

FREQUENTLY ASKED QUESTIONS (FAQ) ON CREDIT RATING

1. What is Credit Rating?

Credit Rating is a simple and easy to understand symbolic indicator of the opinion of a Credit Rating Agency about the risk involved in a borrowing programme of an issuer with reference to the capability of the issuer to repay the debt as per terms of the issue. This is neither a general-purpose evaluation of the company nor a recommendation to buy, hold or sell a debt instrument.

2. How does a Rating help an Investor?

ICRA Nepal Credit Ratings provide an investor with critical information to enable him to take an informed investment decision based on his risk-return preferences. These also help investors to select the appropriate investment opportunities from a large range of options available.

3. How are Credit Ratings done?

ICRA Nepal Ratings are based on an in-depth study of the industry as also an evaluation of the strengths and weaknesses of the company. The inherent protective factors, marketing strategies, competitive edge, level of technological development, operational efficiency, competence and effectiveness of management, hedging of risks, cash flow, trends and potential, liquidity, financial flexibility, government policies, past record of debt servicing, sensitivity to possible changes in business/economic circumstances are looked into.

4. How long does a Rating remain valid?

Once the company has accepted a Rating, ICRA Nepal continuously monitors the corporate and the Rating is monitored till the life of the instrument. The process is known as surveillance. During the surveillance period, all changes affecting the company are taken into account and the Rating, if necessary, is changed, upwards or downwards. In other words, a Rating is valid during the life of the instrument unless it is changed.

5. What does the suffix + or - with the Rating mean?

The suffix + or - may be used with the Rating symbol to indicate the comparative position of the instrument within the group covered by the symbol. Thus AA- lies one notch above A+.

6. How Does ICRA Nepal ensure dependability of Ratings?

ICRA Nepal maintains absolute independence from market participants to provide unbiased opinions. The Ratings are a result of collective judgment of committee members. ICRA Nepal's own research and the research of ICRA Limited as accessible under the Technical Support Services Agreement ensure that opinions are supported by objective benchmarks and peer comparison.

7. What Credit Rating is not?

- (a) Credit Ratings are not recommendations to buy or sell or hold a specified Rated security nor are they offered as guarantees or protections against default. They are opinions only.
- (b) Specific Credit Rating opinions are not intended to measure many of the other factors that fixed - income investors must consider in relation to risk - such as liquidity risk, pre-payment risk, interest rate risk, risk of secondary market loss, or exchange loss risk.
- (c) The Rating is specific to the instrument and is not the Rating of the issuer.

8. Who are the beneficiaries of the Rating Services? What are the benefits?**Investors**

For the investors, Credit Rating is an information regarding the relative ranking of the default loss probability for a given fixed income investment in comparison with other Rated instruments. The Rating provides the investors with an independent and professional judgment of the credit quality of the instrument, which the individual investor would not otherwise be able to evaluate. Rating provides low cost supplement to the in-house appraisal system of organized institutional investors. The Rating replaces name recognition by objective opinion. The investor to optimise his risk return preference as Ratings seek to establish a link between risk and return can use Ratings. Large institutional and other investors also make use of these Ratings to make investment decisions. Other benefits to the investors come from the industry reports, company reports, investor information and protection seminars and other on-line assistance provided by the Rating Agencies.

Issuers

The issuers of Rated securities are expected to have an access to a wider investor base. This stems from the fact that more and more investors are using Rating as a tool for decision-making and there is faith placed by the market on opinions of Rating Agencies. Credit Rating provides a basis for determining the returns compared to the risks involved or perceived. This could be a useful benchmark for issue pricing and result in savings in costs.

Intermediaries

Intermediaries like investment and merchant bankers and other market players use the Rating for pricing, in placement and marketing the issues. The Ratings are used in case of asset securitization and structured obligation. The Rating makes the exposure levels and risk undertaking decisions easy.

Regulators

In many countries the worlds over the regulators have set certain benchmarks and rules for various market intermediaries or financial intuitions, etc. based on the Rating for investment, exposure and dealings. In Nepal, there exist mandatory Rating requirements for certain instruments and minimum Rating norms for certain public offerings.