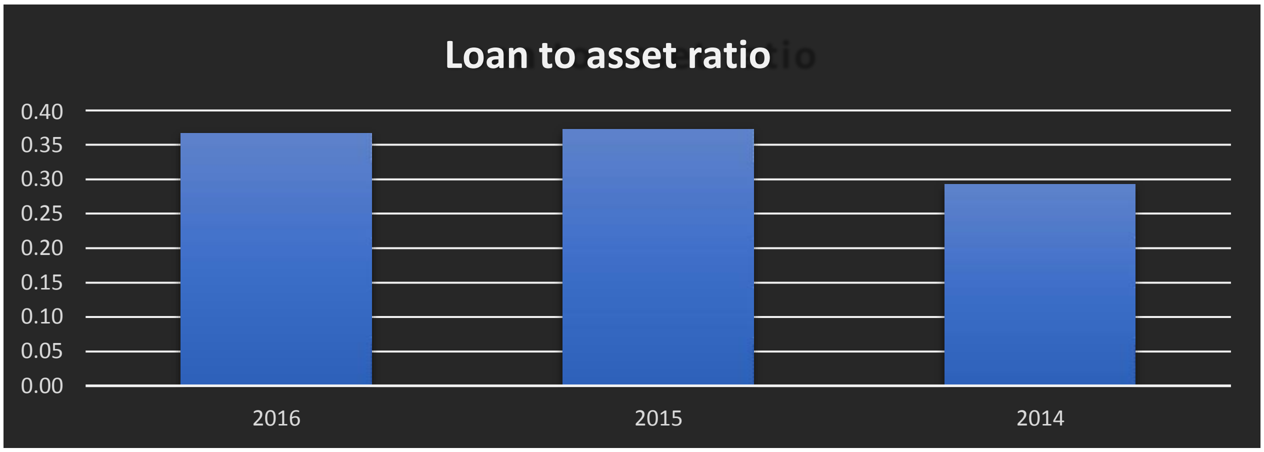


Implication: In 2014 the ratio was 0.41 which means it's a good for company. Less than 0.5 is considered good & health for company but at the years 2015 & 2016 long-term debt to asset are increased which is not good for AJ fashion company.

Loan to asset ratio: It is calculated by dividing the amount of loans by the amount of total asset at a company.

Formula: total loan / total asset

Year	2014	2016	2016
Loan to asset ratio	0.29	0.37	0.37

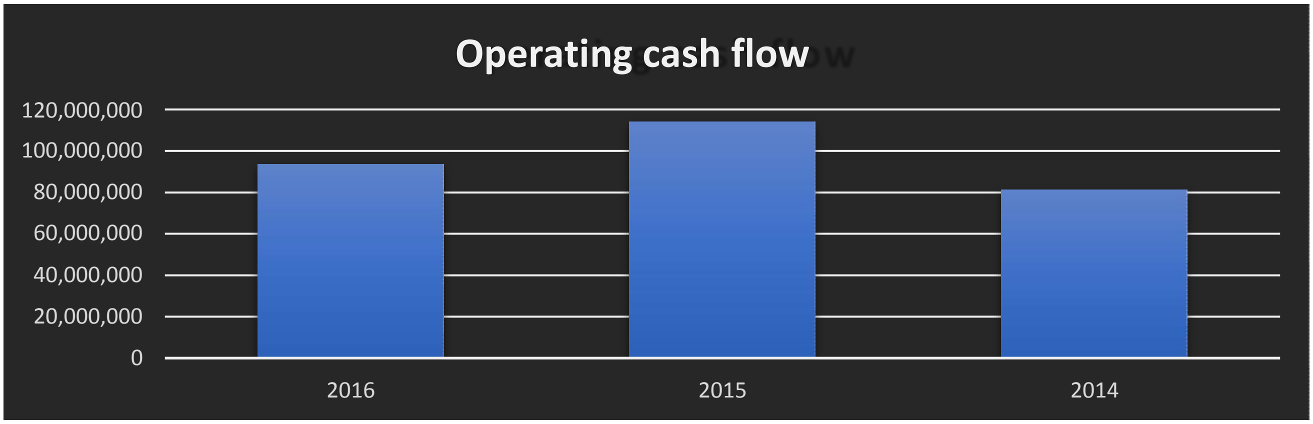


Implication: This ratio measure AJ Fashion company long-term source of fund. In 2016 & 2015 this leverage ratio was 37% which means long term funds come from depositor deposit rather than the stockholder's equity. On the other hand, in 2014 the long-term debt to equity ratio was 29% which was less than 2016 &2015.

Operation Cash flow: Free cash flow has to do firms operating decision and operating decision specifically excluding firm financing decision.

Formula- EBIT+ Depreciation- tax

Year	2014	2015	2016
Operation cash flow	81,271,957	114,105,490	93,598,030

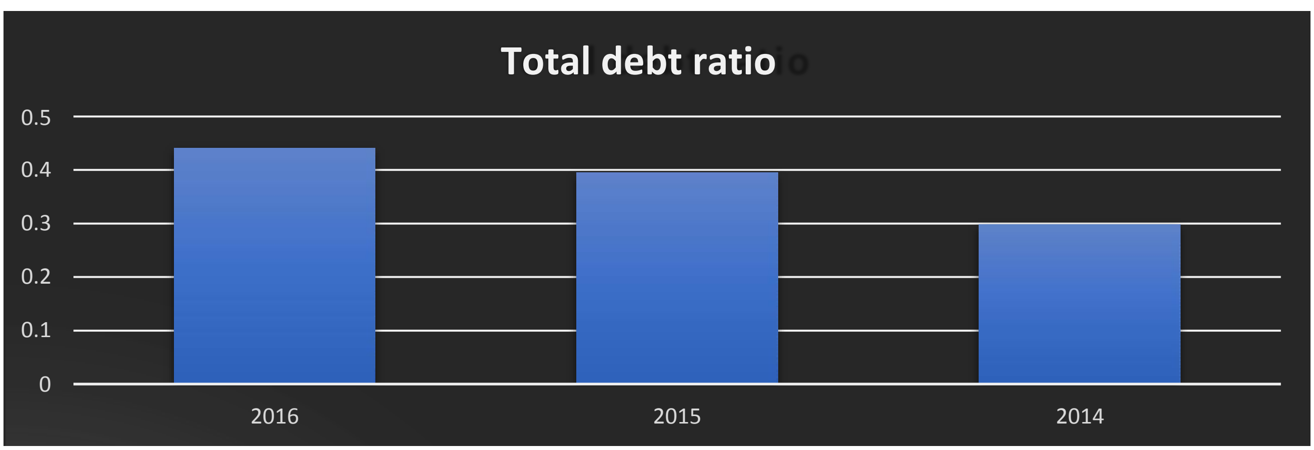


Implication: In 2015 the ratio was indicate that AJ Fashion company has generate more cash in this period

Total Debt:

