Internship Report
On
"Credit Rating System" A Study on Emerging Credit Rating Limited

Supervised By
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Date of Submission: January 07, 2025

Letter of Transmittal

Date: January 07, 2025

Professor Dr. Mostafa Kamal
Department of Business Administration
Faculty of Business & Entrepreneurship
Daffodil International University, Dhaka, Bangladesh

Subject: Submission of Internship Report on "Credit Rating System in Bangladesh" A Study on Emerging Credit Rating Limited

Dear Sir,

I am pleased and honored to submit my internship report titled "Credit Rating System in Bangladesh" A Study on Emerging Credit Rating Limited, which is a requirement for the completion of my MBA degree at Daffodil International University. I have been working at Emerging Credit Rating Limited since May 2, 2019, where I have gained valuable knowledge and experience in corporate culture and financial analysis. Currently, I hold the position of Financial Analyst.

During my time at Emerging Credit Rating Limited, I have acquired in-depth knowledge of core finance and contributed to the preparation of credit rating reports for SMEs, corporates, and NGOs. Additionally, I have managed a team of five members who work directly under my supervision.

I am deeply grateful for your support and the valuable time you have dedicated to guiding me throughout this process. I hope this report meets your expectations and demonstrates my ability to effectively present an internship report. I am more than willing to provide any further explanations or clarifications if needed.

Thank you for your consideration.

Sincerely,

Rahman

Abdur Rahman
ID: 241-14-012
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DECLARATION

I hereby declare that the report titled "Credit Rating System in Bangladesh" A Study on Emerging Credit Rating Limited, is the result of my own research conducted under the supervision of Professor Dr. Mostafa Kamal Department of Business Administration at Daffodil International University.

I also affirm that this internship report is original and has not been submitted, in whole or in part, to any other university or institution for any degree or other purposes.

Rahman

Abdur Rahman
ID: 241-14-012
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SUPERVISOR CERTIFICATION

This is to verify that Abdur Rahman, Id: 241-14-012, Major: Finance, Program: MBA successfully completed his "Internship report" on "Credit Rating System of Emerging Credit Rating Limited" under my supervision.

He has been doing this report according to my supervision and guidance. He has tried his level best to prepare his report successfully. I believe that his internship period knowledge will help him in the future to build up his career. I wish him success and prosperity.

Professor Dr. Mostafa Kamal
Department of Business Administration
Faculty of Business & Entrepreneurship
Daffodil International University, Dhaka, Bangladesh

Executive Summary

Emerging Credit Rating Limited (ECRL) began its operations in 2009 and obtained a credit rating license from the Bangladesh Securities and Exchange Commission (BSEC) in June 2010, adhering to the Credit Rating Companies Rules of 1996. In October 2010, ECRL also received recognition from Bangladesh Bank as an External Credit Assessment Institution (ECAI). This internship report is a part of my practical learning experience at ECRL. It begins with an introduction that outlines the purpose and necessity of the report. Following this, the Organizational Overview section provides a comprehensive look at ECRL, detailing its mission statement, vision, goals, products and services, and an overview of its credit rating system. The final section of the report, titled Findings, Recommendations, and Conclusion, addresses the challenges identified within ECRL, suggests solutions for overcoming these issues, and concludes with my overall reflections on the matter.

Table of Content

Chapter: One
Introduction of the report

1.1 Overview of Emerging Credit Rating Limited

Emerging Credit Rating Limited is an independent risk assessment firm dedicated to evaluating and providing opinions on the creditworthiness of various borrowers, including governments, corporations, and other entities. The company's primary objective is to assess the likelihood that these borrowers will fulfill their debt obligations.

For Master of Business Administration (MBA) students, theoretical knowledge alone is not enough to effectively handle real-world business situations. Practical experience through internships offers MBA students an invaluable opportunity to gain insights into real business operations. Internships bridge the gap between theoretical learning and practical application, providing essential hands-on experience. The MBA program is a well-structured graduate degree that integrates theoretical knowledge with practical experience. As part of the curriculum, internships are a mandatory component, requiring students to work within specific institutions to enhance their practical understanding.

Having worked at Emerging Credit Rating Limited (ECRL) for the past five years, I have had the opportunity to engage deeply with the company's core activities. ECRL is renowned for its insightful and reliable credit rating services. My report, titled “Credit Rating System in Bangladesh” A Study on Emerging Credit Rating Limited reflects the comprehensive practical knowledge and skills I have developed during my tenure at the company.

1.2 Background of the Report:

This internship report is a crucial requirement for completing the Master of Business Administration (MBA) degree at Daffodil International University, Bangladesh. The focus of the internship is on the "Credit Rating System in Bangladesh" A Study on Emerging Credit Rating Limited, a topic assigned by Professor Dr. Mostafa Kamal and supervised under his guidance.

Although I have been employed at Emerging Credit Rating Limited (ECRL) for the past six years, this internship has provided me with valuable practical insights into the company's operations and activities.

1.3 Objective of the Report:

The report aims to fulfill the requirements of the MBA internship course while gaining a comprehensive understanding of the credit rating system at Emerging Credit Rating Limited.

Specific Objectives:

- To explore the credit rating system in Bangladesh with a focus on ECRL.
- To gain insights into the credit rating industry in Bangladesh.
- To understand the roles and services provided by ECRL.
- To evaluate the rating methodology and processes employed by ECRL.
- To identify operational limitations and suggest areas for improvement.

1.4 Methodology of the Report:

This report was prepared using both primary and secondary data sources:

Primary Data:

- Insights and observations gained from practical experience during my last six years job experienced.
- Information provided by supervisors and colleagues at ECRL.

Secondary Data:

- Official documents, reports, and publications from ECRL.
- Regulatory guidelines from the Bangladesh Securities and Exchange Commission (BSEC) and Bangladesh Bank.
- Data from the organization's internal systems and website.

1.5 Limitations of the Report:

Data Constraints: Access to detailed and category-specific information was restricted due to confidentiality policies.

Time Limitations: The limited time duration constrained the depth of the study.

Operational Challenges: Obtaining cooperation from management and gathering in-depth insights were challenging at times.

