

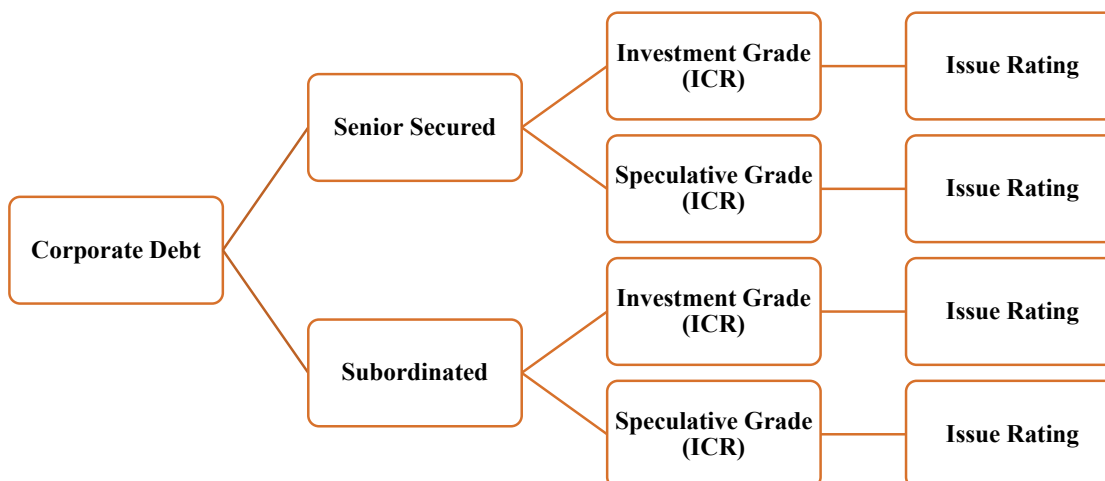
CORPORATE ISSUE RATING METHODOLOGY

1.0 OVERVIEW AND SCOPE

This article represents National Credit Ratings' (NCR) methodology for rating the debt of corporate issuers. Issue Rating is conditional to Issuer Credit Rating (ICR). Issue credit ratings for the debt of issuers whose long-term ICRs are derived using NCR's Corporate Rating Methodology are determined by using these criteria. This methodology should therefore be read in conjunction with the Corporate Rating Methodology of NCR.

2.0 FRAMEWORK

Framework for notching of issue rating in terms of ICR is as follows:



Issuer Ratings are opinions of the ability of entities to honor senior unsecured debt and debt like obligations. Generally, a senior unsecured bond issued by a company would be the same as the ICR. However, the following special factors may influence the issue rating to be different from the ICR.

- The bond is secured
- The bond is guaranteed
- The bond is formally subordinated
- Effective subordination of the bond due to security granted to other lenders
- Structural subordination
- Covenants

2.1 RATING CRITERIA FOR SENIOR SECURED ISSUES

Senior debt is debt that gets priority in the case of default. Secured bonds are backed by assets or financial guarantees pledged to ensure debt repayment in the case of a default. **A senior secured bond is normally rated one notch higher than the equivalent senior unsecured debt.** However, should the issue benefit from an exceptionally strong security package, more than one notch may be considered. Typically, a bond may be secured by mortgages, floating charges, pledges, securities (common shares, other bonds, other financial assets), specific types of equipment or physical assets, cover pool etc. Credit



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enhancements (credit tranching, overcollateralization, reserve funds, bank guarantees, letter of credit and cash collateral account) and surety bonds may also be used to increase the security of a bond.

2.2 RATING CRITERIA FOR SUBORDINATED ISSUES

Significant subordination relative to other debt portrays a disadvantage and rated one notch down from the ICR. However, minimal financial risk of the issuer and secured debt ratio (proportion of secured debt to the issuer's total debt) lesser than 50% may result into a rating same as the ICR.

2.3 RATING CRITERIA FOR SPECULATIVE GRADE CORPORATE ISSUERS

This analysis establishes the recovery rates of debt instruments by taking into account the estimated value of claims available for creditors at the point of default (VCD), as well as the size and ranking of claims in the waterfall.

2.3.1 ESTIMATED VALUE OF CLAIMS AT DEFAULT

In order to determine the estimated value of claims at the VCD, we take the higher of: i) the estimated enterprise value at default on a going-concern basis, and ii) the estimated enterprise value at default in a liquidation scenario (estimated liquidation value). This assumes that the decision between a going-concern or liquidation scenario is based on whichever creates the highest value for bondholders.

The enterprise value at default on a going-concern basis is estimated by multiplying the likely EBITDA at default with the EBITDA multiple considered realistic in a default scenario.

The liquidation value at default is estimated by adding the discounted values of the company's assets, thus assuming a similar asset structure to the one at default. The calculation may include assets such as, accounts receivables, inventory, and property, plant and equipment.

A haircut is then applied to the higher of either value (enterprise value at default or liquidation value), reflecting the estimated costs related to the administration of the default. We consider this discounted value be the estimated value of the claims at default.

2.3.2 ALLOCATION OF VCD TO THE WATERFALL OF DEBT OBLIGATIONS

We determine the likely recovery rate for a defaulted debt instrument by allocating VCD to the debt instruments according to the waterfall of claims at the time of the rating. Recovery rates are categorized from 0% to 100% as follows:

Excellent: a recovery of 90-100%

Superior: 70-90%

Above average: 50-70%

Average: 30-50%

Low: 10-30%

Very low: 0-10%

The instrument ratings are determined by adjusting the issuer rating upwards or downwards based on these recovery rates. This is applied as follows:

Excellent (90-100%): up to three notches above the issuer rating

Superior (70-90%): up to two notches above the issuer rating



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Above average (50-70%): up to one notch above the issuer rating

Average (30-50%): instrument rating corresponds to the issuer rating

Low (10-30%): up to one notch below the issuer rating

Very low (0-10%): up to three notches below the issuer rating

2.4 OTHER FACTORS

- Basic features of the bond (maturity, amount of issue, coupon rate and frequency,
- Sources of repayment proceeds
- Projected cashflow from operation
- Principal repayment structure (Bullet, fully amortized or partially amortized)
- Coupon payment structure (floating rate notes, step-up coupons, credit linked coupons, indexed linked bonds,
- Contingency provisions (Call option, put option, convertibility)

Disclaimer:

The Methodology is developed by National Credit Ratings Limited (NCRL) based on data/information from secondary reliable sources which is in compliance with the guidelines provided by Bangladesh Securities and Exchange Commission and Bangladesh Bank. NCRL puts best efforts to prepare this document. The methodology may inherit human error, technical and/or systematic error as its limitation. Therefore, NCRL does not provide warranty of any kind for this document. This is the property of NCRL and is only used for rating of corporate issues. None of the information in this document can be copied or otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without written consent of NCRL.

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