Internship Report

On

An Assessment of Credit Rating Process of Credit Rating Agency of Bangladesh Limited (CRAB)

Submitted To:

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An Assessment of Credit Rating Process of Credit Rating Agency of Bangladesh Limited (CRAB)

United International University

Letter of Transmittal

Prof. Dr. Mohammad Musa
Professor
Department of BBA
United International University

Subject: Submission of internship report on "An Assessment of Credit Rating Process of Credit Rating Agency of Bangladesh Limited (CRAB)"

Dear Sir,

It is my great pleasure to submit the internship report as part of the fulfillment of the BBA program. This report focuses on the **"An Assessment of Credit Rating Process of Credit Rating Agency of Bangladesh Limited (CRAB)".**

I, therefore, hope that this report will provide necessary information about the credit rating methodology of Credit Rating Agency of Bangladesh. I gave my best to make this report correct one and I hope that you will take any mistake with kind consideration.

Sincerely yours,

Fouzia Sultana Tawhid
ID: 141-111-118
Major in Finance
Department of Business Administration

Acknowledgement

I prepared this report with full co-operation from my faculty that was a prodigious benefit for me. It is my pleasure to mention here the name of Credit Rating Agency of Bangladesh Limited (CRAB) for helping me by providing all sorts of information. I am grateful to all CRAB personnel's for extending their kind submission, recommendation direction, co-operation and their collaboration.

First, I intend to thank my honorable Faculty Prof. Dr. Mohammad Musa for extending his kind co-operation& spare times from his busy schedule for helping me in the preparation of this report.

I have exerted my best efforts in preparing this report. I apologized for the errors that might have occurred despite my best effort.

So lastly, I convey my heart full thanks to my entire faculty members for providing me the theoretical knowledge and valuable guidelines that helped in preparing this report.

Letter of Approval

This to ratify that Fouzia Sultana Tawhid ID# 141-111-118, Program BBA, Major in Finance is a regular student of Department of Business Administration, Faculty of Business and Economics, United International University . She has successfully completed her internship program at Credit Rating Agency of Bangladesh Limited. She has prepared this internship report under my direction supervision. Her assigned internship topic was **“An Assessment of Credit Rating Process of Credit Rating Agency of Bangladesh Limited (CRAB)”.** I think that the report is worthy of fulfilling the partial requirement of BBA program.

I wish her happiness and every success in life.

………………………………..

Prof. Dr. Mohammad Musa
Professor
Department of BBA
United International University

Executive Summary

The word credit popularly using in monetary purpose and rating is assessment of capability to pay back its debt. Therefore, monetarily credit rating is assessment or evaluation of credit risk of a debtor and predicting the ability of pay back debts or financial credit worthiness of a firm. This idea became popular having the financial crisis started over globally. Banks and financial institutes are the main user of credit rating system for selecting clients for lending purpose. It is a vital instrument of evaluating borrower's financial health. If the financial sectors of a country become weak due to classification of loan, entire economy will be fallen into risk. In order to save financial sector from this crisis some companies namely Moody's, Flitch and Standard & Poor had settled this notion of credit rating from more than 200 years back. There are two types in credit rating such as International credit rating and national credit rating (rating of an institution/person).The practice of credit rating in Bangladesh started in 2002 with holding the hand of CRISL. Bangladesh Bank has incorporated the credit Rating Act in 1996. CRAB came into operation in 2004 as an excellent performer in the industry. Chain of command from top to bottom approach is followed in Credit Rating process of CRAB. At first, CRAB organizes a primary meeting with its client for gathering information. Then a detail analytical works has done on obtained information such as client's business model, financial condition, industry risk, operation risk, management background, credit facility, utilization of loan portfolio. After that a group of credit rating experts analyze the data and grade the risk withhold to the company and marking credit rating maintain all the codes of conduct for the credit worthiness of the company. This analytical result is placed to the trustee board for detailed discussion to get to approval. Then an award letter and credit rating report is submitted mentioning the rating to its client. In this report I have discussed about the movement of fund, loan position, repayment habit, nature of loan, assets available against this liabilities. For my internship report I used financial information of RAHIM TEXTILE MILLS Ltd financial information which a listed company of Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE). The company got **A_3 rating** which expresses that has healthy financial position to meet loan obligation.

Over all, there are some commendations on CRAB and its rating process. Its importance is increasing day to day. Right rating can save the country from financial crisis.

Table of Content

Chapter	Particulars	Page No.
	Letter of Transmittal	I
	Acknowledgement	II
	Letter of Approval	III
	Executive Summary	IV
1	**Introduction**	01
1.1	Origin of the Report	01
1.2	Objectives of the report	01
1.3	Scope of the Report	02
1.4	Methodology of the Report	02
1.4.1	Primary Data Collection	02
1.4.2	Secondary Data Collection	02
1.4.3	Limitations	02
2	**Literature Review**	03-04
3	**Credit Rating**	05
3.1	Credit Rating Definition	05
3.2	Types of Credit Rating	06
4	**Profile of top two Credit Rating Agencies**	07
4.1	Moody's Investor Service	07
4.2	Standard & Poor's	07
5	**Credit Rating in Bangladesh**	08-09
5.1	Credit Rating in Bangladesh	08-09
5.2	Requirement for Rating in Bangladesh	09
6	**Overview of CRAB**	10-13
6.1	About CRAB	10
6.2	ECAI Status	10
6.3	Mission	10
6.4	Objectives	10-11
6.5	Code of Conduct	11

6.6	Grading Services	11
6.7	Advisory and Consultancy Services	12-13
6.8	Information Services	13
6.9	CRAB Marketing	13
7	Credit rating process analysis of Credit Rating Agency of Bangladesh (CRAB)	14-21
7.1	Implementation of BASEL II	14
7.2	Impact of BASEL II on banks in Bangladesh	15
7.3	Rating Process of CRAB	16-19
7.4	Time line	19
8	**Rating Methodology**	20-21
8.1	Banks and Financial Institutions	20
8.2	General and Life Insurance	20
8.3	Corporate	20
8.4	Rating Methodology of CRAB's Corporate Unit	21
8.4.1	Operation/Business Risk Analysis	22
8.4.2	Industry Risk Analysis	22
8.4.3	Management Risk Analysis	23
8.4.4	Credit Facility & Collateral Risk Analysis	23
8.4.5	Relation Risk Analysis	23
8.4.6	Financial Risk Analysis	24
9	**The Grading system of CRAB**	25-26
10	**Credit Rating Report of RAHIM TEXTILES MILLS LIMITED**	27-34
11	**Findings**	35-37
12	**Problems of credit rating process of CRAB**	35
13	**Recommendation**	36
14	**Conclusion**	37
15	**Bibliography**	38
16	**Appendix**	39-40

Chapter One: Introduction

Internship program is a part of our BBA degree requirement. It is equivalent to a 3 credit course. Internship provides privilege to us with the facilities to earn practical knowledge. Now the world is very much competitive. So, everybody must be expert in his or her field in both practical and theoretical knowledge. United International University aims to build future magnates with the theoretical knowledge as well as practical knowledge .Internship course and its report is a significant aspect in the direction of accomplishing the goal. For completing internship project, I have joined Credit Rating Agency of Bangladesh (CRAB). The function that of "CRAB" performs may be divided into three parts – Business Development, Credit Rating and Advisory Part. Credit means taking money or some benefits from a person or institution, known as a lender, for creating some benefits with an assurance to pay back the principal and the interest after a specific period of time. Rating is basically viewing a symbol or on a qualified judgment of something on a scale. So the term 'credit rating' can be definite as a judgment or an opinion on the quality of a lend, to meet its debt obligations. It is an evaluation made by credit bureaus of a borrower's overall credit history. Typically, a credit rating tells a borrower or investor the probability of the subject being able to pay back the loan. Investors, issuers, investment banks, broker-dealers, and government's agencies use this credit rating. Credit rating agencies raise the area of investment alternatives and provide independent &it's easy to get the capacity of relative credit risk. This commonly raises the effectiveness of the market & decreases the costs for both borrowers and lenders. Since Bangladesh has many organizations such as corporate houses, banks, NGO, NBFIs, rating is must to see the credit worthiness of these organizations. Credit rating is a growing sector in Bangladesh now.

1.1 Origin of the Report:

Internship report is part of requirement of internship program. The report is written on **"An assessment process of Credit Rating Process of Credit Rating Agency of Bangladesh (CRAB)"** the suggestion of my supervisor to reflect on the knowledge and experience I gathered at CRAB during my internship with it

1.2 Objectives of the report:

- To know about the current market situation of credit rating companies like CRAB and their customer services;
- To find out some problems of credit rating process
- To analyze the credit rating process of Credit Rating Agency of Bangladesh Limited
- To know about the credit rating process thoroughly

1.3 Scope of the Report:

Any theoretical course of the study has a great value when we apply it into our real life application. Bookish knowledge will have little meaning if it is not applicable in the real-world life. So, we need suitable application of our knowledge to get some benefit from our academic knowledge in our real-world life. Building a strong base of practical knowledge is possible through working somewhere practically. When theoretical knowledge is acquired from a course of study, it is only the half way of the subject matter. Internship implies the full application of the methods and procedures by acquiring knowledge of the subject matter which can be successfully applied in our day-to-day life.