Scope: The study primarily focuses on ECRL and does not provide a comparative analysis with other credit rating agencies in Bangladesh.

Standards and Frameworks: Differences between local and global credit rating standards limited the ability to generalize findings internationally.

Chapter: Two

Operational procedures for credit rating companies in Bangladesh regulated by the Bangladesh Securities and Exchange Commission (BSEC) & Bangladesh Bank

Operational Procedures and Code of Conduct of Credit Rating Companies (CRCs). Every credit rating company (CRC) must adopt, publish, and adhere to a code of conduct for operational procedures, covering the following areas:

1. Agreement with the Client

Standard Agreement: CRCs must create a standard agreement for each type of rating. The CEO must ensure this agreement is signed before beginning any rating. It must outline terms, rights, obligations, duration, termination, payment, surveillance rating, and other relevant details. Ratings without an agreement are invalid, and agreements must be on stamped paper as per the Stamp Act, 1899.

Client Cooperation: Clients must assist CRCs in conducting periodic reviews and in providing true, adequate, and timely information for accurate ratings.

Disclosure: Ratings are to be disclosed regardless of client acceptance.

Surveillance Requirements: Agreements must specify events warranting termination. Entity ratings require surveillance for three years post-initial rating, while instrument ratings require ongoing surveillance. Agreement termination requires prior Commission approval.

Field Visits: CRCs must conduct field visits during initial and surveillance ratings, with SME ratings requiring at least an initial field visit.

Review Support: Clients must provide necessary information for review, with penalties for non-cooperation.

Non-Negotiability and Appeal: Agreements must prevent bargaining over ratings and specify appeal processes for clients disputing assigned ratings.

Half-Yearly Information: Clients must supply debt obligation status and CIB classification information to CRCs, who must maintain confidentiality.

2. Quality of the Rating Process

Rating Methodologies: CRCs are required to establish and publicly disclose industry-specific rating methodologies, which are to be reviewed annually by the Rating Committee and updated based on research, historical data, and best practices.

Procedural Transparency: Written procedures aligned with the rating methodology must be available on CRC websites.

Rating Committee: This committee, with at least five members, including two senior analysts, makes final rating decisions and must have independent access to relevant information. The Chief Rating Officer (CRO) is an ex-officio member, and the Compliance Officer (CO) acts as secretary and ensures regulatory compliance.

Team Structure: CRCs must assign teams of at least two analysts per rating to promote objective assessments. Analysts should have specialized expertise and remain in assigned areas for consistency.

Internal Review: An Internal Review Committee (IRC) must validate rating information to avoid misrepresentation, and IRC members cannot be part of the Rating Committee.

3. Monitoring and Updating

Ongoing Monitoring: CRCs must continuously monitor the creditworthiness of rated entities. Half-yearly surveys are required for issuer/entity ratings, and quarterly reviews for instrument/issue ratings. All ratings, including initial ratings and monitoring reports, are published on CRC websites with corresponding rationales.

Subscriber Communication: When ratings are provided to subscribers, any reviews must be communicated to them. Discontinued ratings should be indicated with the last update date or clearly stated as discontinued.

4. Integrity of the Rating Process

Professional Diligence & Ethics: Credit Rating Companies (CRCs) must maintain objectivity, independence, and adhere to laws and guidelines. They are expected to act with fairness and disclose ethical standards publicly. CRCs and their employees should not guarantee ratings in advance or participate in creating finance products they rate. Employees must report any unethical or illegal conduct immediately, with safeguards against retaliation.

Prohibition of Influence: CRCs and their staff cannot make promises or threats to influence payment for ratings or propose activities that impact ratings, including business recommendations. Compliance functions should be established to enforce adherence to conduct codes, and employees must avoid any activity leading to conflicts of interest.

Independence & Avoidance of Conflicts of Interest: CRCs should ensure rating decisions are free from external or internal pressures, avoiding considerations that may favor any stakeholders. Directors or shareholders cannot serve on Rating Committees, and CRC analysts must operate independently of other divisions. CRCs must prevent conflicts of interest, including rating entities they have relationships with.

Transparency and Compliance: Employees must declare conflicts of interest, and the CEO certifies ratings are free of undue influence. CRCs should disclose their holdings in any rated securities, segregate operational divisions to ensure independence, and limit analysts' compensation from rated entities.

Transparency in Rating Process: CRCs should publish rating updates on their website, explain the rationale, and report historical performance metrics. CRCs must provide sufficient information for investors, including methodologies and assumptions. For asset-backed securities, CRCs disclose originator asset quality and structure.

Analyst & Employee Independence: Analysts' compensation must be independent of the revenue generated from rated entities. Regular reviews of compensation policies ensure they don't compromise integrity. Employees cannot trade securities related to their work. Personal conflicts of interest must be disclosed, and analysts transitioning to other employers are monitored to protect past work.

Responsibilities to Public & Issuers

A. Ratings Transparency

Ratings, along with justifications, are published, except for private agreements. Significant updates to methodologies must be publicly disclosed, and CRCs should detail how ratings are consistent and appropriately symbolized for various security types.

B. Confidential Information

CRCs protect the confidentiality of shared information per agreements, using it solely for rating activities. Employees must protect records and maintain secrecy according to applicable laws. Information on future rating actions cannot be disclosed externally.

Disclosure & Communication

Disclosures by CRCs must be accurate, timely, and understandable. The CRC's code of conduct should align with the IOSCO Code of Conduct and provide explanations for any deviations. CRCs must have a complaint handling function that addresses public or participant concerns, with protocols for escalation to management or the Board.