Formula: total liabilities/ total asset

Year	2014	2015	2016
Total debt	0.29	0.39	0.44

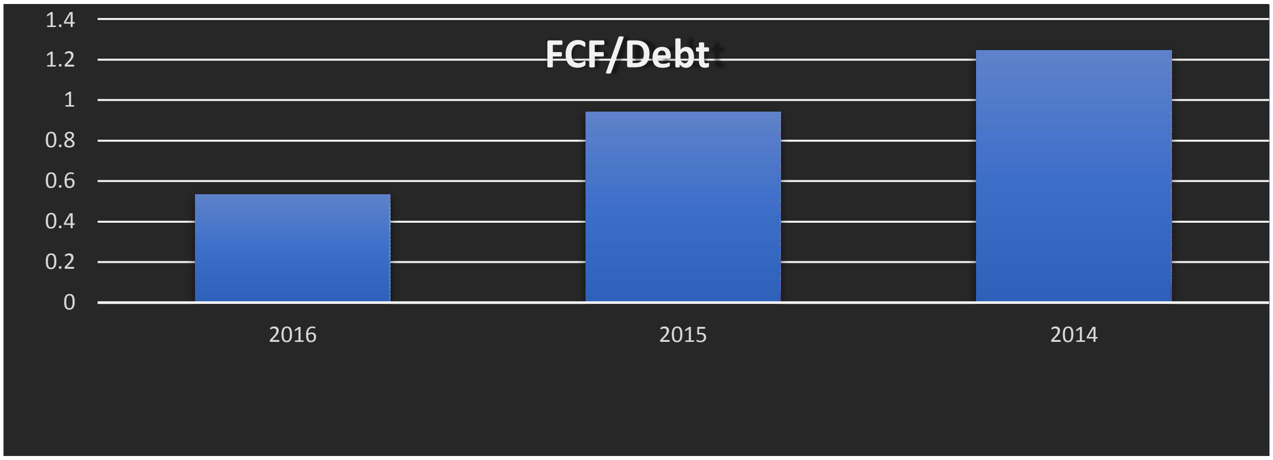


Implication: A debt ratio of .5 is to be very less risky for the company. Compare to these three diagrams all of them were less than 0.5. which is good for company.

6.3.5 FCF/Debt: FCF/Debt is the ratio that show the fraction of all debt that would be repair in one year.

Formula-operating cashflow/ total debt

Year2014	2014	2015	2016
FCF/Debt	1.24	0.94	0.53

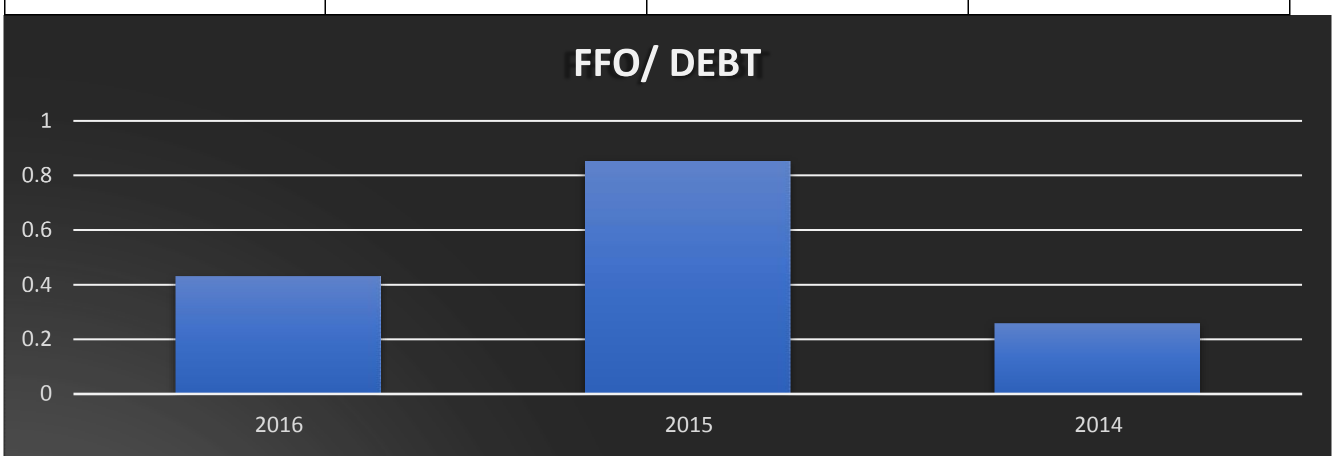


Implication: In 2014 the ratio was good because higher percentage ratio is better the company's carry to ability and service its total debt.

FFO/Debt: To calculate the fund from operation to total debt ratio.

Formula- fund form operation/ total debt

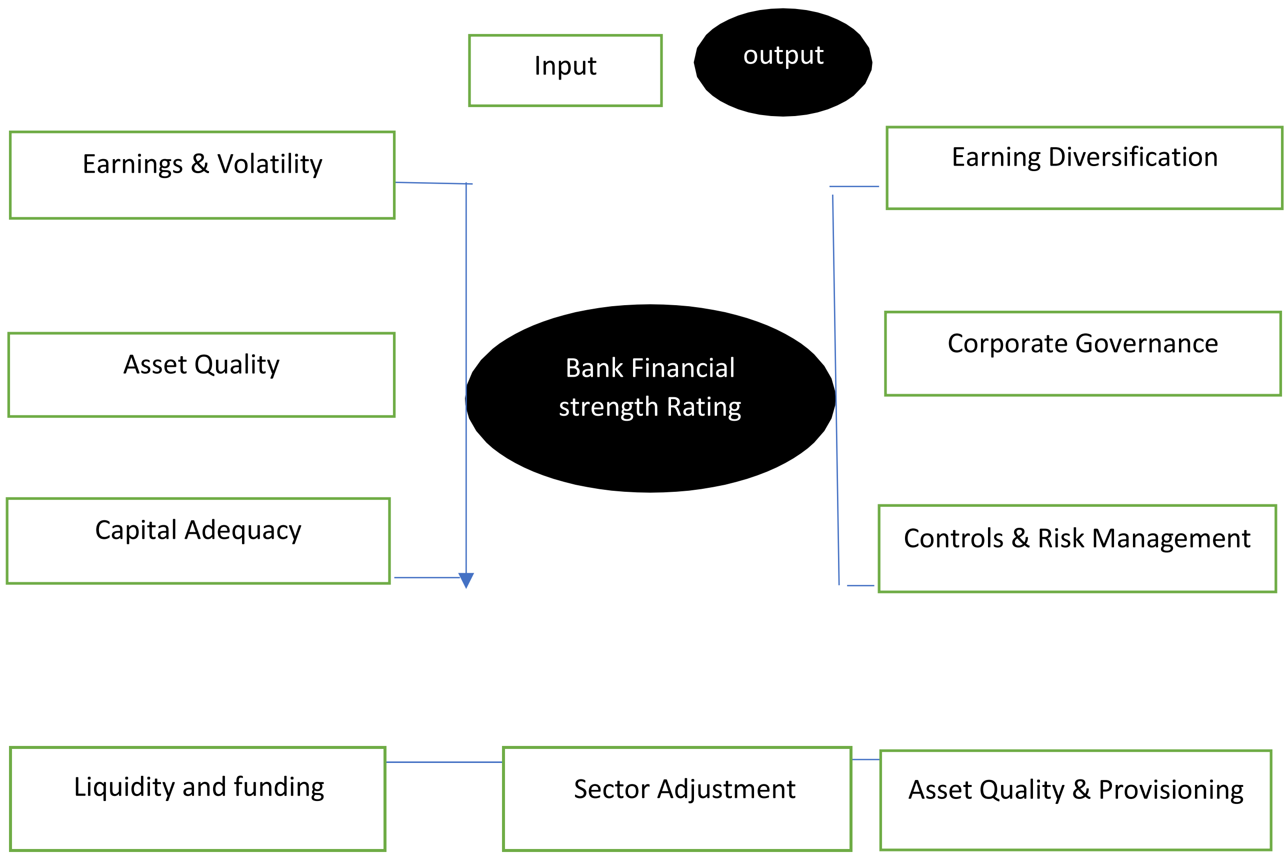
Year	2014	2015	2016
FFO/Debt	0.26	0.85	0.43



Implication: 2015 ratio is higher than the previous ratio. High ratio means Aj fashion company carries less risk which is good for company.