1.4 Methodology of the Report:

The methods which used in this report are mainly explanatory in nature. Both primary and secondary data analysis were elected on the basis of basic research method.

1.4.1 Primary Data Collection:

The primary data has been collected from:-

- Interviewing the key persons of the company.
- Face to face conversation with officers and staffs;
- Related files, books study provided by the officers concerned;
- Sharing practical knowledge of officials.

1.4.2 Secondary Data Collection:

Secondary data of this report has been extracted from secondary sources, since the explanatory character of the study to arrange this report calls for existing facts and information collection.

The websites used in case of data collections are mentioned in **Reference.**

1.4.3 Limitations:

I have gone through some problems while preparing this report such as:

- Unavailability of Data: Some portion of data was unavailable in the web sites and printed information was also hard to collect.

- Many restriction were arise .Some data’s were confidential that’s why I couldn’t present some financial decisions.
- Inaccuracy of data: It was difficult for me to find out the reliable source of data among all the sources.

However, I strongly believe that I have tried to overcome my problems and completed this report at my best.

Chapter Two: Literature Review

The history of credit rating in Bangladesh is still in its early stage. The users importance of credit rating. Borrowers are not also well aware about the benefit of credit rating. Therefore, they are very much reluctant to have their company rated. There was only 3 or 4 credit rating company in this sector even a few years ago. At present, 8 credit rating agencies are open & give exact number in Bangladesh. The journey of credit rating sector started with the registration of CRISL in 2002.CRAB got the certificate of registration on 24-02-09 as the second credit rating company in the Bangladesh.

Banks are advised to take necessary actions from at this moment so that they can get their credit ratings in all appropriate areas. Banks will be required to complete their credit rating by June 30; 2007.Credit rating will be continuing process. It should be restructured on uninterrupted basis from year to year, within six months from the date of close of each financial year. The complete rating report in all respects should be submitted to Bangladesh Bank and made public within a period of one month of the notification of rating by the credit rating agency. Banks will disclose their credit rating prominently in their published annual & half yearly financial statements.

Bangladesh Bank in a promise to maintain the BASEL II framework in case of rating RBCA and RWA.As per BASEL Accord, it should be mentioned that the first BASEL Accord (BASEL I) by BASEL Committee was implemented in 2006, BASEL II was implemented in 2009. Shortcomings in BASEL I and BASEL II, BB is going to introduce BASEL III from 2014.BASEL III require banks to use credit rating of companies to assign to weights to calculate risk weighted assets of the banks

In community rating of Bangladesh, CRAB grabbed the second position as a member of Association of Credit Rating Agencies in Asia CACRAA from Bangladesh. ACRAA, established in 2001, is a federation of domestic rating agencies of the Asian Continent including those of Japan, Philippines, Uzbekistan, Sri Lanka, Malaysia, Indonesia, Korea, India, Pakistan, Taiwan, China, Thailand and Bangladesh, formed with the support and cooperation of the Asian Development Bank (ADB). As a member, CRAB participates in all the activities of this Association. As of April 2009, membership has been increased to 25 members from 14 countries.

CRAB also has a Technical Collaboration Agreement with ICRA Ltd. of India, one of the leading credit rating agencies of the region. This collaboration has provided CRAB with facility for development of rating methodologies, for performing rating assignments and for training of its professionals. ICRA-CRAB collaboration facilitates distribution of resources and information base and professional expertise between the two organizations, much to the advantage of CRAB.

Recently, Bangladesh got Ba3 rating on long term sovereign debt by Moody's .But the rating is not that high although the agency mentions. The rating is given because of Bangladesh economic stability. Pakistan (Ccc1) and Sri Lanka (B1). This rating reasoning is timely repayment of debt, managing external pressure and largely stable banking system that possess manageable contingent risk to government's balance sheet (Atiur Rahman).

Chapter Three: Credit Rating

3.1 Credit Rating Definition

The Credit Rating (CR) is a collective definition based on the pre-specified scale and reflects the underlying credit-risk for a given exposure. It deploys a number/ alphabet/ symbol as a primary summary indicator of risks associated with a credit exposure. Credit Risk Rating is the basic module for developing a Credit Risk Management system.

Credit rating evaluates the credit worthiness of a debtor, especially a business (company) or a government. It is an evaluation made by a credit rating agency to find out the debtor's ability to pay back the debt and the likelihood of default. Credit rating agencies determine the credit rating. The credit rating agencies evaluate qualitative and quantitative information of a company or government including non-public information obtained by the credit rating agency's analysts through the credit rating. Credit ratings are not based on mathematical formulas. Instead, credit rating agencies use their judgment and experience in determining what public and private information should be considered in giving a rating to a company or government. The credit rating is used by individuals and entities that purchase the bonds issued by companies and governments to determine the likelihood that the companies' /government will meet their bond obligations. A poor credit rating means that the company or government has a high risk of defaulting, based on the agency's analysis of the entity's history and analysis of long term economic prospects. Credit ratings for borrowers are based on significant due diligence conducted by the rating agencies. While a borrower will strive to have the highest possible credit rating since it has a major impact on interest rates charged by lenders, the rating agencies must take a balanced and objective view of the borrower's financial situation and capacity to repay the debt. The credit rating has an inverse relationship with the possibility of debt default. From the opinion of the rating agency, a high credit rating indicates that the borrower has a low probability of defaulting on the debt; conversely, a low credit rating suggests a high probability of default.

Credit rating agencies typically assign letter grades to indicate ratings. Standard & Poor's, for instance, has a credit rating scale ranging from AAA (excellent) and AA+ all the way to D.

A debt gadget with a rating below BBB- is approximate grade or a junk bond. Credit rating changes can have a significant impact on financial markets. For individuals, the credit rating is conveyed by means of a numerical credit score that is maintained by Equifax, Experian and other credit-reporting agencies. A high credit score indicates a stronger credit profile and will generally result in lower interest rates charged by lenders.

3.2 Types of Credit Ratings

a) International Ratings:

Issuer Credit Ratings (for governments, financial institutions and corporate institutions) review an entity's on the whole creditworthiness and its ability and willingness to meet its financial obligations as they come due across international borders. Sectors and the types of ratings that may be assigned are given below.

i) Sovereign credit ratings:

A sovereign credit rating is the credit rating of a sovereign entity. It specifies the risk level of the investing situation of a country and is used by investors looking to invest in a foreign country.

ii) Banks and other Financial Institutions:

- Long and short term local currency ratings
- Long and short term foreign currency ratings
- Financial strength ratings (an opinion of stand-alone financial health)
- Support ratings (an assessment of the likelihood that a bank would receive external support in case of financial difficulties)

iii) Corporate:

- Long- and short-term local currency ratings
- Long- and short-term foreign currency ratings

iv) Issue Credit Ratings:

Bonds, Sukuk and other financial obligations are opinion of credit rating agencies of the ability and willingness to honor their financial obligations of entities issues this obligations. The ratings assigned to the debt issues of financial institutions and corporate can be short-term or long-term, depending on the tenor of the financial obligation

b) National Ratings:

National Ratings determine the creditworthiness of issuers or issues relative to all other issuers or issues within the same country and unlike CI's other ratings are not intended to be comparable across countries. National Ratings are used in countries whose sovereign credit ratings are some way below 'AAA' on CI's international ratings scales, and where there is sufficient demand from capital market participants for such ratings.

Chapter Four: Profile of top two Credit Rating Agencies

The two renowned rating companies of today's world are Moody's Investors Service and Standard & Poor (S&P). The history of credit rating is like the history of forming and adopting credit rating services by these companies.

4.1 Moody's Investors Service

John Moody and Company first published "Moody's Manual" in1900. The manual published basic statistics and general information about stocks and bonds of various industries. From 1903 until the stock market crash of 1907, "Moody's Manual" was a national publication. In 1909 Moody began publishing "Moody's Analyses of Railroad Investments", which added analytical information about the value of securities. Expanding this idea led to the 1914 creation of Moody's Investors Service, this, in the following 10 years, would provide ratings for nearly all the government bond markets at the time. By the 1970s Moody's began rating commercial paper and bank deposits, becoming the full-scale rating agency that it is today.

4.2 Standard &Poor's

Henry Varnum Poor first published the "History of Railroads and Canals in the United States" in 1860, the forerunner of securities analysis and reporting to be developed over the next century. Standard Statistics formed in 1906, which published corporate bond, sovereign debt and municipal bond ratings. Standard Statistics merged with Poor's Publishing in 1941 to form Standard and Poor's Corporation, which was acquired by The McGraw-Hill Companies, Inc. in 1966. Standard and Poor's has become best known by indexes such as the S&P500.

Chapter Five: Credit Rating in Bangladesh

5.1 Credit Rating in Bangladesh

Bangladesh credit rating industry started its journey with the mandatory requirement of having credit rating for all public debt instruments, right offer issues and shares issued at a premium before the same were offered to the public. In the year of 2002, Credit Rating Information & Service Limited (CRISL) started its operation as the first registered credit rating agency of Bangladesh. The second rating agency, Credit Rating Agency of Bangladesh Limited (CRAB) went to its operation on 2004, thus, making the sustainability more difficult for two rating agencies.