Chapter: Three
Organizational Overview

2.1 Overview of Credit Rating Industry in Bangladesh

The credit rating industry in Bangladesh has grown significantly over the past few decades, driven by the expanding financial market and regulatory requirements. The industry plays a crucial role in providing credit assessments for companies, financial instruments, and other entities, enabling informed decision-making for investors, banks, and regulatory bodies. Credit rating agencies (CRAs) in Bangladesh evaluate the creditworthiness of borrowers and issuers, thus contributing to market transparency, mitigating information asymmetry, and enhancing investor confidence. The Bangladesh Securities and Exchange Commission (BSEC) regulates the credit rating industry in Bangladesh. BSEC issues licenses to CRAs, sets standards, and ensures compliance to maintain the credibility of ratings. Prominent agencies in the country include Emerging Credit Rating Ltd., CRAB (Credit Rating Agency of Bangladesh Ltd.), and National Credit Ratings Ltd. (NCR), among others. Each of these agencies employs established rating methodologies to assess credit risks for corporate, SME, and other sectors. CRAs in Bangladesh support the capital market by providing critical information that helps investors gauge risk and make informed decisions. For banks and other financial institutions, credit ratings serve as an additional measure of creditworthiness, influencing lending decisions and terms. Ratings also serve as benchmarks for regulatory authorities in monitoring and managing financial stability. The industry faces challenges related to limited transparency, data access, and the need for enhanced rating methodologies to address the unique risks in Bangladesh's economic landscape. However, with the financial sector's growth, there are ample opportunities for credit rating agencies to expand services, especially in developing areas like SME credit ratings, microfinancing, and sustainable financing. The credit rating industry in Bangladesh is expected to grow with further regulatory reforms and an increasing demand for transparent and reliable credit information. Technological advancements and better data analytics could transform traditional rating practices, helping CRAs provide even more accurate and timely credit evaluations in the future.

2.2 Overview of Emerging Credit Rating Limited (ECRL)

Emerging Credit Rating Limited (ECRL) began its operations in 2009 with a mission to deliver credible and high-quality credit ratings across various industries in Bangladesh. Licensed by the Bangladesh Securities and Exchange Commission (BSEC) in 2010 under the Credit Rating Companies Rules of 1996, ECRL also gained recognition from Bangladesh Bank as an External Credit Assessment Institution (ECAI) the same year. ECRL is dedicated to continuous process improvement and aims to play a significant role in business leadership. The team is committed to providing top-notch credit rating and comprehensive research services. ECRL's ratings are independent, professional, and transparent, helping businesses make better decisions, access broader investor bases, and approach capital markets. The credit rating process involves well-researched opinions on the creditworthiness of issuers, aiding lenders, investors, and corporations in evaluating financial risks and obligations.

2.2 Vision:

Our existence and foundation are built on the significance we place in investors and depositors, their protectionism, and our assurance to provide clarity and reliability in our rating judgment, through globally accepted rating methodologies and processes.

2.3 Mission & Goal:

To reach the premier position of a credible and acceptable rating business entity in Bangladesh via the process of making sure that Emerging Credit Rating Ltd is recognized by investors, issuers and bankers for its transparent and timely coverage and reliability, allowing financial decision-makers to feel confident about their resolutions.

2.4 Rating Service of Emerging Credit Rating Ltd:

Corporate Debt Rating

Assess the probability of timely repayment of principal and payment of interest over the term till the maturity of such debts.

Entity Rating

Assessing the probability of timely repayment of principal and interest over the duration until the maturity of all debt obligations held by an entity involves a comprehensive evaluation of its overall creditworthiness. This assessment does not focus on the specific characteristics, structures, or terms of individual borrowings. Instead, it provides a generalized opinion on the entity's ability to meet its financial commitments across all its obligations. Additionally, this type of rating often includes evaluations related to Initial Public Offerings (IPO) as part of the overall assessment.

Bond Rating

Evaluate the likelihood of timely repayment of principal and interest throughout the term until the maturity of these debts.

Financial Institutions Rating

Evaluate the creditworthiness of financial institutions, including commercial and investment banks, Islamic financial institutions, finance companies, and discount houses. ECRL takes pride in being the first rating agency in Bangladesh to introduce a unique set of rating symbols and definitions specifically tailored for Islamic financial institutions.

Insurance Rating

Evaluate the creditworthiness of insurance companies, including both general and life insurance, focusing on their financial stability and ability to fulfill policyholder obligations.