5.4 CRAB's BANK RATING METHOLOGY:

- CRAB's look into the current year efficiency level
- Last five years Balance sheet trend



Asset Quality:

- Future Earnings
- Non-performing Loan status
- Gross NPL Ratio

Liquidity Risk:

- Liquidity risk of bank's asset and liabilities
- Liquidity monitoring and control system

- They also see the customer deposits, long-term debt, and equity

Funding Structure:

- Deposit growth
- Movement of cost fund
- Funding- Current ratio, Saving deposit, short-term lending

Controls and Risk Management:

- Technology advancement
- Relationship of risk of earning ratio, capital, limit setting, portfolio.

CHAPTER-6

COMPARISON TO OTHER COMPANY

Comparison:

As a compare I have taken Indian credit rating company. India rating company are regulated by SEBL. Rs. 25000 of registration fee. They follow the same rating process as well as our country are following like – Agreement with the client, fee charged, a period of the rating during the tenure.

- Rating request letter by the issuer of the instrument and signing of the rating agreement
- Meeting with management- They analysis information relating to its financial statement, cash inflow, other relevant information.
- Rating Committee- after meeting analysts present their report to a rating committee then decides on the rating.
- Dissemination to the public

Indian Presentative Grading System

CRISIL Rating Symbols:

Long Term Instruments:

Investment Grade Ratings:

AAA (Triple A)	Highest Safety
AA (Double A)	High safety
A	Adequate Safety
BBB (Triple B)	Moderate safety
BB (Double B)	Inadequate Safety
B	High Risk
C	Substantial Risk
D	Default NM Not Meaningful

Short term Instruments:

P-1	Very Strong
P-2	Strong
P-3	Adequate
P-4	Minimal
P-5	Default

Differences:

items	Bangladesh credit rating companty	India credit rating company
Regulated by	Bangladesh all credit rating agencies are regulated by Bangladesh bank	India all the credit rating agencies are regulated by Securities and Exchanges Board of India
Times	The analyst takes a time maximum 2 weeks to complete the report	The analysts take around time 3 - 4 weeks to complete the report
How many credit ratings agencies	Now Bangladesh has eight credit rating agencies – CRAB, CRISL, ACRSL , ECRL, NCR, ALPHA, WCRCL.	India has six credit rating agencies - CRISIL, ICRA, CARE , ONICRA, FITCH, SMERA
Fees	There is no specific bank facilities fees by Bangladesh bank.	Inital ating fee-0.04% of the bank facilites Annual surveillance fee- 0.025% of the bank facilities.

TOP 10 CREDIT RATING AGENCIES IN WORLD:

1. Fitch Rating:

Fitch is the smallest agency among the top three agencies and it is a part of Fitch group. In 1975, a subsidiary of Fimalac S.A FIM.PA was the third agency to become an NRSRO. From the year 1975 to 1992, four other agencies were recognized as NRSROs and all these subsequently merged with Fitch.

2. Moody's Investor Service:

Moody's is the oldest credit rating agency. It is the first rating agency that was recognized by NRSRO in 1975. In 2000 the company became public and also has been earning huge profits. Its average profit margin was 53% from the year 2000 to 2007. Structured finance products were its top source of revenue by 2000.

3. Standard & Poor's:

Standard Statistics Founded in 1906. The company published corporate bond, municipal bond ratings and sovereign debt, Standard & poor's is best known by indexes.

4.CRISIL:

In 1987, CRISIL Ratings introduced the concept of credit rating in India. They rate all kinds of debt include bank loans, certificate of deposit, commercial paper, asset-backed securities and perpetual bonds.

5. DBRS:

DBRS has been the top rating agency in Canada for 30 years. In 2003, it became the fourth NRSRO. DBRS believes that it can compete with the big three but is not favored by the Authorities.

.

6. Egan-Jones:

Egan-Jones is a Philadelphia based agency which was founded in 1995. After a nine year process Egan-Jones was granted NRSRO status in December 2007. Since they are paid by investor-subscribers, Egan-Jones will give out their ratings to anyone who ask.

7. A.M Best:

In 1899, A.M Best was founded in New York City and it became an NRSRO in 2005. A.M Best specializes exclusively on the insurance marketplace, so that there is no competition With others. But recently it has started issuing debt and financial-strange rating for small and medium commercial banks.

8. Credit Rating Agency Limited:

In 1985 Japan credit rating agency was established and it situated in Tokyo. This rating agency became an NRSRO in the year of 2007. Comparing with other agencies, it is a small agency and has a staff of only 90.

9. Rating and Investment Information Inc:

In 2007 this rating agency became NRSRO and it is considered as the second Japanese credit rating agency. It was set up in 1975 and now it is based in Nihonbashi. New York office of this agency was set up in 2005.

10. LACE Financial:

LACE financial was founded in the year of 1984. In 2008, it is became a NRSRO. It is considered as the second NRSRO after Egan-Jones to operate on investor-paid business model.

Limitation

- **Static study:** Rating is done based on the present and past historic data of the company.
- **Based on Information collected:** The analysis valuation is based on information collected form annual report of companies, client visit, bankers feedback, factor visit. Possibility of bias in this here because credit rating agency information collected by personal bias of the rating team.

- No standardized fee or charging rates for rating agencies in Bangladesh

- **Small place**: Limitation Analysts because of office space are small.

CHAPTER-7

CONCLUSION

7.1 Conclusion

Credit rating agencies provide investors and debtors with important information regarding the creditworthiness of an individual, corporation, agency or even a sovereign government. The credit rating agencies help measure the quantitative and qualitative risks of these entities and allow investors to make wiser decisions by benefiting from the skills of professional risk assessment carried out by these agencies. Credit rating agencies help provide risk measures for various entities and make it easier for financial market participants to assess and understand the credit risk of the parties involved in the investing process. Individuals can get a credit score in order to be eligible for easy access to credit cards and other loans. Institutions can borrow money easily from banks without having to go through lengthy evaluations from each individual lender separately. Also corporations and governments can issue debt in the form of corporate bonds and treasuries to attract investors based on the credit ratings.

This report mainly consists of analyzing of details about Credit Rating its method, its history, rating process, ratio analysis and top ten agency list. 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. Internship is an icebreaking before stepping into working life. I was very much delighted top do my internship in CRAB. I set acquainted with different types theoretical and practice knowledge, which will help me to overcome many financial difficulties as well as technological. I can now do rating, analysis, preparing reports, and estimate credits of different companies.

It has given me opportunity introduce myself and my experience in corporate world. CRAB is surely the best institution of analyzing credit rating companies as well as sharing practical views. I am very much glad to do this analysis with the supervision of ***my honorable faculty member Assistant professor Zinnatun Nessa*** and ***CRAB's Analyst Atiqur Rahman and their team members*** Without their support this report preparing would not be successful.