Credit Risk Grading Manual of Bangladesh Bank was circulated by Bangladesh Bank vide BRPD Circular No. 18 dated December 11, 2005 on Implementation of Credit Risk Grading Manual which is primarily in use for assessing the credit risk grading before a bank lend to its borrowing clients. By that time CRISL rating reports were appearing to be very useful for the users; specially CRISL rating report on the then Al Baraka Bank convinced the Bangladesh Bank of the need of credit rating and it took the initiative to make mandatory for all banks to have credit rating before it goes for public offering. The banking regulator further decided to make it mandatory for all banks to submit credit rating reports to the regulator within six months after the finalization of accounts.

Following the example of the central bank, the insurance regulator also came up with the requirement to make rating mandatory for all general insurance companies every year and for the life insurance companies bi-annually. The Dhaka Stock Exchange, while issuing the direct listing regulations, made the credit rating mandatory before a company apply for direct listing.

The above regulations created an enabling environment for credit rating in the country's capital and financial markets.

The concept of client rating by the rating agencies to support capital adequacy of the banks came up in view of the need for implementation of Basel II capital adequacy framework by Bangladesh Bank. According to Basel II frame work, BB adopted a standardized approach for credit risk in which the services of rating agencies were required under certain strict terms and conditions. Bank client rating is very sensitive issues since most of the private sector companies, enjoying banking facilities, are not maintaining standard financials for appropriate evaluation. Unless and until all the above factors are properly evaluated through sector wise studies, the ratings are bound to give wrong signals. Security and Exchange Commission of Bangladesh (SECB) allows 2% default rate of the credit rating agencies. There are certain penalties in case default rate of more than 2% including cancellation of license of the defaulter rating agency as the highest penalty by SECB.

Lastly, new four credit rating companies have come to operation on 2012 which are WASO Credit Rating Company (BD) Limited, Alpha Credit Rating Limited, and Bangladesh Rating

Agency Limited & WASO Credit Rating Company (BD) Limited. A list of credit rating companies operating in Bangladesh is attached with the report as Appendix.

According to Association of Credit Rating Agencies of Asia, Bangladesh has the highest number of credit rating companies. India; one of the largest economy of Asia has only two credit rating companies. On the other hand, China, another largest economy is continuing its economic growth with a single credit rating company.

The rating industry In Bangladesh is now considered to be a parentless industry. The behavior of the regulators towards nourishing this industry does not appear to be rational. The rating agencies are still defined by the SEC rules as an investment advisory company. This has not changed over a long time. The paid-up capital remains at Tk. 5.0 million (50 lakh), to start a rating agency by any group of sponsors.

5.2 Requirement for Rating in Bangladesh

1) The Credit Rating Agencies Rules 1996 issued by the SEC which requires that the subsequent instruments be rated aforementioned to making issuance and that the information on rating be integrated in the brochure of propose documents:

a. Public offering of all debt instruments: bond, debenture, commercial paper, structured finance (asset/mortgage backed securities) and preference shares.

b. Public issue of shares at a premium.

2) Securities & Exchange Commission during its Securities and Exchange (Rights Issue) Rules, 2006 requires rating of the followings:

a. All rights issue at premium

3) The SEC rules 2004 (asset backed security issue) requires the credit rating of an asset pools to be securitized with optional requirements of credit rating of the originator.

4) Bangladesh Bank through its circulars requires mandatory credit rating for the followings:

a. All scheduled Banks on an annual basis

b. All financial institutes in case of IPO

c. Bank exposures

5) Chief Controller of Insurance requires mandatory credit rating for the followings:

a. All general insurance companies on an annual basis

b. All life insurance companies on biennial basis

Chapter Six: Overview of CRAB

6.1 About CRAB

Credit Rating Agency of Bangladesh Ltd. (CRAB) is the foremost credit rating agency of Bangladesh. It is providing rating, grading, advisory and information services. It was integrated as a public limited company under the Registrar of Joint Stock Companies in August 2003 and it received certificate for commencement of business in November 2003. CRAB was established license by the Securities & Exchange Commission (SEC) of Bangladesh for working like a credit rating company in February 2004. The formal launching of the company was held on 5 April 2004. CRAB has been certified as an External Credit Assessment Institution (ECAI) by Bangladesh Bank in 2009.

CRAB is a sovereign and proficient company which developed by technical collaboration with ICRA Ltd of India. CRAB is a foremost provider of investment information and credit rating services in Bangladesh. CRAB's shareholders include folks and institutions including Investment Corporation of Bangladesh (ICB) and IDLC.

6.2 ECAI Status

Bangladesh Bank attributed CRAB as an External Credit Assessment Institution (ECAI) in April 2009. Under the standardized approach for determining risk weighted assets against credit risk, the credit rating is to be resulted based on risk profile judged by the ECAIs. Banks will use the ratings of the ECAIs and conforming risk weight for calculating RWA for credit risk under the standardized tactic.

6.3 Mission

CRAB's mission is to achieve note worthy involvement towards qualitative improvement of the money and capital markets and enhancement of intelligibility of financial information and reliability of the commercial sector in Bangladesh for serving in the growth of investment.

6.4 Objectives

- To perform the credit rating of various debt instruments as Commercial papers, Bonds and Debentures, Islamic bonds, Preference shares, Equity instruments, Rights issue, Mutual fund units etc.
- To perform grading of various institutions as banks, non-banking financial institutions, insurance companies, corporations, non-corporations, societies, trusts or individuals or their clients for purposes requested clients or required by authorities.
- To accumulate, process and offer information services in broad areas for the use of organization and clients at different levels.
- To provide consultancy and advisory services in broad areas to our clients at different levels.

- To act as trustees of any debentures, bonds, securities, commercial papers or any other obligations and to exercise the powers of executor, administrator, receiver, treasurer, custodian in respect of such debts and securities.

6.5 Code of Conduct

CRAB complies with the Code of Conduct as prescribed under the Credit Rating Agencies Rules of Securities & Exchange Commission. The Code of Conduct focuses on the following:

- Responsibility &Trust
- Integrity & Competence
- Quality of Rating
- Confidentiality
- Independence
- Avoidance of Conflict of Interest
- Transparency and Timeliness of Rating Disclosure

6.6 Grading Service

CRAB is prepared to propose specialized assessment methodologies addressing special and area exact requirements under the umbrella of grading services. The services are intended for estimate of different activities and entities belonging to many-sided industries. CRAB's grading service is designed to provide an objective, credible and independent opinion on the quality of entities being examined with specific reference to parameters and issues unique to the sector/sub-sector. Construction and real-estate development activities, hospitals and diagnostic services, are examples of such sector/sub-sectors

The following grading methodologies will illustrate the scope:

A. <u>Real Estate Developers Grading</u>:
It is intended to make the investors aware of the risks involved in the developer's ability to distribute as per precise terms and quality parameters and transfer of ownership on time.

B. <u>Health Care Institutions Grading</u>:
It evaluates capability of the diagnostic and treatment providers to deliver quality care from the user's (patient's) perspective.

C. <u>Other Grading Services</u>:
CRAB is functioning in mounting more grading services to other interrelated areas and is prepare to intend upcoming services necessities of the clients.

6.7 Advisory & Consultancy Services

This will offer wide ranging management advisory services which include strategic counseling, restructuring solutions, financial feasibility, financial structuring / modeling, client specific need-based studies in the banking and financial services, corporate and other core sectors. CRAB is organized to expand complicated Credit Risk Management services for banks and other lenders. These services also exist for project grounding, evaluation and execution.

CRAB offers advisory/consulting services to clients who are looking for to be more modest in their operating provinces. This types of services will be useful for a variety of clients – corporate entities, regulatory authorities, banks/financial service organizations, industry associations, local governments, government organizations, and multi-lateral agencies, through selective tie-ups with reputed organizations having expertise in specific sectors.

A. Banking &Insurance:

Risk Management through to scheming and implementing risk models in the areas of Asset Liability Matching, Derivatives & Credit, and Portfolio etc.

- NPL management
- Strategy Development
- Process & Organizational Restructuring

B. Corporate:

- Financing structures &modeling
- Financial feasibility of expansions or restructuring
- Need based assignments

C. Projects:

- Project probability Studies which include technical and financial feasibility, demand studies, regulatory compliance, risk identification & mitigations etc.
- Financial structure of project financing

D. Power Sector:

- Price & tariff setting, evaluation of contracts, business policy & plan formulation, service costing, capacity building.
- Project Feasibility Study with Technical & Financial Viability, Risk assessment, Due diligence, Counter-party risk assessment, Market assessment, growth strategies, improving profitability and competitiveness
- Financial Structuring & Arrangement of Funds

E. Infrastructure:

Project Feasibility studies, risk assessment, , structuring private sector participation options designing concession agreements, Financial Structuring & Arrangement of Fundsassessing commercial viability of projects.

F. Transport:

Project recognition, technical and financial possibility/modeling, demand/traffic studies, traffic and transport planning.

6.8 Information Service

CRAB provides this service in the form of file, financial analysis, market analysis, market survey etc. The service is customized to specific need of the clients.