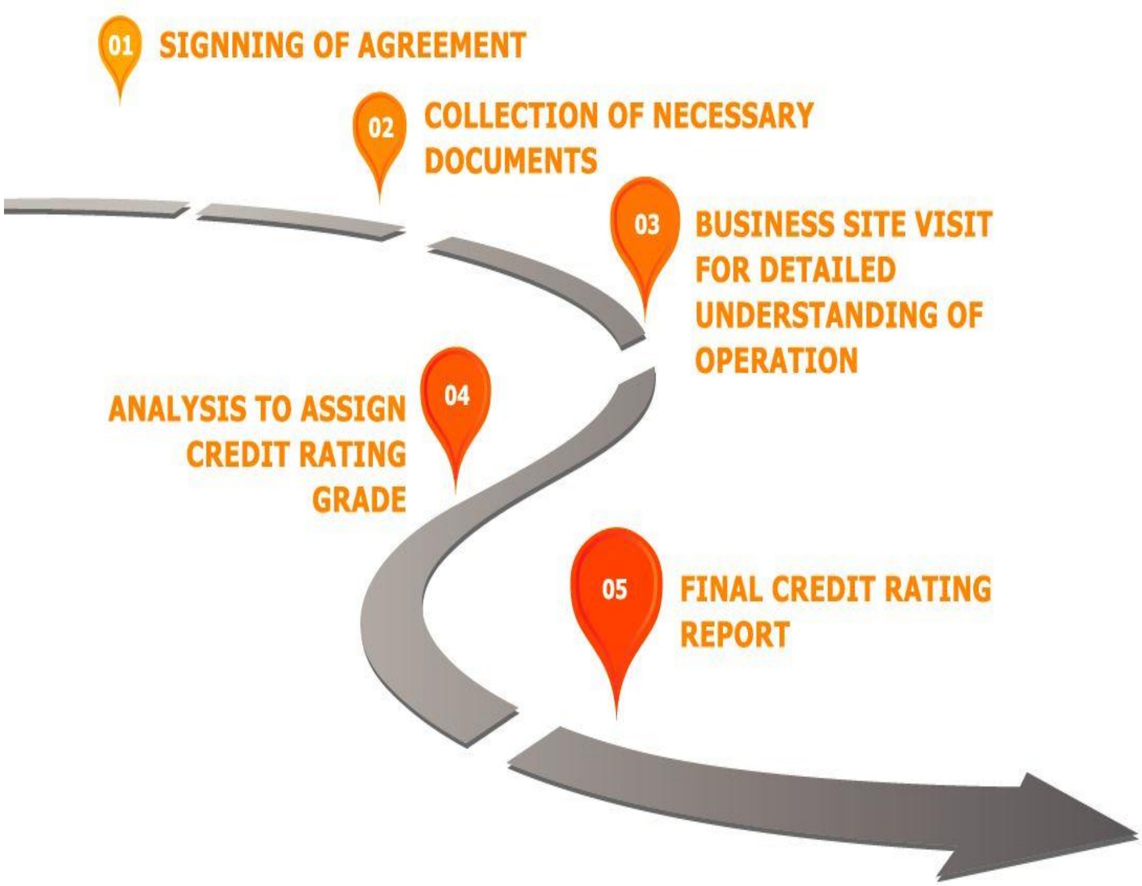
Project Finance Rating

Assess the likelihood of timely repayment of principal and interest on debt securities issued by a corporate entity.

SME Rating

The SME rating reflects the relative creditworthiness of a small or medium-sized enterprise compared to other SMEs

2.5 Rating Process of Emerging Credit Rating Ltd



Chapter: Four

"Credit Rating System in Bangladesh" A Study report on Emerging Credit Rating Limited

PRISM Bangladesh Foundation

NGO Entity Rating

Major Rating Factors

Strengths

- Competent and seasoned management team
- Significant increase in overall income
- Attained an exceptional cumulative recovery rate of 99.64% in FY 2024
- Strong relationships with stakeholders

Challenge/ Risks

- Adhering to the goals and requirements established by PKSF and MRA
- Heavy reliance on external financing
- Facing competition from larger microfinance institutions
- Maintaining support for members and borrowers

Rationale

Emerging Credit Rating Limited (ECRL) has assigned **A-** (Pronounced as "A Minus") long term credit rating and **ST-2** short term credit rating to PRISM Bangladesh Foundation (hereafter referred as "PBF" or "the organization"). The outlook on the rating is **Stable**. The ratings are consistent with ECRL's methodology for this type of organization. PRISM Bangladesh Foundation, originally established as PRISM Bangladesh in 1989, is a non-profit development organization committed to fostering socio-economic growth across various regions of Bangladesh, with a primary focus on rural areas. Its programs mainly serve vulnerable groups, including landless, marginalized, and disadvantaged individuals and communities, with a particular emphasis on supporting women. The rating is based on the audited financial statements for FY2020-2024 and other relevant qualitative and quantitative information up to the date of rating.

PRISM Bangladesh Foundation, a non-profit voluntary development organization, was founded in 1991. In 1995, it attained membership with PKSF. Currently, PRISM Bangladesh is operating its microcredit programs in 6 coastal districts and is providing credit services to around 56,272 beneficiaries for reduction of poverty and enhancing their socio-economic condition. The credit facilities are being distributed through PBF's 55 branches with highly trained and skilled staff. The program beneficiaries mainly belong to vulnerable landless, marginal, deprived individuals and communities, particularly women. In the context of environmental management, PRISM has also been working in Dhaka, Jessore, Rangpur, Rajshahi, Sylhet, Gazipur, Kushtia, Mymensingh in developing the urban environment and risk minimization through hazardous Medical Waste Management since 2005.

The overall management, operational and strategic aspects of PBF is looked after by an experienced Executive Committee consisting of 7 members. The members of the committee are broadly involved in business, private service, consultancy etc. The organization has a total of 456 employees in total.

PRISM Bangladesh Foundation's total income increased to BDT 845.97 million in FY2024 from 672.54 million in FY2023, marking a 25.79% increase in line with trends from previous years. As noted in the audit report's budget and achievement statement, the NGO achieved 99.00% of its income target for the year, with the majority of revenue generated from interest income on loans. The surplus of income over expenditure amounted to BDT 354.04 million in FY2024, resulting in a margin of 41.85%. This growth was primarily driven by increased income from loan service charges, which also had a positive effect on the organization’s return on capital and return on assets, improving to 33.13% and 8.98% in FY2024, compared to 30.35% and 7.06% in FY2023, respectively. The operational self-efficiency as also increased to 1.68 time in FY2024 from 1.53 times in FY2023.

The organization’s yield on its gross loan portfolio increased to 22.81% in FY2024 from 20.05% in FY2023. Sustaining a balanced capital structure, consistent growth, and resource diversification could further boost this yield. Moreover, the liquidity-to-savings ratio rose to 47.00% from 37.00%, driven by a more substantial increase in other short-term investments compared to a smaller rise in the savings fund. PRISM Bangladesh Foundation primarily provides microfinance facilities, which are considered investments with a high likelihood of repayment. However, the absence of collateral exposes the organization to default risk. Unlike other financial institutions, PKSF issues loans in phases based on borrower repayment history, without requiring collateral. Thus, ensuring portfolio quality is essential. In FY2024, the organization’s microcredit Portfolio at Risk (PAR) grew compared to the previous year, due to more borrowers missing timely payments, outpacing loan portfolio growth. Additionally, the cumulative recovery rate saw a slight decrease from the previous year. To address credit risk, the organization maintains a loan loss reserve following MRA regulations, setting aside BDT 115.28 million in FY2024 to comply with these requirements.

The organization has accessed debt financing through loans from Trust Bank PLC, First Security Islami Bank PLC, and PKSF, in addition to member savings. Most of PBF’s funding is sourced from PKSF loans, followed by its own capital and members' savings accounts. The capital adequacy ratio improved slightly from

26.40% in FY2023 to 33.65% in FY2024, meeting PKSF's required minimum of 10%. The debt-to-capital ratio declined from 3.15 times in FY2023 to 2.36 times in FY2024, primarily due to a 39.70% increase in PBF's equity. The current ratio rose to 1.79 times in FY2024, up from 1.74 times in FY2023.

PBF has been availing loans from Trust Bank PLC, Banani Branch, First Security Islami Bank PLC, and Corporate Branch. The loan is disbursed to undertake Micro-Credit finance/ agricultural credit to the marginal and underprivileged farmers to produce seasonal crops, livestock and other agricultural products. The total sanctioned amount is BDT 1,800.60 million. Above mention dated the outstanding position of the organization stood at BDT 1,761.23 million. As per the bank documents, repayment history of the organization found regular.