REFFERENCE

***Credit Rating Definition**- [**https://www.investopedia.com/terms/c/creditrating**](https://www.investopedia.com/terms/c/creditrating)*

About CRAB -Credit Rating Agency of Bangladesh** **http://CRAB.com.bd/about-CRAB/

Bank rating methodology

http://CRAB.com.bd/wpcontent/uploads/2014/05/1362054042_CRAB-Bank-Rating- Methodology.pdf

Rating service-

https://CRAB.com.bd/rating-services/

*T**he daily star newspaper:Banks use expired credit ratings for lending***

https://www.thedailystar.net/business/banks-use-expired-credit-ratings-lending-1529647

Indian grading system: CRISIL Rating Symbols:

https://www.crisil.com/en/home/our-businesses/ratings/credit-ratings-scale.html

Example as a report-

http://dspace.bracu.ac.bd/xmlui/bitstream/handle/10361/4525/11304060.pdf?sequence=1

Top ten credit rating agency in the world

https://www.slideshare.net/Vijay_ggsbs/top-10-credit-rating-agencies-of-the-world

Bangladesh Bank Circular Letter No. BRPD 06 (2006, July 5). Regulatory Framework and Role of Domestic Credit Rating Agencies in Bangladesh. Retrieved from

https://www.bb.org.bd/

CHAPTER-8

APPENDIX

REPORT [SURVEILLANCE] 2017

Particulars	Ratings	Remarks
AJ Fashion Company	A_1	Entity
BDT 545.4 million Long Term Loan Outstanding (LTO)	A_1 (Lr)	Loan rating details in appendix-1
BDT 100.0 million Cash Credit Limit*	A_1 (Lr)	
BDT 1317.0 million Aggregate Fund Based Limits	ST-3	
BDT 1,418.0 million Aggregate Non-Fund Based Limits	ST-3	
Outlook	Stable	

Lr - Loan Rating; ST - Short Term

* Due to its revolving nature, CRAB views Cash Credit (CC) as long term facility.

(Refer Appendix-2 for Previous Rating)

Date of Rating: 26 October 2017

Validity: The Entity rating, Long Term Loan ratings and Short Term ratings are valid up to 30 June 2018.

Rating Based on: Audited financial statements up to 30 June 2017, Audited financial statements up to 30 June 2016, Bank Liability position as on 30 September 2017, and other relevant quantitative as well as qualitative information up to the date of rating declaration.

Auditor: ACNABIN CharteredAccounts.

Methodology: CRAB's Corporate Rating Methodology (www.CRAB.com.bd

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d

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Financial Highlights		
	Year Ended June 30	
(Mil. BDT)	**2017**	**2016**
Net Sales	4,453.5	1,339.4
EBITDA	680.3	651.7
Net Profit After Tax	312.2	70.8
EBITDA Margin (%)	15.3	14.7
Net Profit Margin	7.0	6.7
Return on Asset (ROA)	4.3	1.8
Quick Ratio	0.6	1.2
Cash Conversion Cycle (Days)	85	88
Borrowed Fund to Equity (x)	0.4	0.4
Borrowed Fund to Adjusted Equity (x)	0.7	0.7
Borrowed Fund to EBITDA (x)	2.5	2.3
Cash Flow from Operations (CFO)	74.3	n/a
Free Cash Flow (FCF)	(204.5)	74.6
EBIT/Interest (x)	4.4	3.7

✓ PROFILE

AJ Fashion CompanyLimited (hereinafter referred as AFC' or 'the Company') is an export oriented knitgarments manufacturer. The Company has its own knitting, dyeing and finishing facilities. AFC runs under the flagship of AJ Group which has strong position in garments and accessories, plastics, consumer durables marketing, garments manufacturing and information technology. The Company has its own knitting, dyeing and finishing facilities. Based on the audited financial of 2017, AFC reported net sales of BDT 4453.5 million and net profit after tax of BDY 312.2 Million.

✓ RATIONALE

Credit Rating Agency of Bangladesh Limited (CRAB) has reaffirmed the entity rating of AJ Fashion CompanyLimited to **A_1** (*Pronounced as **Single A One***). CRAB has also reaffirmed **A_1(Lr)** rating of BDT 545.4 million aggregate long term outstanding (LTO) and BDT 100.0 million aggregate cash credit limit availed by the Company. CRAB has also reassigned **ST-3** rating toBDT 1,317.0 million aggregate fund based limits and BDT 1,418.0 million aggregate non-fund based limits in Information Technology business. Based on the audited financial report of 2017, total sales of AFC marked at BDT 133.9.5 million and net profit after tax at BDT 312.2 million.

Credit Strengths

1. More than a decade of presence in RMG industry with strong synergy exposure from group other three concerns.

2. Structured value chain created by two concerns of AJ Group-

3. Equity based capital structure with moderate level of leverage position.

Credit Concerns

1. Operating cycle and cash conversion cycle slightly deteriorated in FY 2017.

2. Labour unrest/strike sometimes made the industry vulnerable and susceptible to competitive pressures from other low cost countries with lower foreign exchange rate fluctuations.

The revenue of AFC has grown by 0.6% in 2017 from previous year maintaining steady and similar slow pace of growth in business. No notable changes in business model during this surveillance period with same scale of business operations compared to the previous year supported to reassign the long term and short term ratings.

Rating also factors on-going spending on capital machineries in absolute amount in accumulated figure of BDT 278.2 million as Capex in 2017 as per the audited financial statement. Such initiatives ensure the quality of AFC's products and also help the Company to maintain compliance with its buyer class. AFC raised their authorized capital to BDT 2,000.0 million from BDT 1,500.0 million and increased their paid up capital to BDT 1,000.0 million from BDT 600.0 million. As per the audited financial statement of 2017, reported capital composition of the Company was equity dominated as borrowed fund was reported 0.4x times of equity. However, borrowed fund to adjusted equity ratio marked at 0.7x times as of 30 June 2017 revealing moderate level of leverage position of the Company. The times interest coverage ratio of the Company improved to 4.4x times in 2017 (2016: 3.7x) reflecting cushion to meet up present level of debt obligation.

Going forward, the Company's ability to continue positive growth in revenue through retaining its biggest customers, its ability to improve the cash flows and leverage position through improving the operating profitability, timely enhancement of the working capital limits will have impact on future rating consideration, and vice versa.

✓ BACKGROUND

AJ Fashion CompanyLimited was incorporated on 16 February 2000 as a private limited company with its registered office located at Esquire Tower, 30 Tejgaon I/A (Old), 21 Shaheed Tajuddin Sarani. AFC's factory is located at 22/58 Kanchpur, Sonargaon, Narayangonj. The Company has obtained standard certifications:ISO 9001, ISO 14001, ISO 18001 under the scope of UKAS system certificate scheme and Oeko-Tex standard 100 certificates for using environment friendly dyes and chemical approved by Hohenstein Institute Bangladesh, Global Organic Textile Standard (GOTS) and Organic Context Standard (OCTS).

Based on the audited financial statements of 2017, AFC's reported net sales was BDT 4,453.5 million and net profit after tax was BDT 312.2 million.

Table 1

The Company at a Glance	
Particulars	**Details**
Name of the Company	AJ Fashion CompanyLimited
Incorporation Year	1998
Basic Products	RMG
Capacity	8,030 MT/Year Fabric + 25 million pcs/ year RMG
Output	5,969 MT/ Year Fabric + 17.8 million pcs/ year RMG

Utilization	74.3% for Fabric + 71.2% for RMG
Registered Office	234/4, Kachukhet, Cantonment, Dhaka, Bangladesh.
Corporate Office	2, Monipuripara (4th Floor), Tejgaon, Dhaka-1215.
Factory	234/4, Kachukhet, Cantonment, Dhaka, Bangladesh.