6.9 CRAB Marketing: Crab doing their marketing on these sectors-

Chapter Seven: Credit rating process analysis of Credit Rating Agency of Bangladesh (CRAB)

7.1 Implementation of Base III

Basel II is recommendatory framework for banking regulation, issued by the Basel Committee on Banking Supervision in June 2004. The objective of Basel II is to bring about international meeting of capital dimension and standards in the banking system. The Basel Committee members who finalized the requirements are mostly representatives from the G10 countries.

In December 2008, Bangladesh Bank issued guidelines on the New Capital Adequacy Framework (BRPD Circular 09, dated 31.12.08) to banks operating in Bangladesh, based on the Basel II framework. These guidelines inform that BB suggests implementation of Basel II with the following approaches:

i) Standardized approach for calculating RWA against credit risk

ii) Standardized approach for calculating RWA against Market Risk

iii) Basic indicator approach for calculating RWA against Operational Risk.

Under the standardized approach for measuring credit risks, the risk grades are determined based on ratings assigned by the ECAIs.

Mapping of BB Rating Grade with ECAI Rating

7.2 Impact of BASEL II on banks in Bangladesh

Under BASEL II framework, banks offer capital for credit risk which is based on the risk. That not is linked with their loan portfolios. If a bank has high-quality credit exposure & it will save capital because of credit risk. It is the difference which is perceptible in the figure below. On the other hand, a bank with moderately poorer rated credit exposes to provide more capital. Furthermore, banks will have to arrange incremental capital for operational risk and market risk.

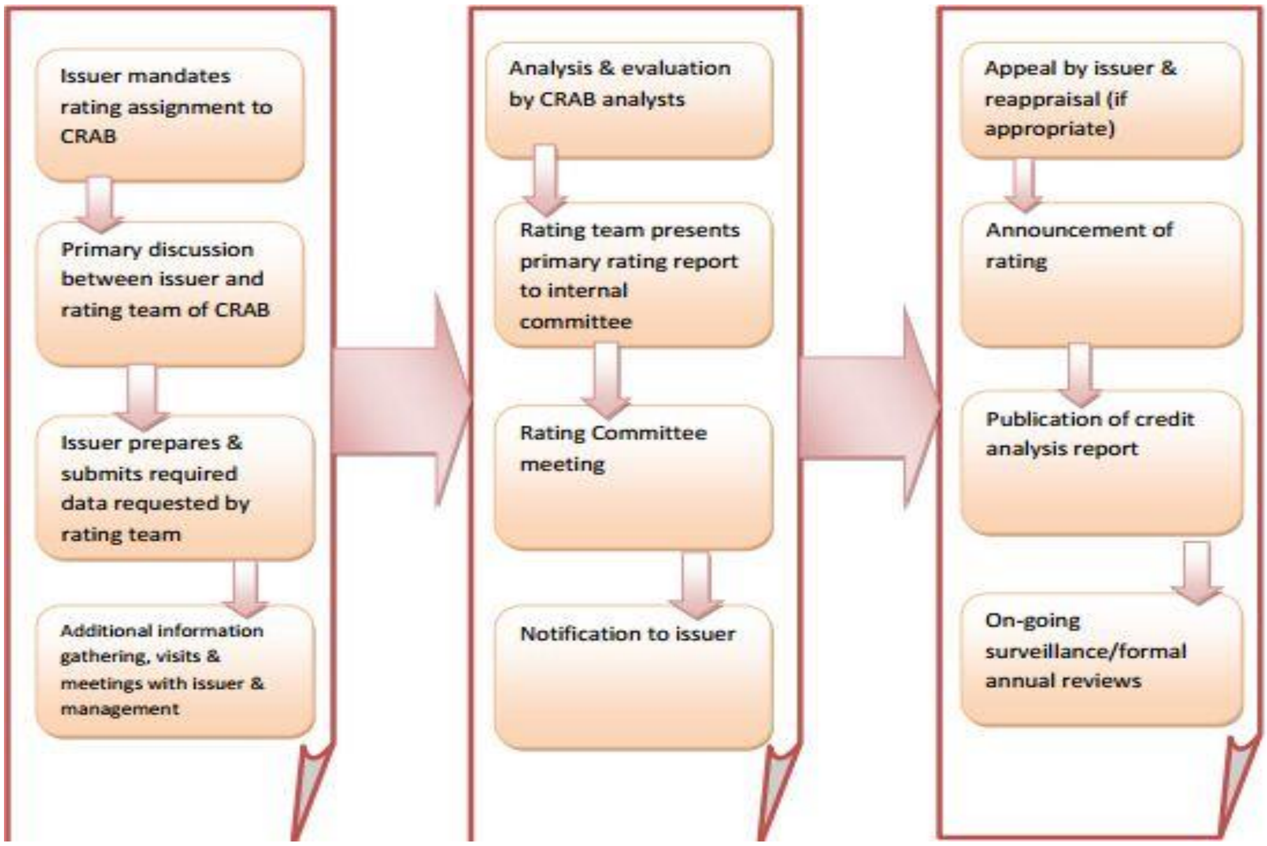
Illustration of capital-saving potential by banks on a loan of Tk. 1000 Million

	BASEL, I		BASEL II		
Rating	Risk Weight	Capital required* (Tk. mn)	Risk Weight	Capital required* (Tk. mn)	Capital saved (Tk. mn)
AAA, AA_1, AA_2, AA_3	100%	100	20%	20	80
A_1, A_2, A_3	100%	100	50%	50	50
BBB_1-BBB_3, BB_1-BB_3	100%	100	100%	100	0
B_1 and below	100%	100	150%	150	-50
Unrated	100%	100	125%	125	-25

*Capital required is calculated as Loan Amount x Risk Weight x %

7.3 Rating Process of CRAB

Figure: Credit Rating Process of CRAB



Source: CRAB Corporate Brochure

CRAB's rating process began with the receipt of a formal request (or mandate) from the Client. A Rating team involving of financial analysts is involved for leading Rating assignment. Then analysts' collect information from the client through documents, data, meeting, site visits etc. It also depends on on secondary sources of information including its own research division. After completing the analysis analysts prepare a **Draft Rating Report** which is discussed in the **Internal Committee**. This draft report is provided to the client also to ensure that there is no factual mistake or misrepresentation in the report. After that the report is presented to the CRAB Rating Committee. The Rating Committee is the final authority for assigning Ratings. The consigned rating along with the crucial issues is interconnected to the issuer's top management for acceptance. If the client does not find the rating acceptable then it has a right to appeal for a review.

Such reviews are usually taken up only if the issuer provides certain fresh inputs. Rating is an interactive process with a prospective come near. It involves a series of steps. The main steps are given below:

A) Rating Request:

Ratings in CRAB are usually began on formal request (or Mandate) from the prospective Issuer. An undertaking is also obtained on a Taka 150 non-judicial Stamp Paper before commencement of a Rating assignment; which spells out the terms and conditions of the engagement of credit rating agency.

B) Team:

The Rating team usually comprises two members. The composition of the team is based on the expertise and skills required for evaluating the business of the Issuer. The team is usually led by the lead analyst with adequate knowledge of the relevant instrument to be Rated.

C) Role of the Lead Analyst:

The lead analyst shall arrange to finalize the Rating report and send the same to the Rating Committee members. The lead analyst shall arrange to make a presentation before the Rating Committee. The lead analyst will make sure that all the relevant and material issues that may have an impact on the credit quality of the issuer (including, but not limited to those which are related to the program being Rated) are presented before the Rating Committee for discussion. The lead analyst will ensure communication of the Rating decision to the Issuer and initiate all the necessary actions consequent to the reaction of the issuer depending on the circumstances.

D) Information Requirements:

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

E) Secondary Information:

CRAB draws on the secondary sources of information including its own in-house research and information obtained through meetings with the Issuers' bankers, auditors, customers and suppliers among many other relevant market participants. CRAB also has a panel of industry experts who provide guidance on specific issues to the Rating team.

F) Management Meetings and plant visits:

Rating involves valuation of a number of qualitative factors with a view to estimate the future earnings prospects of the Issuer. This requires exhaustive interactions with the Issuers' management exactly with a view to understanding the business plans, future competitive position and funding policies, etc.

G) Other Meetings:

The CRAB analyst team may also decide to meet the auditors (accounting policies followed, quality of internal controls, standard of disclosures, etc.), bankers / lenders, lawyers, trade union leaders, key functional executives as well as a few investors, customers and suppliers, depending upon the circumstances to get a direct feedback from different stakeholders.

H) Meeting with the Issuers' CEO/CFO:

This would be a very essential meeting (usually, the last meeting) when the Rating team would converse all critical issues / findings that may impact the rating decision with the CEO / CFO of the Issuer (in the absence of CEO / CFO, with a senior executive nominated by the Issuer for this purpose).

I) Internal Review Committee Meeting:

Once the draft report is organized by the analysts' team, it is placed before the Internal Review Committee Meeting. The committee comprises of senior analysts. The committee reviews the draft rating report and analysis made by the analysts.

J) Rating Committee Meeting:

The authority for assigning Ratings is vested in the Rating Committee of CRAB. The Rating reports are sent by the analyst team in advance to the Rating Committee members. A presentation about the Issuers business and the management is made by the Rating team to the Rating Committee at the meeting. All the key issues are identified and discussed at length during the meetings and all relevant issues, which influence the Rating, are considered. The differences if any arise during the discussion are taken note of. Finally, a Rating is assigned either by a consensus or by majority votes.