Organization's **'Stable'** outlook is reflected by its work opportunities, reputation in the industry in terms of social welfare, continuous improvement in overall operation, and working environment. The future direction of the rating will depend on the ability of the organization to deal with the performance indicator set by PKSF, performance of its loan portfolio and paying pattern of bank loans.

Exhibit 1: Financial Highlights: PRISM Bangladesh Foundation

FYE 30 June	**2024**	**2023**	**2022**	**2021**	**2020**
Total Income (BDT in Millions)	845.97	672.54	440.06	366.36	264.05
Excess of Income Over Expenditure Margin (BDT in Millions)	354.04	235.98	159.66	115.77	30.16
Return on Capital (%)	33.13	30.50	27.72	26.42	8.26
Yield on gross loan portfolio (%)	22.81	20.05	17.32	20.91	17.99
PAR Ratio > 30 days (%)	4.13	2.53	3.92	8.09	15.27
Current ratio (x)	1.79	1.74	1.91	1.76	1.57
Debt to Capital Ratio	2.36	3.15	3.55	3.09	3.60
Capital Adequacy Ratio (%)	33.65	26.40	25.49	28.05	23.67
Cumulative Recovery Rate (%)	99.64	99.72	99.51	99.39	99.51

FY2020-2024 data obtained from audited financial statements

A. BACKGROUNDOF THE ORGANIZATION

A.1. Organization Background

PRISM Bangladesh Foundation, established in 1989 as PRISM Bangladesh, is a non-profit organization dedicated to socio-economic development in rural communities across Bangladesh. It primarily supports vulnerable groups, including landless, marginalized, and disadvantaged individuals, with a special focus on women. Initially, PRISM began its activities at Kumudini Hospital Complex in Mirzapur, in collaboration with Kumudini Welfare Trust, promoting duckweed-based pisciculture.

In addition to rural development, PRISM has been actively involved in urban environmental management since 2005, working in Dhaka and Jessore to manage hazardous medical waste and reduce environmental risks. The organization has conducted extensive research and implemented various development programs and projects.

PRISM became a member of the Palli Karma-Sahayak Foundation (PKSF) in 1995, enabling it to receive financial support for operating region-specific microcredit facilities in coastal areas, adhering to PKSF guidelines. This partnership has helped PRISM enhance its efforts in poverty reduction and socio-economic improvement for its direct partner beneficiaries.

Currently, PRISM Bangladesh Foundation operates its microcredit programs across six coastal districts: Noakhali, Lakshmipur, Chandpur, Comilla, Feni, and Munshiganj, serving approximately 56,272 beneficiaries. The organization offers a range of microcredit facilities, categorized as follows:

1. Individual Entrepreneur Credit

2. Ultra-Poor Credit

3. Rural Microcredit

4. Seasonal Microcredit

These credit services are delivered through PBF's 55 branches, staffed by highly trained and skilled personnel. The primary objective is to facilitate long-term economic development for targeted beneficiaries in coastal regions by promoting sustainable income-generating activities (IGAs). This includes boosting production, creating employment opportunities, and assisting in capital formation, particularly for women. PRISM Bangladesh Foundation currently employs 456 staff members.

Exhibit 2: Operational Statistics: PRISM Bangladesh Foundation

Particulars	2024	2023	2022	2021
Number of Branch Offices	55	55	55	50
Total Number of Staff	456	392	388	353
Total Number of Members	56,272	68,463	61,728	55,756
Total Number of Borrowers	45,090	45,535	44,989	40,758
Total Gross Loan Portfolio	BDT 3,620.14 million	BDT 3,314.31 million	BDT 2,507.63 million	BDT 1,714.17 million

A.2. Present Programs

PRISM Bangladesh Foundation's mission is to support local and family enterprises to boost production and income in impoverished rural communities. PRISM believes that rural areas already possess the human and natural resources needed for growth; these resources just need to be reexamined and fully utilized. Working as equal partners with these communities, along with public and private institutions, PRISM aims to unlock this potential.

The organization focuses on researching impactful ideas and transforming them into innovative opportunities to enhance productivity. PRISM is committed to providing rural families with viable alternatives to urban migration or environmental degradation by fostering sustainable rural enterprises that offer meaningful work and prosperity.

PRISM also strives to build a connection between rural communities and the modern world, helping them become competitive through ventures that emphasize strong performance, effective management, and the use of appropriate technologies. To achieve its mission, PRISM offers a variety of loan programs, helping clients through targeted microcredit initiatives designed to meet their specific needs.:

A.2.1. Jagoron

Jagoron is a credit program designed to promote household-based enterprise development. It encourages rural microcredit borrowers to engage in family-driven income-generating activities. The program provides funds with minimal formalities, making them easily accessible in rural areas. An extension of this initiative is the Urban Microcredit (UMC) program, which sees higher participation from women compared to its rural counterpart. This is largely due to women's greater involvement in the labor market, access to resources, mobility, and significant roles in household decision-making in urban settings. Unlike rural borrowers, UMC participants are often landless squatters who typically use loans for small trading ventures. These borrowers face challenges such as the constant threat of eviction and live in slums or makeshift shelters. The urban poor population continues to grow due to factors like forced migration, limited job opportunities in rural agriculture, and frequent natural disasters.

A.2.2. Agrosor

Originally known as the Micro Enterprise (ME) program, Agrosor is designed to provide financial services to members of other microcredit programs who are ready to expand their economic activities and need larger amounts of capital. Any business with an investment of up to BDT 1.50 million, excluding land and buildings, qualifies as a micro enterprise. Under the Agrosor program, individual micro-entrepreneurs can access loans of up to BDT 1.00 million to support their enterprises.