✓ Shareholding and Board Composition

Board composition of the Company remains the same. However, shareholding position of the Company experienced significant changes. The shares of AJ Fashion Company Limited are distributed among five members and three companies. Mr. Md. Mofazzal Hossain is the Chairman of the Company and Mr.Ehsanul Habib is performing as Managing Director of the Company. According to the last management prepared report, the authorized capital of the Company is further raised to BDT 2,000.0 million from BDT 1,500.0 million while the paid-up capital is also further raised to BDT 1,000.0 million from BDT 600.0 million divided into 100 million ordinary shares of BDT 10.0 each.

Table 2

Share Holding Position of AFC			
Name	**Designation**	**% of Share Holding-2016**	**% of Share Holding-2015**
Mr. Md. MofazzalHossain	Chairman	28.79%	30.29%
Mr.EhsanulHabib	Managing Director	15.03%	15.03%
Mr.ArifurRahman	Director	7.93%	7.93%
Mr. Md. MuddasarHossain	Director	7.93%	7.93%
Mrs.Peara Begum	Director	3.68%	2.18%
Esquire Dyeing Industries Limited		29.58%	29.58%
Esquire Accessories Limited		1.21%	1.21%
Esquire Electronic Limited		5.85%	5.85%
Mr.Swapan Kumar Sarkar	Independent Director	-	
Mr.Placid Gomes	Independent Director	-	
Total		**100.00%**	**100.00%**

Table-4

Details of Bank Loan Liability Status of AJ Group as of 30 September 2017 (Mil. BDT)				
SL.	**Concerns**	**Facility**	**Limit**	**Outstanding**
1	AJ Fashion CompanyLimited	Total Long Term Loan	938.5	545.4
2		Total Cash Credit Loan	100.0	63.6
3		Total Fund Based Limit	1317.0	914.2
4		Total Non-Fund Based Limit	1,418.0	862.3
SL.	**Group Total**	**Loan Facility in Total**	**Limit**	**Outstanding**
1		Total Long Term Loan	**2,475.2**	**1,067.5**
2		Total Cash Credit Loan	**1,600.0**	**555.9**
3		Total Fund Based Limit	**4,411.8**	**2,184.6**
4		Total Non-Fund Based Limit	**3,145.0**	**1,584.9**

✓ Business, Operation and Financial Overview

Operation	Industry/ Market
Management	Financial
Credit Facility	Collateral

During the surveillance period there have been no major changes in business operations and process management of AJ Fashion CompanyLimited. However, as per the audited financial statement as of 30 June 2017, The Company raised their authorized capital from BDT 1,500.0 million to BDT 2,000.0 million and increased the paid up capital from BDT 600.0 million to 1,000.0 million. AFC has been incorporated to manufacture different knit fabrics and readymade garments since 2000. The Company operates at the bottom stage of the value chain where AFC produces grey fabrics and with help of Esquire Dyeing Industries Ltd. produces finished fabrics and readymade knit garments.

The sales volume of the Company increased marginally in 2017, though price per unit remains almost same on an average compared to the previous year.Capacity utilization for Grey fabric marked at ~74.3% and RMG product marked at ~71.2% in 2017. In the year of 2017 (as of October), the Company exported approx. 9.1 million pieces of readymade garments amounting to BDT 2492.3 million.The Company has shipment order in hand for next four months valued USD 19.1 million (BDT 1553.9 million).

Table 5

Capacity and Utilization						
	2017		2016		2015	
Product	**Capacity**	**Output**	**Capacity**	**Output**	**Capacity**	**Output**
Grey Fabric (MT/Year)	8030	5969	8030	5969	5500	4000
RMG (mill Pcs/Year)	25	17.8	25	17.8	21	16

**Source: AJ Fashion CompanyLimited*

MajorYarn suppliers of the Company have changed in 2017 (Jan-June), though DNC suppliers remained almost similar in 2017 (Jan-June) compared to the previous year.

Table 6

Major Suppliers of AFC					
2017 (Jan-June)			**2016**		
Suppliers Name	**Name of Material**	**Amount (in Mil. BDT)**	**Suppliers Name**	**Name of Material**	**Amount (in Mil. BDT)**

Prime Composite Mills	Yarn	66.2	Lucky Spinning Mills	Yarn	116.9
Mehmud Industries (Pvt) Ltd.	Yarn	50.7	Asia Composite Ltd.	Yarn	148.3
BVM Overseas Ltd.	Yarn	50.0	Kamal Yarn Ltd.	Yarn	138.1
Maral Overseas Ltd.	Yarn	45.4	Prime Cotton Mills	Yarn	158.1
PT SinarPantjaDjaja	Yarn	51.2	ArifKnitspin Ltd.	Yarn	66.3
Huntsman (Singapore) PTE	DNC	27.1	Huntsman (Singapore) PTE	DNC	36.8
Bezema Ag	DNC	19.8	T&T Industries Corporation	DNC	31.5
T&T Industries Corporation	DNC	6.1	Trade Asia International Pte Ltd.	DNC	18.0
CHT R Beitlich GMBH	DNC	6.0	CHT R Beitlich GMBH	DNC	9.2
Meghmani Dyes &Intermediate Ltd.	DNC	3.3	Bezema Ag	DNC	98.1
Total		**325.8**			**821.3**

**Source: AJ Fashion CompanyLimited*

Due to the Company's continuous good business relationship, AFC has been able to keep its foreign buyers over the years. In 2017 (till October), 9 major buyers contributed over 75% of the Company's total sales amount.

Table 7

Major Buyers of AFC		
2017 (Jan-June)		
Buyers Name	**Name of Material**	**Amount (in Mil. BDT)**
C&A buying KG	RMG	291.9
Selected	RMG	70.0
Ostin	RMG	42.1
Mascot International	RMG	293.7
Celio International	RMG	297.4
Next	RMG	235.2
Best Seller	RMG	307.3
Holflers / Tee Jays	RMG	195.4
Esprit	RMG	201.1
Others	RMG	558.2
Total		**2,492.3**

**Source: AJ Fashion CompanyLimited*

In FY 2017, AFC has expenditure in CAPEXworth BDT 278.8 million to support the existing production capacity, out of which BDT 165.4 million had been spent on plant & machineries in FY2017. From January to June 2017, AFC added 120 sets Sewing machines, lab equipment, turbo charger, water pump, Embroidery machines and knitting machines.

Operation | **Industry/ Market** | Management | Financial | Credit Facility | Collateral

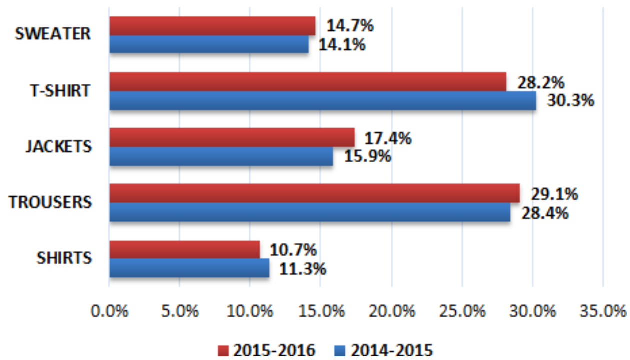
Ready Made Garments industry in Bangladesh, which includes knit and woven items along with specialized textile products, is the nation's prime exporting sector. Bangladesh received about 82.05% of total export earnings from Readymade garments. In FY2016, RMG sector has around 4328 factories, which employ more than 4 million work forces, and contributes around 15% of the total GDP of the country.