K) Surveillance:

It is mandatory on the part of CRAB to observe accepted ratings over the term of the rated instrument or till any amount are outstanding beneath the programs rated. The Issuer is bound by the agreement to provide information to CRAB to make possible such monitoring. Way of providing information, etc. for surveillance, CRAB may on its own carry out the surveillance on best efforts basis based on the available information and possible interactions after giving the Issuer adequate notice requesting him to co-operate. The Ratings are generally reviewed every year, unless the circumstances of the case warrant an earlier review due to changes in circumstances or major developments that were not anticipated / factored in the Rating decision. The Ratings may be upgraded, Downgraded or retained after the surveillance. The CEO, at his sole discretion, may give one opportunity to the Issuer to represent his case if he is not satisfied with the Rating decision after the surveillance process. However, the Issuer would not have any option of not accepting the Rating after the surveillance.

7.4 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.

Chapter Eight: Rating Methodology

CRAB has established extremely consistent rating procedures for diverse instruments and entities. The procedure has been established in view of all the appropriate factors affecting the potential cash generation capability of the issuers. These features comprise industry characteristics, competitive position of the issuer, operational efficiency, management quality, commitment to new projects and other associate companies, and future funding policies of the issuer. A comprehensive analysis of the past financial statements is made to consider the concrete business performance. It considers the anticipated future income under various sensitivity circumstances are tired up and evaluated against the future obligations that require servicing over the term of the instrument being rated. CRAB rating methodology intends to evaluate the relative console 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 expectations earning capabilities with suggestion to the pliability to perform in unpleasant situations.

8.1 Banks and Financial Institutions

CRAB's ratings assess the credit worthiness of financial institutions, commercial and merchant banks, non-bank finance companies, housing finance companies etc. Financial institution’s ratings focus on the risks that maybe affect the operations of a company - operating risks, financial risks and management risks.

8.2 General and Life Insurance

CRAB ratings of Insurance Companies assess the ability of the insurers concerned to honor policyholder 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. The analysis also includes an assessment of company's ownership strength, profitability, liquidity, operational and financial leverage, capital adequacy, and asset / Liability management method.

8.3 Corporate

CRAB's corporate rating methodology is established for non- financial organizations which are operating in manufacturing, assembling, service sector etc. The common factors are same for all entities / issuers Measures are exact for diverse industries and it use for rating. There are separate rating criteria for rating of entities in diverse industries.

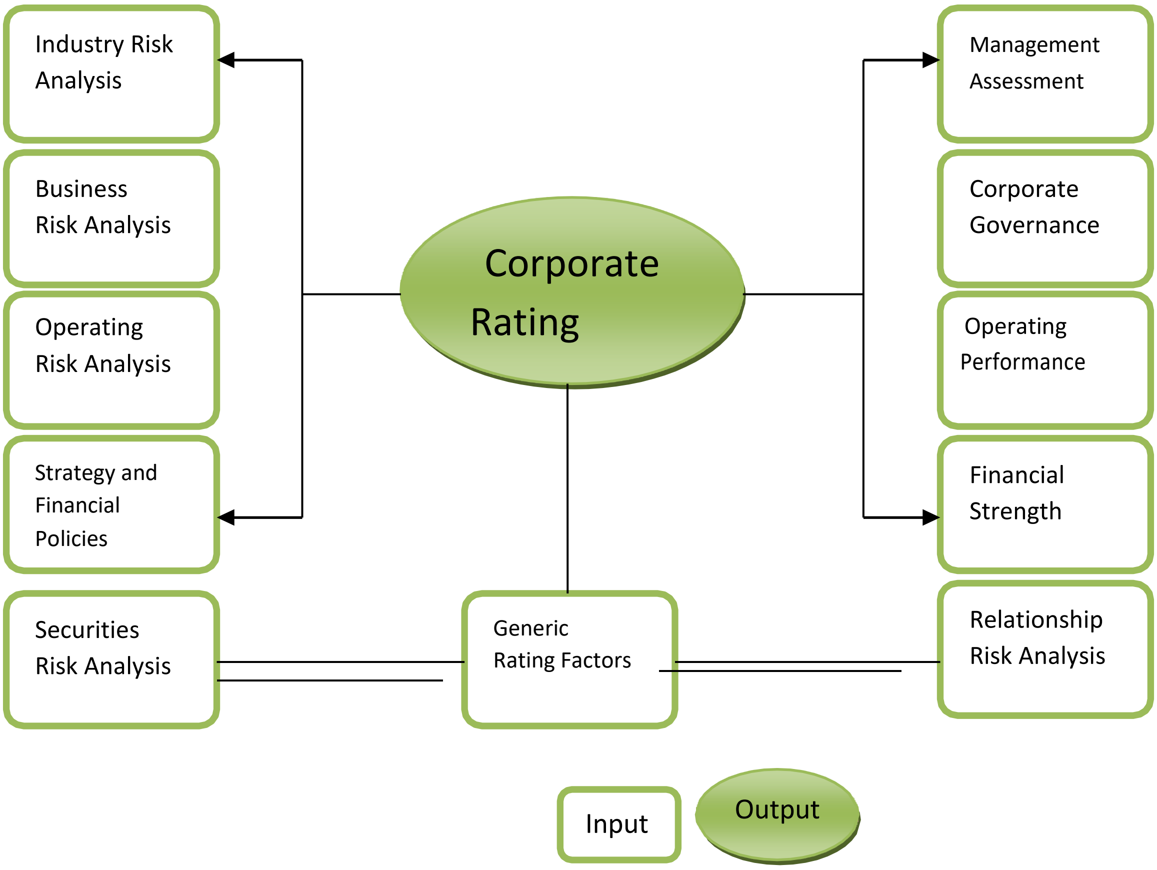


Figure: CRAB's Corporate Rating Methodology

As this report concerns about corporate rating of Credit Rating Agency of Bangladesh (CRAB), so matters related to this sector has been disclosed below-

8.4 Rating Methodology of CRAB's Corporate Unit

In the Corporate rating division of CRAB, it does the rating procedure of different corporate entities including group of company and SME. The Corporate enteritis could be from any industry except from Banking and Insurance industry. In the term of rating different corporate entities CRAB follows following rating methodology-

- **Operation/ Business Risk Analysis**
- **Industry /Market Risk Analysis**
- **Management Risk Analysis**
- **Credit Facility and Collateral Risk Analysis**
- **Financial Risk Analysis**

8.4.1 Operation/ Business Risk Analysis:

In this section Analyst's work is basically analyzing the company's operation and risk related with Operation. By analyzing operating risk CRAB finds out existence of Company's strength which comes from the operation of the company. Factors which are considered here are listed below-

- Product diversity
- Raw material procurement strategy
- Relationship with customer
- List of top five Suppliers
- Cost Efficiency
- Adequacy of Resources
- Technological advancement
- Total value of existing machineries of the Company
- Production or trading scale
- List of top five Customers
- Raw material quality
- Pricing
- List of machineries; brand names and country origin of those Machineries
- Quality commitment and quality policy
- Quality of imported raw material
- Quality of products produced
- Investment in branding and marketing
- Utility supply, specially electricity gas supply, gas based generator(s) to ensure continuous power supply, generators' brand name and capacity
- Business Model
- Investment in renovation
- pump for supplying necessary water for the factory

Industry to industry these factors may vary in terms of analyzing a company's business performance.

8.4.2 Industry Risk Analysis:

CRAB's industry risk analysis focuses on the strength of industry prospects, as well as the competitive factors affecting that industry. The reason behind this consideration is to compare the current performance of selected company with the industry to oversee whether the company is running properly or not. Factors which are considered here are given below-

- Industry prospects for growth, stability or decline
- The pattern of business cycle
- Investment plans of the major players in the industry
- Capital intensity
- Demand and supply of product
- Price trends
- Change in technology
- International /domestic factors
- Regulation, entry barriers
- Existence or potential for heavy taxation

8.4.3 Management Risk Analysis:

This section identifies if there is any deviation in the management team which might affect the company in their daily run of business. Several factors observed here are shown below-

8.4.3.1 Shareholders' position and percentage of share
8.4.3.2 Type of Management Hierarchy
8.4.3.3 Number of Employees
8.4.3.4 Process of Reporting
8.4.3.5 Degree and Qualification of employee
8.4.3.6 Employees' safety measures
8.4.3.7 Corporate governance
8.4.3.8 Types of Strategy taken and description
8.4.3.9 Foreign Promoters

8.4.4 Credit Facility and Collateral Risk Analysis:

CRAB puts more emphasis on security analysis in case of rating of instrument. In case of rating loan obligation focus is more one cash flow compared to collateral. 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. Several Factors have been considered here which are shown below-

8.4.4.1 Types of collateral; Short term or long term
8.4.4.2 If the Collateral is long term like land, then full description of the land is to be given
8.4.4.3 Available security and collateral
8.4.4.4 Quality of collateral
8.4.4.5 Adequacy of collateral
8.4.4.6 Additional credit enhancement i.e. in the form of guarantee, insurance
8.4.4.7 Legal risk of the collateral

8.4.5 Relation Risk Analysis:

To assess the creditworthiness of a company, it is inevitable to assess the banking relationship of the rated entities. Rating reflects the willingness as well as ability of the corporate to service its obligations on time. CRAB prefers to collect "Banker's Confidentiality Report" from all the bankers of the corporate. For that CRAB developed a standard format of the report which includes:

8.4.5.1 A short-term profile of the subject's financial relationships with its suppliers and customers during last one year.
8.4.5.2 How long has the subject been your customer? Are the businesses with the subject and its sister companies satisfactory?
8.4.5.3 Has the interest and principal payment from the subject been timely? Have there been any defaults by the subject or its sister companies? If yes, please give the details for one year.
8.4.5.4 Loan funded, non-funded and others, amount sanctioned/limit, amount disbursed and Overdrawn (if any) as of current date.