A.2.3. Sufolon

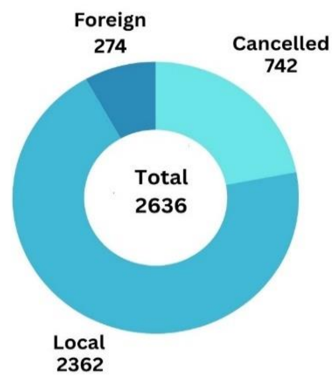
The Seasonal Loan program, now known as Sufolon, offers flexible terms and has significantly boosted investment in various income-generating activities (IGAs), including crop cultivation, livestock, fisheries, agro-forestry, and agro-processing. One of the key features of Sufolon is the ability to repay the loan in a single installment after the sale of the product, making it especially popular among borrowers involved in beef fattening and crop cultivation. Sufolon also provides comprehensive training for farmers to enhance their skills in agricultural lending. To further improve the program, efforts are focused on research, the development of high-yielding seeds, better irrigation management, and the adoption of mechanized and technology-based farming methods. Additionally, the program promotes vocational education to produce skilled workers and increase productivity.

A.2.4. Buniad

Formerly known as the Ultra Poor Program (UPP), Buniad is designed to support the ultra-poor by providing flexible microcredit services. Beyond financial assistance, the program offers a range of non-financial services, including primary healthcare, technical support for income-generating activities, disaster response capacity building, and training on nutrition and social issues through specialized projects. The main goal of Buniad is to help ultra-poor individuals create sustainable income opportunities and restore their human dignity, ultimately empowering them to rise out of extreme poverty.

B. INDUSTRY ANALYSIS

B.1. NGO of Bangladesh



Non-Government Organizations (NGOs) are social development organizations assisting in the empowerment of people by helping the credit facilities to reach the poor even in distant rural areas and also working towards development of the society. Besides, providing financial service but also works for educational development, child rights, women empowerment, health services, agricultural development, disaster relief and resilience, policy advocacy, job creation, developing technical skills of people, reducing unemployment, etc. All these will help to reach the ultimate goal of poverty alleviation and sustainable development of the country. NGOs are regulated by NGO Affairs Bureau (NGOAB) with prime objective to provide service to the NGOs operating with foreign assistance and registered under the Foreign Donations (Voluntary Activities) Regulation Ordinance, 1978. There are 2636 numbers of currently NGOs operating in Bangladesh including 274 foreign and 2362 local organizations.

Microcredit Program

Microcredit as a part of micro finance brings solution of financing services to low-income households that are available to everyone else. It protects people against shocks, and allows the majority of the population to become part of a country's economic activity. The major receiver of the credit facilities includes small traders, remittance receiver (mostly women), hawkers and day laborers.

Description	Member (Million Person)	Borrower (Million Person)	Loan Disbursement (BDT Billion)	Loan Outstanding (BDT Billion)	Savings Outstanding (BDT Billion)
MRA Licensed MFIs	40.86	31.53	2493.02	1504.21	620.55
Grameen Bank	10.36	7.16	247.57	161.50	226.82
Government & Non-government Banks	13.30	6.21	84.75	121.90	39.21
Government Departments & Agencies	2.30	0.40	36.40	73.75	15.18

Total	66.82	45.30	2861.74	1861.36	901.76

Palli Karma-Sahayak Foundation's (PKSF's) contribution at Rural Finance

PKSF is one of the prime stakeholders of NGOs operating in Bangladesh and assist them in their lending by providing loans. According to Monthly Report on Agriculture and Rural Finance July 2024, in FY24 total disbursement of Palli Karma-Sahayak Foundation (PKSF) was BDT 7553.11 crore which was 12.40 percent higher as compared to the disbursement amount of BDT 6719.72 crore in FY23. The recovery amount was BDT 6139.10 crore in FY24 which was 23.07 percent higher as compare to the recovery of BDT 4988.22 crore in FY23. In June of FY24, Palli Karma-Sahayak Foundation (PKSF) disbursed BDT 1269.95 crore to 284 partner organizations (POs) and recovered BDT 914.24 crore. These figures represent 7.93 percent decrease in disbursement and 21.43 percent increase in recovery compared to June of FY23 as of the end of June 2024, the outstanding balance of PKSF's loan program amounted to BDT 11,820.67 crore, with an overdue balance of BDT 163.06 crore. The outstanding balance increased by 13.60 percent in June 2024 compared to June 2023. Meanwhile, the overdue balance decreased by 18.49 percent in June 2024, compared to the same month of FY23.

Microcredit Operations by Grameen Bank and Ten Large NGOs

In July of FY25, Grameen Bank and ten prominent NGOs disbursed BDT 13,438.18 crore for microfinance programs aimed at fostering productive rural activities, marking a decrease of 6.56 percent compared to July of FY24. Approximately 34.41 million members accessed this loan facility through a total of 13,400 branches operated by the top 11 Microfinance Institutions (MFIs). Notably, Grameen Bank, BRAC, and ASA collectively accounted for 73.78 percent of the total microcredit disbursed in July of FY25.

The recovery efforts of these MFIs in July of FY25 amounted to BDT 15,906.07 crore, reflecting 3.63 percent decrease from July of FY24. As on July of FY25, the outstanding balance of these MFIs stood at BDT 114,338.31 crore, marking a 2.47 percent rise compared to July of FY24. Additionally, the overdue amount for MFIs remained at BDT 6,211.67 crore as on July of FY25, representing a 57.37 percent growth as compared to the overdue amount of July of FY24 (Table-4). This significant rise in overdue balances is primarily due to decreased loan recovery, which can be attributed to borrowers' erratic behavior of unwillingness to pay because of crop damage in some regions caused by natural calamities like floods and cyclones, borrowers' financial difficulties due to the rising cost of living for increased price level, and inefficiencies at the branch level.