Moreover, the trend of RMG export and back-to-back raw materials import shows that the export value addition from RMG sector is around 75.0%.

Total export value of RMG rose by around 10.2% in FY2016 whereas Woven apparels export rose 12.8% and knitwear export increased around 7.2%. Among the major RMG products, export from Trousers, Jackets and Sweater improved but export from Shirts and T-Shirts dropped slightly. Overall, Woven garments contributed around 52% of the total RMG export in FY2016, which was around 51% in a year ago. For the last four years, knitwear export was struggling with achieving its target as woven garments took the first position since FY2012.

Figure 1

Contribution of Main apparel items exported from Bangladesh



Since FY2011, RMG export gained around 1.6x in FY2016 considering the total export value, whereas a study by McKinsey & Company then suggested Bangladesh's RMG export might be doubled in 2015. Series of labor unrests, social violence due to political struggles, repeated strikes and vandalism on road and vehicles as well as tragic demise of workers in fire incidents and the Rana Plaza collapse had restrained the growth rate. The study also added that there will be demand of USD 650 billion in the global clothing and apparel market by 2020 where there is a scope for Bangladesh to contribute $44.56 billion.

Major exporting destinations are Germany, United Kingdom, USA, France, Belgium, Netherlands, Turkey, Spain, Sweden etc. Emerging market for RMG is South American nations, Australia, Japan, Korea, China, etc. Major competitor nations are India, Vietnam, Cambodia, and Indonesia. Emerging competition may come from Myanmar within the next 5-7 years.

Major challenges faced by the sector is mostly due to the revision in wage rate since December 2014 and continued pressure from the buyer side on unit price that tighten the margin of the sector incumbents to some extent. Moreover, due to the Rana Plaza collapse and Tazreen Garments fire incident, the issues related to Compliance escalated the fixed cost requirement of the industries. Additionally, uninterrupted gas supply is a pre-requirement for knit-garments industry. However, in recent time, there has been a huge shortfall in the supply of gas, which hampers the uninterrupted production. Moreover, labor unrest in the RMG industry is a very alarming issue leading to a high migration rate among RMG workers. Moreover, there are risks associated with foreign currency fluctuations, potential supply disruptions, monitoring of quality standards, changes in fuel & transportation prices and international trade policies. Nonetheless, according to economists, Bangladesh most likely stands to suffer from the effects of the US-led Trans-Pacific Partnership (TPP) trade deal, especially in terms of export earnings. CRAB also observed that a good number of the RMG units reported a fall in bottom-line profitably due to increase in raw material consumption and factory overhead expenses compared to revenue because of tight pricing. Moreover, CRAB also estimated that due to the exit of Great Britain from EU would cause fall of UK currency as well as impact on the volume of export quality and revenue from there during 2016 and 2017.

Apart from that scenario, some structural changes are also taking places i.e. BGMEA initiated Biometrics database for industry labor statistics, and entered in a MoU with Orion Holdings, China to setup Garments Village at Munshigonj. Moreover, other initiatives have been taken by the BGMEA to improve the capacity of RMG resources, easing financing programs in RMG industries with SME nature and Implementation of compliance criteria proposed by the RMG importer countries.

Operation | Industry/ Market
Management | Financial
Credit Facility | Collateral

The Company has a number of top managers having considerable working period with the Company. The top management profile of the Company remains intact.The management is a mix of group and company specific personnel. There are four General Managers to see the logistics, knitting, fabric dyeing and maintenance sections. Two other General Managers look after the Finance and Accounts and a Deputy General Manager take care of the Yarn dyeing section. They are assisted by a number of managers and executives of respective departments.

Table 8

List of Top Management of AFC			
Name	**Position**	**Over all experience (in year)**	**Years with Esquire**
Mr. Mohammad MofazzalHossain	Chairman	41	41
Mr. Md. EhsanulHabib	Director & Managing Director	27	27
Mr.MustafizurRahman	CFO	21	13
Mr.SaidurRahmanDewan	Company Secretary	24	17
Mr.MesbahUddin ACA	Advisor & Consultant	9	2
Mr.ArifurRahman	Head of Business Development	18	17

Mr. Md. MuddasarHossain	Head of Regulatory Affairs	6	17
Mr. Gaya Karunathilake	Head of Apparel Division	21	3
Dr. Md. Ali Haider	Head of Knitting Division	28	10
Mr. ASM HafizurRahman	Head of Fabric Dyeing division	20	20
Mr. Md. ZakirHossain	Head of Commercial (Export)	22	22
Mr. Md. Sharif Uddin	Head of IT	15	12
Mr.MuslehUddin Ahmed Sikder	Head of Commercial (Import)	20	17
Mr. Ghazi Abdullah Rajiv	Head of Marketing	26	1
Mr. Islam-un-Nabi	Head of Logistic	24	17
Mr.RakiburRahman	Head of Internal Audit	16	12
Mr.FarukHossain FCMA	Head of Costing	11	11
Mr. A.H.M MahbubZaman	Head of Corporate Planning	10	8
Mr. Kamal SenarathMunasinghe	Head Operation	16	6 Months

**Source: AJ Fashion CompanyLimited*

The Company uses both IT infrastructure as well as hard copy files to keep its management information which eventually help the Head Office to control and monitor the operation of different units.

Operation | Industry/ Market | Management | **Financial** | Credit Facility | Collateral

As per the audited statement of AJ Fashion CompanyLimited, the Company marked BDT 4453.5 million of net sales in 2017 which wasBDT4,426.4 million in 2016indicating marginal net sales growth of 0.6% in FY2017. Over the years, the net sales growth as well as the EBITDA growth has a variable trend due to variability in per unit price. However, The Company managed to report gross profit margin of 20.7% (2016: 22.9%) and slightly increased net profit margin of 7% (2016: 6.7%) in 2017.

Table 9

Export performance of AFC				
Period	Halves	Sales Value	Sales Quantity (In Mill)	Average Price per Unit (USD)
2010	1st Half	1,167.0	7.7	2.2
	2nd Half	1,260.0	6.6	2.7
2011	1st Half	2,202.0	8.7	3.6
	2nd Half	1,553.0	5.7	3.9
2012	1st Half	1,714.0	6.5	3.1
	2nd Half	2,098.0	3.9	6.8
2013	1st Half	2,002.0	7.9	3.2
	2nd Half	1,941.0	8.1	3.0
2014	1st Half	2,186.0	8.0	3.5
	2nd Half	2,141.0	7.5	3.6
2015	1st Half	2,405.0	8.5	3.5
	2nd Half	1,980.0	6.4	3.8
2016	1st Half	2,478.4	8.2	3.8
	2nd Half	1,960.7	6.6	3.8
2017	1st Half	2492.4	9.2	3.4

**Source: Management*

The operating cycle as well as cash conversion cycle prolonged a little bit in FY2017 due to marginal lingered inventory processing period of 103 days (2016: 97 days) and Receivable collection period of 34 days in 2017 (2016: 27 days). Payable payment period of 52 days in 2017 was almost at the same position compared to the previous year. Over the years' trend history of cash conversion cycle indicates scope of improving working capital position for AFC.