8.4.6 Financial Risk Analysis:

CRAB takes a company's three to five years audited financial statements, the book kept by the management, amount of export and import, bankers' feedback and clients credit history while assessing of financial risk for the company. Factors which are considered are listed below-

- 8.4.6.1 Earnings and Profitability
  - 8.4.6.1.1 Gross Profit Margin
  - 8.4.6.1.2 Net Profit Margin
- 8.4.6.2 Capital Structure and Debt Coverage Position
  - 8.4.6.2.1 Cash Flow from Operation(CFO)
  - 8.4.6.2.2 Borrowed Fund to Equity
  - 8.4.6.2.3 Borrowed Fund to EBITDA
  - 8.4.6.2.4 CFO/Debt
  - 8.4.6.2.5 FFO/Debt
  - 8.4.6.2.6 EBIT/Interest
- 8.4.6.3 Liquidity Position and Working Capital Intensity:
  - 8.4.6.3.1 Current Ratio
  - 8.4.6.3.2 Quick Ratio
  - 8.4.6.3.3 Receivable Collection Period
  - 8.4.6.3.4 Inventory Processing Period
  - 8.4.6.3.5 Cash Conversion Cycle
  - 8.4.6.3.6 NWC/Revenue

Chapter Nine: The Grading system of CRAB:

TING SCALES AND DEFINITIONS –Long Term (Corporate)

Long term Rating Definition

Investment Grade	'AAA'	Extremely strong capacity to meet financial commitments. Highest rating
	'AA'	Very strong capacity to meet financial commitments
	'A'	Strong capacity to meet financial commitments, but somewhat susceptible to adverse economic conditions and changes in circumstances
	'BBB'	Adequate capacity to meet financial commitments, but more subject to adverse economic conditions
	'BBB–'	*Considered lowest investment grade by market participants*
Speculative Grade	'BB+'	*Considered highest speculative grade by market participants*
	'BB'	Less vulnerable in the near-term but faces major ongoing uncertainties to adverse business, financial and economic conditions
	'B'	More vulnerable to adverse business, financial and economic conditions but currently has the capacity to meet financial commitments
	'CCC'	Currently vulnerable and dependent on favorable business, financial and economic conditions to meet financial commitments
	'CC'	Currently highly vulnerable
	'C'	A bankruptcy petition has been filed or similar action taken, but payments of financial commitments are continued
	'D'	Payment default on financial commitments

Ratings from 'AA' to 'CCC' may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.

***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

RATINGS	DEFINITION
AAA (Lr) **(Triple A)** **Highest Safety**	Highest degree of safety regarding timely servicing of financial obligation. Like as instrument carry lowest credit risk.
AA (Lr)* **(Double A)** **High Safety**	High degree of safety regarding timely servicing of financial obligation. Like as instrument carry very low credit risk.
A (Lr) **Adequate Safety**	Have adequate degree of safety regarding timely servicing of financial obligation. Like as instrument carry low credit risk.
BBB (Lr) **(Triple B)** **Moderate Safety**	Have moderate degree of safety regarding timely servicing of financial obligation. Like as instrument carry low credit risk.
BB (Lr) **(Double B) Inadequate Safety**	Have moderate degree of default regarding timely servicing of financial obligation.
B (Lr) **High Risk**	Have high risk of default regarding timely servicing of financial obligation.
CCC (Lr) **Very High Risk**	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**	Have very high risk of default regarding timely servicing of financial obligation.
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

RATINGS	DEFINITION
ST-1 Highest Grade	It indicates that the level of safety about timely payment on the loans/facilities is very strong.
ST-2 High Grade	It rating indicates that the level of safety about timely payment on the loans/facilities is strong.
ST-3 Adequate Grade	It indicates that the degree of safety regarding timely payment on the loans/facilities is adequate.
ST-4 Marginal	It indicates that the degree of safety about timely payment on the loans/facilities is marginal; and the issues are moderately susceptible to the undesirable things of altering situation.
ST-5 Inadequate Grade	It indicates that the degree of safety about timely payment on the loans/facilities is minimal. .
ST-6 Lowest Grade	It indicates that the loans/facilities are probable to be in default on maturity or is in default.

Chapter Ten: Credit Rating Report

Credit Rating Report
RAHIM TEXTILES
MILLS LIMITED

Particulars	Ratings Outstanding	Previous Ratings	Remarks
RAHIM TEXTILES MILLS LIMITED	A_3	A_3	Entity
BDT 240.4 million aggregate Long-Term Outstanding (LTO)	A_3 (Lr)	A_3 (Lr)	Appendix-1 for details
BDT 2,412.5 million aggregate Fund and Non-Fund based limits	ST-3	ST-3	
RAHIM TEXTILE MILLS LIMITED.	Stable	Stable	

Lr- Loan rating; ST-Short Term

Date of Rating: 14 July 2017.

Validity: The Long-Term ratings are valid up to 30 June 2017 and the Short-Term ratings are valid up to limit expiry date of respective credit facilities or 30 June 2017 whichever is earlier.

Rating based on: Audited financial statements up to 31 December 2016, business data up to June 2017, bank liability position as on 30 June 2017, and other relevant quantitative as well as qualitative information up to the date of rating declaration.

Rationale

Credit Rating Agency of Bangladesh Limited (CRAB) has reaffirmed the long-term entity rating of RAHIM TEXTILE MILLS LIMITED to**“A_3”**. CRAB has also reaffirmed the Long-Term rating of BDT
240.4 million Aggregate Long-Term Outstanding to **A_3 (Lr)** and Short-Term rating at **ST-3** to BDT 2,412.5 million aggregate fund and non-fund-based limits of the Company.

Management & Human Resources

The Managing Director of the Company is overall responsible for total functioning and operations of the Company. Under reporting to the Managing Director, a team of dedicated and efficient management carries out day-to-day operations of the Company. As per hierarchy of the Company, the Managing Director directly looks after Company’s corporate affairs, strategic planning, MIS, and governance, risk management & compliance (GRC) issues. Executive Director (COO) of the Company with close supervision of Managing Director looks after the operation, R&D, marketing, supply chain, factory management, accounts, finance, human resource and quality assurance departments.

▪ BUSINESS AND COMPETITIVEPOSITION

RAHIM TEXTILE MILLS LIMITED is a 100% export oriented home textile items manufacturer. Present installed capacity of RAHIM TEXTILE MILLS LIMITED is 100,000 meters per day (finished fabrics), where with its 162 looms (56 added from January 2017) can weave around 30,000-meter fabrics (1/3 of total demand) and rest to weave from outside. Present printing capacity of the Company increased to around 90,000 meters per day (previously 50,000 meter), and dying capacity is70, 000 meters per day.200 new looms are under. With its existing weaving facilities (second hand loom, imported from Brazil), which ultimately reduce the machinery imbalance of the Company in future to some extent.

In 2017, Company's capacity utilization was not up to the mark, which ultimately reduces the overall sales of the Company in the same year due to recession in Company's major exporting countries and reducing order from its major buyer (IKEA) because of their RFQ process. From mid of 2016, the management reduced its buyer's concentration and took new buyers including LIDLE, TESCO, Velly Forge, etc. In the meantime, IKEA's RFQ process was also completed. As a result, in 2016, the Company's capacity utilization increased to 72%, and reach sales to BDT 2,474.3 million at the end of year2016.

Table 2

RAHIM TEXTILE MILLS LIMITED's Business Performance

	Year ended Dec 31					
Month	(6) **2017**	(12) **2016**	(12) **2015**	(12) **2014**	(12) **2013**	(12) **2012**
Net Sales (Mil. BDT)	885.8	2,474.3	1,448.0	1,623.3	1,008.3	352.5
Export Sales (%)	100.0	100.0	100.0	100.0	100.0	100.0
EBITDA (Mil. BDT)	n.a	281.3	249.9	190.5	135.1	41.0
EBITDA Margin (%)	n.a	11.4	17.3	11.7	13.4	11.6
Sales Volumes						
Installed Capacity (Mil. Meter)	15.6	31.2	31.2	26.0	26.0	12.5
Total Production (Mil. Meter)	8.2	22.4	14.0	15.8	11.2	4.7
Total Sales (Mil. Meter)	7.9	21.6	11.6	15.6	7.1	4.3
Capacity Utilization (%)	52.8	71.8	44.8	60.8	43.2	37.7
Fabric per Meter (BDT)	111.8	114.6	125.2	104.1	141.6	82.2

Up to first 6-month of 2017, overall performance of the Company is not up to the mark like other home textile Company because of Country's pre-election political unrest in fourth quarter of 2017, which ultimately give negative RAHIM TEXTILE MILLS IMITED. Ok to the major home textile buyers of the Country. As a result, the Bangladeshi Companies got low order from the 'Heim textile-Frankfurt', an International trade fair for home and contract textiles was take place from 8th January 2017 to 11th January 2017. Pakistan's gaining GSP Plus status in EU market from January 2017 tag with strong Bangladeshi currency value compare to Pakistani currency also liable for such crisis. However, The Bangladeshi home textile exporters are trying their level best to retain its market shares, and hope to improve from 2nd half of 2017.