Microfinance at a Glance

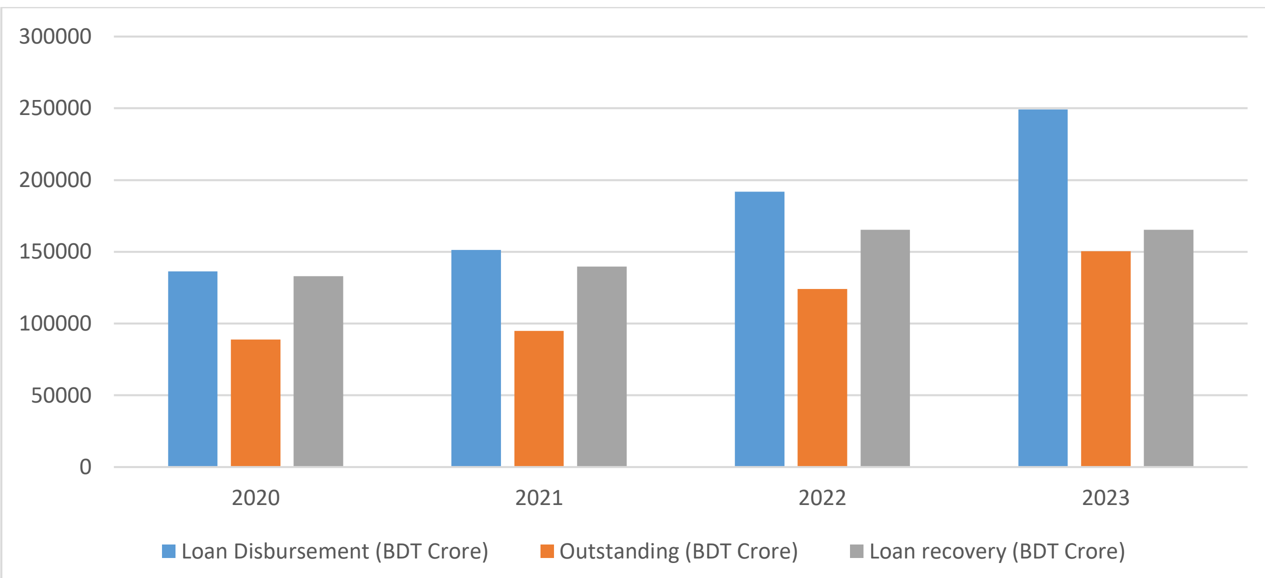
As of June 30, 2023, the number of licensed NGO MFIs stood at 731 numbers with 25,336 branches operating with 206,000 employees. As per Micro Credit Authority (MRA) data, the number of total members of MFI increased from 38.30 million in FY 2022 to 40.80 million in FY 2023. The savings stood at 62,055 crores (MRA 2023). In FY2023, total microcredit loan disbursement was BDT 2,49,302 crore, and amount of outstanding loans stood at BDT 150,421 Crore. Moreover, BDT 165,269 crore was recovered during the year.

There is showing a comparison from 2020-2023 for loan disbursement, loan outstanding amount and loan recovery amount.

Exhibit 14:

Year	Loan Disbursement (BDT Crore)	Outstanding (BDT Crore)	Loan recovery (BDT Crore)
2020	136275	88864	132988
2021	151209	94985	139713
2022	191883	124141	165269
2023	249302	150421	165269

A chart is given to have better visual of the above-mentioned information.



NGOs fund's source is basically the savings of the member, credit of PKSF,

Exhibit 14: NGO MFIs Statistics

Particulars	June 2019	June 2020	June 2021	June 2022	June 2023

No. of licensed NGO-MFIs	842	746	746	739	731
No. of Branches	18,977	20,898	20,955	23,543	25,336
No. of Employees	162,175	171,110	175,741	207,000	206,000
No. of Clients (million)	32.37	33.31	35.19	38.30	40.8
Total borrowers (Million)	25.76	26.15	27.80	29.74	31.53
Loan Disbursement (BDT Billion)	1403.20	1,362.75	1,512.09	1,918.83	2,493.00
Agri Loan Disbursement (BDT Billion)	575.23	544.80	550.04	1,041.69	1248.18
Amount of Loan Outstanding (BDT. Billion)	787.58	888.64	949.85	1241.5	1,504.20
Agri Loan Outstanding (BDT Billion)	488.95	506.52	502.32	656.36	707.89
Amount of Savings (BDT Billion)	306.19	373.90	422.39	496.24	620.55
Loan Recovery (Tk. Billion)	1,250.90	1,329.88	1,397.13	1,652.69	1652.69

Source: MRA Annual Report & Bangladesh Bank Annual Report 2023

C. RISK ANALYSIS

C.1. Operational Risk

PBF operates in rural areas, offering credit to economically disadvantaged individuals, which involves significant operational risk. To mitigate this, PBF uses a structured internal control system. Annual budgets are set for each branch, which operate accordingly and submit regular variance reports to the Head Office. Fund requests are made by branch managers through regional coordinators to the Head Office, with transfers approved by the Director via Bank Demand Draft.

C.2. Credit Risk

PBF conducts its microfinance operations in an organized manner according to its Credit and Savings Management Manual, adhering to specific criteria for borrower selection. The organization follows the guidelines outlined in the manual before approving and disbursing loans. Factors such as attendance at weekly meetings, past loan history, and overall experience are considered when selecting borrowers. If the conditions in the loan approval manual are met, credit proposals are discussed and approved during weekly member meetings, following recommendations from the center chairman, CDW, FO, and branch manager.

C.3. Loan Recovery Risk

A significant challenge for the microfinance program is the timely collection of installments, which occurs frequently, ranging from weekly to monthly. This risk is exacerbated by a culture of loan defaults within the banking sector, even though banks have stronger mechanisms for recovering debts through legal means and collateral sales. PBL has achieved a 99.64% on-time payment rate.

Microfinance organizers use a group guarantee system, incentivizing further loans to groups that repay installments without defaulting, which helps maintain a high recovery ratio.

C.4. Service Charge Rate Risk

Microfinance operations, which require extensive outreach, are often challenged by the balancing act of risk and return. As PBF expands its financing and services, the associated delivery costs increase. The service charge rate risk for PBL is notable, as the organization currently charges clients a declining service charge of around 25%.

C.5. Other Risks

Numerous microfinance institutions (MFIs) are currently operating in Bangladesh, continually expanding their services in rural areas and providing customized products to meet the diverse needs of borrowers. This competition may impact PBF's operations. While the political risk associated with microfinance activities is relatively low for PBF—given its rural client base—political unrest could still adversely affect both the organization's clients and its operations.