The capital composition of the Company remained equity dominated with the increased equity portion of the Company to BDT 4583.2 million as of 30 June 2017. Borrowed fund to equity of 0.4x times in 2017 indicated the Company's dependence on equity financing. Borrowed fund to adjusted equity stood at 0.7x times in 2017 (2016:0.7x) revealing moderate level of leverage position.

Moreover, EBIT to interest stood at 4.4x times in 2017, which was 3.7x times in 2016, reflecting improved coverage position of the Company with present level of debt obligation.

PROPOSED IPO

AFC is planning to go for raising capital through IPO worth BDT 1,500.0 million from capital market which is subject to the confirmation of BSEC. The Company estimated the use of IPO proceeds of which full amount is to be utilized to expand business.

The Company has estimated its expansion cost of BDT 5,766.3 million, from which total amount will be used for erection of factory building, production machineries and other utility facilities, vehicle purchase and for furniture and office equipment. Moreover, the Company is expecting to have IPO expenses of around BDT 64.4 million.

Table 11

AFC's Fund Raising Plan (Amounts in Mill. BDT)		
Particulars	**Expansion Cost**	**%**
IPO	1,500.0	26.0%
Bank Loan	3469.7	60.0%
Own Finance	861.0	14.0%
Total	**5830.8**	**100.00%**

Operation | Industry/ Market
Management | Financial
Credit Facility | Collateral

The Company has availed working capital facility from Eastern Bank Limited, Principal Branch, Dutch-Bangla Bank Limited, Local Office, Jamuna Bank Limited, Mohakhali Branch, IDLC Finance Limited and IPDC Finance Limited.

AFC has also availed a foreign term loan-II from DEG (Germany) of equivalent to BDT 578.6 million with quarterly instalment policy.

Detail of loan liability position as per management information is given in Appendix-1.

APPENDIX – 1: DETAILS OF BANK LOAN LIABILITY STATUS OF AJ FASHION COMPANYLIMITED AS ON 30 SEPTEMBER 2017 (MIL. BDT)

SL.	Banks	Facility	Term Status	Fund Status	Limit	Outstanding	Expiry Date
1	Eastern Bank Limited, Principal Branch	Export Cash Credit (CC)	Short Term	Funded	20.0	-	31-05-18
2		Overdraft	Short Term	Funded	20.0	18.2	31-05-18
3		Import Loan	Short Term	Funded	24.0	-	31-05-18
4		Time Loan	Short Term	Funded	8.0	-	31-05-18
5		EDF	Short Term	Funded	100.0	15.9	31-05-18
		Liability	Short Term	Non-Funded	63.0	57.2	31-05-18
7		LC (Sight)- RM	Short Term	Non-Funded	30.0	-	31-05-18
8		LC (Sight/Usance)- Machinery	Short Term	Non-Funded	10.0	-	31-05-18
9		Letter of Guarantee	Short Term	Non-Funded	5.0	-	31-05-18
10	Dutch Bangla Bank Limited, Local Office	Mid Term Loan	Long Term	Funded	108.0	64.1	15-11-20
11		Mid Term Loan	Long Term	Funded	45.0	41.9	13-04-22
12		Industrial Mid Term Loan	Long Term	Funded	50.0	50.7	03-02-19
13		Term Loan (Transport)	Long Term	Funded	27.5	21.8	29-06-21
14		Term Loan (Transport)	Long Term	Funded	25.0	21.4	15-11-21
15		Industrial Short Term Loan	Short Term	Funded	300.0	61.2	18-08-17
16		Industrial Short Term Loan	Short Term	Funded	200.0	200.0	06-06-18
17		Industrial Short Term Loan	Short Term	Funded	100.0	100.0	27-04-18
18		Overdraft (OD)	Short Term	Funded	270.0	262.1	30-04-18
19		LTR	Short Term	Funded	100.0	86.2	30-04-18
20		Export Cash Credit (CC)	Short Term	Funded	80.0	63.6	30-04-18
21		STL (Revolving)	Short Term	Funded	75.0	75.0	30-04-18

22		Bill Discounting/LDBP	Short Term	Funded	Open	18.1	30-04-18
23		Loan Against Cash Incentive	Short Term	Funded	40.0	13.9	30-04-18
24		LC (Sight/Usance)-Machinery	Short Term	Non-Funded	150.0	64.2	30-04-18
25		LC (Sight/Usance)-RM	Short Term	Non-Funded	150.0	150.0	30-04-18
26		B/B L/C Acceptance Liability	Short Term	Non-Funded	1,000.0	638.1	30-04-18
27		Letter of Guarantee	Short Term	Non-Funded	10.0	10.0	30-04-18
28	Jamuna Bank Limited, Mohakhali Branch	Term Loan	Long Term	Funded	30.0	25.0	25-12-20
29		Term Loan	Long Term	Funded	20.0	19.4	13-06-21
30	IDLC Finance Limited	Lease Finance	Long Term	Funded	25.0	25.2	29-03-22
31	IPDC Finance Limited	Lease Finance	Long Term	Funded	29.4	19.7	06-04-21
32	DEG (Germany)	Term Loan II	Long Term	Funded	578.6	256.2	15-12-19
	Total Long Term Loan (10-14,28-32)				**938.5**	**545.4**	
	Total Cash Credit Loan (1,20)				**100.0**	**63.6**	
	Total Short Term Funded (2-5,15-23)				**1317.0**	**914.2**	
	Total Short Term Non-Funded (6-9,24-27)				**1,418.0**	**862.3**	

APPENDIX - 2:Previous Credit Ratings

Date of Rating:15 June 2017

Particulars	**Ratings**
AJ Fashion CompanyLimited	A_1
BDT 488.5 million Long Term Loan Outstanding (LTO)	A_1 (Lr)
BDT 100.0 million Cash Credit Limit*	A_1 (Lr)
BDT 667.0 million Aggregate Fund Based Limits	ST-3
BDT 1,418.0 million Aggregate Non-Fund Based Limits	ST-3
Outlook	Stable

Lr - Loan Rating; ST - Short Term

* Due to its revolving nature, CRAB views Cash Credit (CC) as long term facility.

Rating Based on: Audited half yearly financial statements up to 31 December2016, Audited half yearly financial statements up to 30 June 2016, Bank Liability position as on 31January 2017, and other relevant quantitative as well as qualitative information up to the date of rating declaration.

APPENDIX 3: KEY FINANCIAL VARIABLES OF AJ FASHION COMPANYLIMITED

Categories	(Mil. BDT)	~~Year Ended on June 30~~ 2017	2016
Earnings and Stability	Sales	4,453.5	1399.4
	Sales Growth	0.6	n/a
	COGS as % of Net Sales	79.3	77.1
	EBITDA	680.3	146.06
	EBITDA Growth (%)	4.4	4.4
	EBITDA Margin (%)	15.3	10
	Financial Expenses	118.3	16.21
	Net Profit after Tax	312.2	70.8
	Net Profit after Tax Growth (%)	5.2	n/a
Profitability	Gross Profit Margin	20.7	11
	Operating Profit Margin	11.6	13.5
	Net Profit Margin	7.0	6.7
	Return on Asset (ROA)	4.3	14
	Return on Equity (ROE)	6.8	26.5
Liquidity and Working Capital Management	Current Ratio	1.5	2.04
	Quick Ratio	0.6	1.26
	Accounts Receivable Turnover Ratio	5.3	3.1
	Receivable Collection Period (Days)	34	27
	Inventory Turnover Ratio	1.8	2.17
	Inventory Processing Period (Days)	103	168
	Accounts Payable Turnover Ratio	3.5	34
	Payable Payment Period (Days)	52	10