On an average, one (1) set home textile products require five (5) meters of fabric. Product mix of the Company is quite flexible and is determined by the management of RAHIM TEXTILE MILLS LIMITED. Based on the demand and requirement of the buyer. It uses jacquard, dobby, yarn dyed, high value sateen, pin tuck, appliqué, embroidery, etc. types of fabrics for its home textile products. The Company focuses on product development through research and innovation and its effort is to produce exclusive fashion home textile items to compete in the higher value-added market segment, and in this regard, the Company also gets support from 'Sue Maggie Design Studio' situated in UK for value added products.

Table 3

RAHIM TEXTILES MILLS LTD.'s Product list

Bed Linen	**Windows**	**Table/Kitchen**	**Others**
Flat Sheet	Curtains (Pencil Pleat, Tab Top, Tape, Loop, Eye Let etc)	Table Runner	Sofa Cover
Fitted Sheet	Window Valance	Napkins	Cushion Cover
Quilt/Duvet Cover	Roman Blind	Gloves	
Pillowcase	Coated Blind	Apron	
Valance Sheet			
Decorative Pillowcases			
Comforter			
Bed Spreads			
Throws			

Raw material procurement strategies play an important role to make the business profitable. Various counts of yarn, chemicals, the primary inputs, constitutes major portion of the COGS of RAHIM TEXTILE MILLS LIMITED and has significant impact on the operational performance. Between those two major raw materials, yarn price in the world market is more volatile than dyes chemical price, since yarn price is directly correlated with cotton production. Cotton consumption in Bangladesh is likely to increase nearly by 17% to 0.7 million MT in the current FY14 due to continuous growth of readymade garment and yarn. The country's textile industry is likely to face a tough situation in coming days as prices of raw cotton is likely to increase in the international market, despite forecasts of a comfortable stocks at the end of the season. Cotton prices are expected to rise in current fiscal (FY14) which expects a rise in the season average 88 cents per pound in FY13 to more than one dollar in FY14.

▪ **FINANCIAL POSITION**

Earnings &Profitability

Table 4

RAHIM TEXTILE MILLSLIMITED.'s Financial Performance					
	Year ended Dec 31				
Month	(12) **2017**	(12) **2016**	(12) **2015**	(12) **2014**	(12) **2013**
Net Sales (Mil. BDT)	2,474.3	1,448.0	1,623.3	1,008.3	352.5
Sales Growth (%)	70.9	(10.8)	61.0	186.1	468.9
CGSD as % of Sales	86.2%	79.6%	86.1%	83.8%	79.3%
EBITDA (Mil. BDT)	281.3	249.9	190.5	135.1	41.0
EBITDA Growth (%)	12.6	31.2	41.0	229.1	416.7
EBITDA Margin (%)	11.4	17.3	11.7	13.4	11.6
Net Profit after tax (Mil. BDT)	65.4	32.9	32.2	15.2	15.6
Net profit after tax growth	99.2	1.9	112.1	(2.7)	200.5

The revenue sources of RAHIM TEXTILE MILLS LIMITED are direct export (through Master L/C) to the world-renowned home textile importer (R. Soper, IKEA, NEXT, TESCO, Biberna, KHG, Liddel, M & S, Valley Forge etc.). In 2016, RAHIM TEXTILE MILLSLIMITED.'s direct export of home textile items was BDT 2,474.3 million, which was BDT 1,448.0 million in 2016 on the back of increase order from its major client and adding value added products and new buyers in its product and buyers list. The Company manufactures around 19 types of home textile items in three broad heads. During 2013, it sold 22.4 million meters of home textile items at the rate of average BDT 114.6 per meter.

Table 5

Profitability Ratios					
	Year ended Dec 31				
Month	(12) **2017**	(12) **2016**	(12) **2015**	(12) **2014**	(12) **2013**
Gross Profit Margin (%)	9.7	13.9	9.3	10.0	20.7
EBITDA Margin (%)	11.4	17.3	11.7	13.4	11.6
Net Profit Margin (%)	2.6	2.3	2.0	1.5	4.4
Return on Asset (%)	1.9	1.1	1.6	0.8	1.2

Although, sales revenue was increased by almost 70% in 2016 than previous year, Company's overall profitability ratios were not satisfactory compare to previous year due to increasing major raw material prices.

Coverage & Leverage Position

Table 6

Leverage and Coverage Position

	Year ended Dec 31				
Month	(12)	(12)	(12)	(12)	(12)
(Mil. BDT)	**2017**	**2016**	**2015**	**2014**	**2013**
Equity	923.4	838.0	627.7	595.4	580.2
Borrowed Fund*	2,496.5	2,252.0	1,324.3	1,166.1	625.7
EBITDA	281.3	249.9	190.5	135.1	41.0
Fund Flow from Operation (FFO)	176.0	149.0	129.4	100.1	15.6
Cash Flow from Operation (CFO)	(211.4)	(677.9)	72.9	(471.5)	(276.8)
Free Cash Flow (FCF)	(360.9)	(987.5)	(155.3)	(534.3)	(335.5)
Ratios					
Debt to Equity (x)	2.7	2.7	2.1	2.0	1.1
Borrowed Fund to EBITDA (x)	8.9	9.0	7.0	8.6	15.2
FFO/Debt (%)	7.1	6.6	9.8	8.6	2.5
CFO/Debt (%)	(8.5)	(30.1)	5.5	(40.4)	(44.2)
FCF/Debt (%)	(14.5)	(43.9)	(11.7)	(45.8)	(53.6)
EBIT/Interest (x)	1.6	1.3	1.5	1.4	1.6

* Including Directors loan

RAHIM TEXTILE MILLS LIMITED.'s capital structure has improved at good pace in last two years of operation (average 21.9%), where major portion of its equity is 'advance against share capital' or share money deposits (BDT 763.6 million in 2013). Although Company's borrowed fund in amount has increased by 10.9% in 2016, its 10.2% growth in equity in leverage position (2016: 8.9X; 2015: 9.0x).However, it is still very high. Company's coverage position in 2013 was found to be satisfactory having EBIT was 1.6 times higher than its interest expenses.

Liquidity Position

Table 7

Liquidity Position

	Year ended Dec 31				
Month	(12)	(12)	(12)	(12)	(12)
	2017	**2016**	**2015**	**2014**	**2013**
Current Ratio (X)	1.0	1.0	1.0	1.0	0.9
Quick Ratio (X)	0.4	0.4	0.3	0.3	0.2
Receivable Collection Period (Days)	58	50	16	38	32
Inventory Processing Period (Days)	214	317	162	263	427
Payable Payment Period (Days)	4	7	5	14	98
Cash Conversation Cycle (Days)	267	360	173	287	360

RAHIM TEXTILE MILLS LIMITED.'s liquidity position shows some improvement in 2016 than previous year. Current ratio of the Company was just one time for last consecutive four years caused by high inventory level due to industry nature (NWC to Sales in 2016 and 2015 was 89.0% and 125.3%respectively).

Working capital intensity of RAHIM TEXTILE MILLS LIMITED was in downward trend during 2014, the banker of RAHIM TEXTILE MILLS LIMITED was increased the working capital loan limit by 70% because of increasing capacity utilization. Cash conversion cycle was improving to 267 days in 2017, which was 360 days in 2016 indicating that Company has been still facing problem in its working capital management. RAHIM TEXTILE MILLS LIMITED enjoyed working capital limit (fund & non-fund base) of BDT 2,412.5 million as of 30 June 2017 against which outstanding amount at the same date was BDT 2,401.0 million, which indicates very tight liquidity position of the Company at present.

▪ BANK FACILITIES &CREDIT HISTORY

RAHIM TEXTILE MILLS LIMITED. is banking with IBBL since 2007. Company's loan as on 30 June 2017 was given below:

Table 8

RAHIM TEXTILE MILLS LIMITED.'s Loan Particulars as of 30 June2014

(Mil. BDT)	Facility	Limit	Outstanding
Islami Bank Bangladesh Limited			
Fund Based Long term	Project Loan	183.0	240.4
	BMRE Project Loan1	331.2	
	BMRE Project Loan 2		
Sub Total		**514.2**	**240.4**
Fund Base Short term	Bai Muajjal/Bai Salam/ Bai As Sarf/MPI (TR)/QSCA	1,700.0	1,764.6
Sub Total		**1,700.0**	**1,764.6**
Non-Fund Base Short term	LC/Bills/BBLC	700.0	623.9
	BG	12.5	12.5
Sub Total		**712.5**	**636.4**
Grand Total		**2,926.7**	**2,641.4**

Since the inception of business relationship with the subject, overall transaction behavior is reported to be satisfactory by RAHIM TEXTILE MILLS LIMITED.'s financing bank.

