

## **CORPORATE DEBT RATING**

### **Background**

An ICRA Nepal Rating is a symbolic indicator of ICRA Nepal's current opinion on the relative capability of the corporate entity concerned to timely service debts and obligations, with reference to the instrument Rated. The Rating is based on an objective analysis of the information and clarifications obtained from the entity, as also other sources considered reliable by ICRA Nepal. The independence and professional approach of ICRA Nepal ensure reliable, consistent and unbiased Ratings. Ratings allow investors to factor credit risk in their investment decision. ICRA Nepal rates long-term, medium-term, and short-term debt instruments. ICRA Nepal offers its Credit Rating services to a wide range of issuers including:

- Banks and financial institutions
- Non banking finance companies
- Insurance companies
- Manufacturing Companies
- Infrastructure sector companies
- Service companies
- Small and medium sector entities

### **Rating Process**

ICRA Nepal's Rating process is initiated on receipt of a formal request (or mandate) from the prospective issuer. A Rating team, which usually consists of two analysts with the expertise and skills required to evaluate the business of the issuer, is involved with the Rating assignment. An issuer is provided a list of information requirements and the broad framework for discussions. These requirements are worked out on the basis of ICRA Nepal's understanding of the issuer's business, and broadly cover all aspects that may have a bearing on the Rating. ICRA Nepal also draws on secondary sources of information, including its own research and the research of ICRA Limited as accessible under the Technical Support Services Agreement, while working on the Rating assignment. The Rating involves assessment of a number of qualitative factors with a view to estimating the future earnings of the issuer. This requires extensive interactions with the issuer's management, specifically on subjects relating to plans, outlook, competitive position, and funding policies.

In the case of manufacturing companies, plant visits are made to gain a better understanding of the issuer's production process, make an assessment of the state of equipment and main facilities, evaluate the quality of technical personnel, and form an opinion on the key variables that influence the level, quality and cost of production. These visits also help in assessing the progress of projects under implementation.

After completing the analysis, a Rating Report is prepared, which is then presented to the ICRA Nepal Rating Committee (initially consisting of Members from ICRA Limited, India, the Technical Collaborator and the Holding Company). A presentation on the issuer's business and management is also made by the Rating Team. The Rating Committee is the final authority for assigning Ratings. The assigned Rating, along with the key issues, is communicated to the issuer's top management for acceptance. Non-accepted Ratings are not disclosed and complete confidentiality is maintained on them unless such disclosure is required under any laws/regulations.

If the issuer does not find the Rating acceptable, it has a right to appeal for a review. Such reviews are usually taken up if the issuer provides certain fresh inputs. During a review, the issuer's response is presented to the Rating Committee. If the inputs and/ or fresh clarifications so warrant, the Rating Committee would revise the initial Rating decision. As part of a mandatory surveillance process, ICRA Nepal monitors all accepted Ratings over the tenure of the Rated instruments. The Ratings are generally reviewed once a year, unless the circumstances of the case warrant an earlier review. The Rating outstanding may be retained or revised (that is, upgraded or downgraded) on surveillance.

### **Methodology**

ICRA Nepal considers all relevant factors that have a bearing on the future cash generation of the issuer. These factors include: industry characteristics, competitive position of the issuer, operational efficiency, management quality, commitment to new projects and other associate companies, and funding policies of the issuer. A detailed analysis of the past financial statements is made to assess performance under "real world" business dynamics. Estimates of future earnings under various sensitivity scenarios are drawn up and evaluated against the claims and obligations that require servicing over the tenure of the instrument being rated. Primarily, it is the relative comfort level on the issuers' cash flows to service obligations that determines the Rating.

### **Rating Symbols for Corporate Debt Instruments**

The Rating for all Debentures (Non-Convertible), Bonds and other debt Instruments with original maturity exceeding one year by ICRA Nepal is assigned on an eight-point scale and ranges from '[ICRANP] LAAA' to '[ICRANP] LD'.

ICRA Nepal Rating symbols for corporate debt instruments and their implications are as follows:

- **[ICRANP] LAAA:** Instruments with this Rating are considered to have the highest degree of safety regarding timely servicing of financial obligations. Such instruments carry lowest credit risk.

- **[ICRANP] LAA:** Instruments with this Rating are considered to have high degree of safety regarding timely servicing of financial obligations. Such instruments carry very low credit risk.
- **[ICRANP] LA :** Instruments with this Rating are considered to have adequate degree of safety regarding timely servicing of financial obligations. Such instruments carry low credit risk.
- **[ICRANP] LBBB:** Instruments with this Rating are considered to have moderate degree of safety regarding timely servicing of financial obligations. Such instruments carry moderate credit risk.
- **[ICRANP] LBB:** Instruments with this Rating are considered to have moderate risk of default regarding timely servicing of financial obligations.
- **[ICRANP] LB :** Instruments with this Rating are considered to have high risk of default regarding timely servicing of financial obligations.
- **[ICRANP] LC :** Instruments with this Rating are considered to have very high risk of default regarding timely servicing of financial obligations.
- **[ICRANP] LD :** Instruments with this Rating are in default or are expected to be in default soon.

**Note**

For the Rating categories AA through to C, the sign of + (plus) or – (minus) may be appended to the Rating symbols to indicate their relative position within the Rating categories concerned. Thus, the Rating of AA+ is one notch higher than AA, while AA- is one notch lower than AA.

(Contents have been adopted and modified from ICRA Limited)



**ICRA Nepal Limited**  
**A Subsidiary of ICRA Limited, India**

**REGISTERED OFFICE**

Heritage Plaza I, 2nd Floor, Kamaladi, Kathmandu-31, Nepal Tel: +977 1 4169088 Fax: +977 1 4169088

Email: [info@icranepal.com](mailto:info@icranepal.com), Website: [www.icranepal.com](http://www.icranepal.com),

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