	Operating Cycle (Days)	137	124
	Cash Conversion Cycle (Days)	85	88
Leverage and Capital Structure	Equity	4,583.2	267.299
	Adjusted Equity*	2,596.6	2,284.4
	Total Asset	7,291.5	428.22.
	Total Liabilities	2,708.3	210.923
	Borrowed Fund	1,696.9	1,521.7
	Long Term Liabilities	446.5	512.6
	EBITDA	680.3	651.7
	Fund Flow from Operations (FFO)	470.9	74.63
	Cash Flow from Operations (CFO)	74.3	93.6
	Retained Cash Flow (RCF)	74.3	n/a
	Free Cash Flow (FCF)	(204.5)	74.6
	Borrowed Fund to Equity (x)	0.4	0.78
	Borrowed Fund to Adjusted Equity (x)	0.7	0.7
	Borrowed Fund to EBITDA (x)	2.5	2.3
	Borrowed Fund to Total Asset (x)	0.2	0.2
	Total Liabilities to Total Asset (x)	0.4	0.4
	FFO/Borrowed Fund (%)	27.8	28.3
	CFO/Borrowed Fund (%)	4.4	8.3
	RCF/Borrowed Fund (%)	4.4	2.7
	FCF/Borrowed Fund (%)	(12.0)	0.53
	EBIT/Interest (x)	4.4	3.7
	FCF/Interest (x)	(1.7)	n/a
	(EBITDA-Capex)/ Interest (x)	3.4	3.1

CRAB RATING SCALES AND DEFINITIONS –Long Term (Corporate)

Long Term Rating	Definition
AAA Triple A	Companies rated in this category have extremely strong capacity to meet financial commitments. These companies are judged to be of the highest quality, with minimal credit risk.
AA_1, AA_2, AA_3 Double A	Companies rated in this category have very strong capacity to meet financial commitments. These companies are judged to be of very high quality, subject to very low credit risk.
A_1, A_2, A_3* Single A	Companies rated in this category have strong capacity to meet financial commitments, but are susceptible to the adverse effects of changes in circumstances and economic conditions. These companies are judged to be of high quality, subject to low credit risk.
BBB_1, BBB_2, BBB_3 Triple B	Companies rated in this category have adequate capacity to meet financial commitments but more susceptible to adverse economic conditions or changing circumstances. These companies are subject to moderate credit risk. Such companies possess certain speculative characteristics.
BB_1, BB_2, BB_3 Double B	Companies rated in this category have inadequate capacity to meet financial commitments. Have major ongoing uncertainties and exposure to adverse business, financial, or economic conditions. These companies have speculative elements, subject to substantial credit risk.
B_1, B_2, B_3 Single B	Companies rated in this category have weak capacity to meet financial commitments. These companies have speculative elements, subject to high credit risk.
CCC_1, CCC_2, CCC_3 Triple C	Companies rated in this category have very weak capacity to meet financial obligations. These companies have very weak standing and are subject to very high credit risk.
CC Double C	Companies rated in this category have extremely weak capacity to meet financial obligations. These companies are highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest.
C Single C	Companies rated in this category are highly vulnerable to non-payment, have payment arrearages allowed by the terms of the documents, or subject of bankruptcy petition, but have not experienced a payment default. Payments may have been suspended in accordance with the instrument's terms. These companies are typically in default, with little prospect for recovery of principal or interest.
D (Default)	D rating will also be used upon the filing of a bankruptcy petition or similar action if payments on an obligation are jeopardized.

**Note: CRAB appends numerical modifiers 1, 2, and 3 to each generic rating classification from AA through* CCC*. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category.*

LONG-TERM RATING: LOANS/FACILITIES FROM BANKS/FIS

(All loans/facilities with original maturity exceeding one year)

RATINGS	DEFINITION
AAA (Lr) (Triple A) Highest Safety	Loans/facilities rated **AAA (Lr)** are judged to offer the highest degree of safety, with regard to timely payment of financial obligations. Any adverse changes in circumstances are unlikely to affect the payments on the loan facility.
AA (Lr) (Double A) High Safety	Loans/facilities rated **AA (Lr)** are judged to offer a high degree of safety, with regard to timely payment of financial obligations. They differ only marginally in safety from AAA (Lr) rated facilities.
A (Lr)* Adequate Safety	Loan/facilities rated **A (Lr)** are judged to offer an adequate degree of safety, with regard to timely payment of financial obligations. However, changes in circumstances can adversely affect such issues more than those in the higher rating categories.
BBB (Lr) (Triple B) Moderate Safety	Loans/facilities rated **BBB (Lr)** are judged to offer moderate safety, with regard to timely payment of financial obligations for the present; however, changing circumstances are more likely to lead to a weakened capacity to pay interest and repay principal than for issues in higher rating categories.
BB (Lr) (Double B) Inadequate Safety	Loans/facilities rated **BB (Lr)** are judged to carry inadequate safety, with regard to timely payment of financial obligations; they are less likely to default in the immediate future than instruments in lower rating categories, but an adverse change in circumstances could lead to inadequate capacity to make payment on financial obligations.
B (Lr) High Risk	Loans/facilities rated **B (Lr)** are judged to have high risk of default; while currently financial obligations are met, adverse business or economic conditions would lead to lack of ability or willingness to pay interest or principal.
CCC (Lr) Very High Risk	Loans/facilities rated **CCC (Lr)** are judged to have factors present that make them very highly vulnerable to default; timely payment of financial obligations is possible only if favorable circumstances continue.
CC (Lr) Extremely High Risk	Loans/facilities rated **CC (Lr)** are judged to be extremely vulnerable to default; timely payment of financial obligations is possible only through external support.
C (Lr) Near to Default	Loans/facilities rated **C (Lr)** are currently highly vulnerable to non-payment, having obligations with payment arrearages allowed by the terms of the documents, or obligations that are subject of a bankruptcy petition or similar action but have not experienced a payment default. C is typically in default, with little prospect for recovery of principal or interest. C (Lr) are typically in default, with little prospect for recovery of principal or interest.
D (Lr) Default	Loans/facilities rated **D (Lr)** are in default or are expected to default on scheduled payment dates.

**Note:* *CRAB appends numerical modifiers 1, 2, and 3 to each generic rating classification from AA through* CCC*. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category.*

SHORT-TERM CREDIT RATING: LOANS/FACILITIES OF BANKS/FIS

(All loans/facilities with original maturity within one year)

	DEFINITION

ST-1 Highest Grade	This rating indicates that the degree of safety regarding timely payment on the loans/facilities is very strong.
ST-2 High Grade	This rating indicates that the degree of safety regarding timely payment on the loans/facilities is strong; however, the relative degree of safety is lower than that for issues rated higher.
ST-3* Adequate Grade	This rating indicates that the degree of safety regarding timely payment on the loans/facilities is adequate; however, the issues are more vulnerable to the adverse effects of changing circumstances than issues rated in the two higher categories.
ST-4 Marginal	This rating indicates that the degree of safety regarding timely payment on the loans/facilities is marginal; and the issues are quite vulnerable to the adverse effects of changing circumstances.
ST-5 Inadequate Grade	This rating indicates that the degree of safety regarding timely payment on the loans/facilities is minimal, and it is likely to be adversely affected by short-term adversity or less favorable conditions.
ST-6 Lowest Grade	This rating indicates that the loans/facilities are expected to be in default on maturity or is in default.