RAHIM TEXTILE MILLS LIMITED.'s Loan Particulars as of 30 June2017				
(Mil.BDT)	**Facility**	**Limit**	**Outstanding**	
Islami Bank Bangladesh Limited				
Fund Based Long term	Project Loan	183.0		16/01/2015
	BMRE Project Loan 1	331.2	240.4	14/06/2018 22/09/2018 24/01/2019 07/08/2020
	BMRE Project Loan 2			24/01/2021 05/05/2019 09/06/2019 10/06/2019
Sub Total		**514.2**	**240.4**	
Fund Base Short term	Bai Muajjal/BaiSalam/ Bai As Sarf/MPI (TR)/QSCA	1,700.0	1,764.6	21/05/2015
Sub Total		**1,700.0**	**1,764.6**	
Non Fund Base Short term	LC/Bills/BBLC	700.0	623.9	21/05/2015
	BG	12.5	12.5	17/05/2018 19/08/2014 24/06/2014
Sub Total		**712.5**	**636.4**	
Grand Total		**2,926.7**	**2,641.4**	

Credit Strengths

1. Sales Increase due to adding new capacity last year
2. Positive industry prospect;
3. Promoters' market know how;
4. Long standing relationship with clients, mitigate demand risk;
5. Satisfactory profitability margins; improving liquidity position;
6. Favorable policies extended by the Government for the textile sector through cash incentive.

Credit Concerns

1. Increased financial leverage;
2. Although, liquidity position slightly improved, it's still tight in position;
3. Reconditioned machineries;
4. Operating margin is susceptible to the volatility associated with raw material prices and foreign exchange fluctuation

The ratings reaffirmations of the Company positively reflect the future home textile industry prospects of the Country, growing at the rate of 20% on yearly basis and export earning can cross USD 2.0 billion in upcoming three years; more than two decades of experience of the promoters in manufacturing, importing, marketing, and distributing home fashion and efficient management team tagged with long standing relationship with clients. Satisfactory profitability margin, having average 13.1% EBITDA margin in last 5 years, continuing govt. support through 5% cash incentive to the home textile exporters and capacity utilization reached to 73% in 2016, which also provides rating comfort.

The ratings however are constrained by recent year’s weak financial positions of the Company characterized by low capacity utilization in first 6 month of 2017, increased in financial leverage by near to 11%, and Cash Conversion Cycle is still takes 9 months on an average. CRAB also considers the reconditioned machinery of the Company, which may increase the overhead cost and reduce the quality of product to some extent; and susceptible operating margin due to raw material price and foreign exchange rate volatility in the market.

Going forward, the Company’s ability to retain its biggest customers, its ability to improve the cash flows and leverage position by improving the operating profitability, timely enhancement of the working capital limits, will remain key rating sensitivities

Chapter Eleven: Findings

Problems of credit rating process of CRAB

- There is unavailability of market or industry information. In Bangladesh people don't give information properly that's why it directly affects rating report.
- Clint have no idea why rating is necessary. They think its extra cost and unnecessary, banker and rating industry working people are also responsible for it. They are not explain or shortage of knowledge they can't provide proper information what's the benefit of rating.
- Most of corporate client understand the necessity of the rating but a SME client think they have all idea about their business and no need any business associate or rating.
- High fee charge is another main problem for SME client. Most of the rating agency charge high price for rating that's why SME clients are not interested for payment.
- Long process of rating is another factor which impact direct on the business, when business development done a deal with client he/she make sure they provide service within 15 working days but when an analyst starting with work he faces lots of issues like unviable information, communication problem lots of factor which directly impact on working and it is processing time long.
- Rating agency provide wrong information about CRAB. For example, a big bankrupt client which rating done by another rating agency, but some agency provides wrong information about us we rated that client so it does create a bad impact in the market.
-
- Bangladesh is a developing country, so lots of bank and financial company giving loan for creating new entrepreneur but some government bank giving big amount loan to one industrialist and after at a time that company can't repay the loan amount so the company listed bankrupt. This is an example for unstable financial market. So it's a major issue for unstable financial market which will directly affect our economy and business.

Chapter Twelve: Recommendations

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

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

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

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

- There is no database in Bangladesh that is publicly available of the industry or market situation. The rating agencies works on hundreds of organizations of the same industry. CRAB itself has worked on almost five hundred to six hundred organizations of the same industry of all industry sectors. With the information CRAB has it is enough to analyze the current industry situation, industry trend and market trend and current market scenario. They should plan to create a database of each industry through which they can perform trend analysis of industries and market. CRAB needs to hire industry experts who can help them in this work and in the analysis.
- Individual Financial Analyst should continue to maintain ethics and moral norms.

Chapter Thirteen: Conclusion

This is a brief analysis on rating procedure of Credit Rating Agency of Bangladesh (CRAB) and credit rating methods followed in successful company like RAHIM TEXTILE MILLS LIMITED. The main purpose of this analysis is to understand the current credit rating procedure of CRAB. This report also includes a detail idea about credit rating, its history, different rating company and Credit Rating Agency of Bangladesh Limited (CRAB). I have successfully done my internship in CRAB. It was really a great experience of working with Business Development of CRAB. My major duties and responsibilities were collecting information, Deal with clients, connect with banker, corporate, assign the information to the annalist etc. During Internship program a student undergoes practical learning process in an organization. It is a good blend of theoretical and practical knowledge. This Internship Program gives the students an opportunity to get ourselves introduced to the corporate world. It works as an ice-breaking before they step into their working life. So, I can say that I really had the best orientation in my corporate life. I have done this analysis with the supervision of my honorable faculty member Mohammad Shibli Shahriar CRAB's Senior Vice President & Head of Business development, Khalid Hossain. Without their support this report preparing would not be successful. So, I am very grateful to them.

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Appendix:

Financial Variables

Earnings and Profitability Ratio

- **Gross Profit Margin:**

Gross Profit $\frac{\text{Gross Profit}}{\text{Net Sales}} \times 100$

Gross Profit= Sales – Cost of Goods Sold
Net Sales= Gross Sales - Sales Return
Higher Gross Profit Margin is an indication that the firm has higher profitability.

- **Net Profit Margin:**

Net Profit $\frac{\text{Net Profit After Tax}}{\text{Net Sales}} \times 100$

Higher Net Profit Margin indicates the standard performance of the business

Capital Structure and Debt Coverage Position

- **Cash Flow from Operation (CFO):**

Cash Flow from Operations (CFO) = (a) Net Income + (b) Depreciation & Amortization +/- (c) One-Time Adjustments +/- (d) Change in Working Capital

In the long run cash flow from operations must be positive for the company to remain solvent.

- **Borrowed fund to Equity:**

Debt to Equity = $\frac{\text{Total Liability}}{\text{Shareholder's Equity}}$

A ratio of 1 or 1: 1 is ideal. A high debt/equity ratio generally means that a company has been aggressive in financing its growth with debt.

- **Borrowed Fund to EBITDA:**

Debt to EBITDA = $\frac{\text{Borrowed Fund}}{\text{EBITDA}}$

A high debt/ EBITDA ratio suggests that a firm may not be able to service their debt in an appropriate manner and can result in a lowered credit rating. Conversely, a low ratio can suggest that the firm may want to take on more debt if needed and it often warrants a relatively high credit rating.

Liquidity Position and Working Capital Intensity:

- **Current Ratio:**

Current Ratio = $\frac{\text{Current Assets}}{\text{Current Liabilities}}$

the ideal current ratio is2:1.

- **Quick Ratio:**

Quick Ratio = $\frac{\text{Current Assets} - (\text{Inventories} + \text{Prepaid Expenses})}{\text{Current Liabilities}}$the

ideal Quick Ratio of 1:1 is satisfactory.

- **Cash Conversion Cycle**:

Cash Conversion Cycle = Days Inventory Outstanding + Days Sales Outstanding- Days Payables Outstanding

Days Inventory Outstanding = $\frac{\text{Inventory}}{\text{Cost of Goods Sold}} \times 365$

Days Sales Outstanding = $\frac{\text{Account Receivable}}{\text{Net Sales}} \times 365$

Days Payables Outstanding $\frac{\text{Accounts Payable}}{\text{Cost of Goods Sold}} \times 365$

The lower the Cash Conversion Cycle the better. It varies from industry to industry.

These are the financial ratios that are analyzed of a company before awarding credit rating. To get AAA a company must achieve satisfactory result in all these criteria. In addition, a company's sales must be greater than Taka 100 core. Leverage position should be around 1.5. Again, if the leverage comes greater than 2 or 3 but is backed up by good support then also the company can achieve AAA rating. The lesser the Receivable Collection Period, Inventory Processing Period and Cash Conversion Cycle the better rating an organization will be awarded. But these vary from industry to industry. By nature, an industry can have higher Receivable Collection Period, Inventory Processing Period and Cash Conversion Cycle. In that case even if number of days is a lot for e.g. 200 days, the company will get an AAA. Also, the Quick ratio must be greater than 1.