D. FINANCIAL RISK ANALYSIS

D.1.Profitability Analysis

Exhibit 3: Selected Indicator: PRISM Bangladesh Foundation

FYE 30 June	2024	2023	2022	2021	2020
Total Income (BDT in Millions)	845.97	672.54	440.06	366.36	264.05
Excess of Income Over Expenditure (BDT in millions)	354.04	235.98	159.65	115.77	30.16
Excess of Income Over Expenditure Margin (%)	41.85	35.09	36.28	31.60	11.42
Return on Capital (%)	33.13	30.50	27.72	26.42	8.26
ROA (%)	8.98	7.06	6.37	6.13	1.91
Operational self-efficiency (x)	1.68	1.53	1.56	1.44	1.10

FY2020-2024 data obtained from audited financial statements

PRISM Bangladesh Foundation's total income increased to BDT 845.97 million in FY2024 from BDT 672.54 million in FY2023, reflecting a 25.79% growth, consistent with previous years' trends. According to the audit report's budget and achievement statement, the NGO reached 99.00% of its income target for the year, with most revenue coming from interest income on loans. The income surplus over expenditure was BDT 354.04 million in FY2024, with a margin of 41.85%. The primary driver for this growth was the increase in income from loan service charges, which also positively impacted the organization's return on capital and return on assets, improving to 33.13% and 8.98% in FY2024, up from 30.35% and 7.06% in FY2023, respectively.

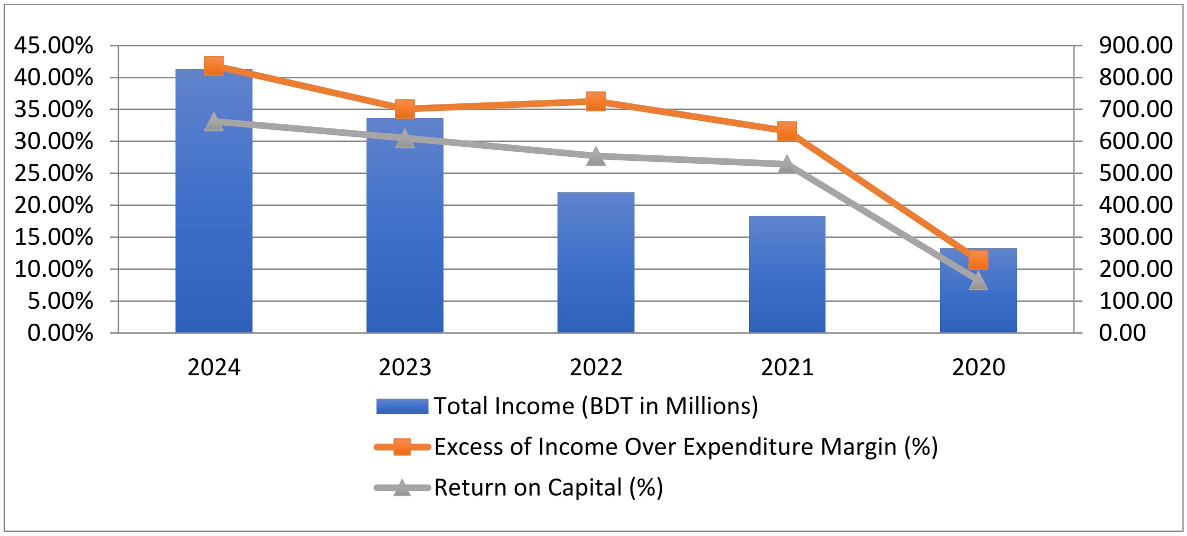


Figure 1: Selected Indicators: PRISM Bangladesh Foundation

D.2. Assets/Liability Management Analysis

Exhibit 4: Selected Indicators: PRISM Bangladesh Foundation

FYE 30 June	2024	2023	2022	2021	2020
Yield on gross loan portfolio (%)	22.81	20.05	17.32	20.91	16.39
Total Liabilities to Assets (%)	70.23	75.93	78.00	75.58	78.24
Liquidity to Saving Ratio (%)	47.00	37.00	59.00	44.00	28.00

FY2020-2024 data obtained from audited financial statements

The yield on the gross loan reflects the portfolio's capacity to generate cash revenue from interest, fees, and commissions. The organization's yield on its gross loan portfolio rose from 20.05% in FY2023 to 22.81% in FY2024. Maintaining a sustainable capital structure, steady growth, and resource diversification strategies could further enhance this yield. Additionally, the liquidity-to-savings ratio increased from 37.00% to 47.00% over this period, driven by a higher increase in other short-term investments compared to a smaller rise in the savings fund.

D.3. Portfolio Quality

Exhibit 5: Selected Indicators: PRISM Bangladesh Foundation

FYE 30 June	PKSF Standard	2024	2023	2022	2021	2020
PAR Ratio > 30 days (%)	-	4.13	2.53	3.92	8.09	15.27

Cumulative Recovery Rate (%)	95%	99.64	99.72	99.51	99.39	99.51
On Time Recovery (%)	95%	98.75	99.32	98.03	95.75	99.62

FY2020-2024 data obtained from audited Financial Statements

The distribution of microfinance facilities, recorded as investments, requires a high repayment quality and a sufficient likelihood of repayment. However, the absence of collateral for these investments exposes the portfolio to significant default risk. Unlike other financial institutions, PKSF disburses loans in phases based on the borrower's previous payment history, without any collateral security. Therefore, maintaining the quality of the portfolio is essential. In FY2024, the organization's microcredit Portfolio at Risk (PAR) increased compared to the previous year due to a greater number of borrowers failing to make timely payments, outpacing the growth of the loan portfolio. Additionally, the cumulative recovery rate slightly declined from the previous year. To mitigate credit risk, the organization maintains a loan loss reserve in accordance with MRA regulations. In FY2024, PBF set aside BDT 115.28 million as a provision to meet these regulatory requirements.

D.4. Utilization of Resources

Exhibit 6: Selected Indicators: PRISM Bangladesh Foundation

FYE 30 June	PKSF Standard	2024	2023	2022	2021	2020
Debt to Capital Ratio (x)	9:1	2.36	3.15	3.55	3.09	3.47
Capital Adequacy Ratio (%)	10%	33.65	26.40	25.49	28.05	23.67
Debt Service Coverage Ratio (x)	1.25:1	1.32	1.25	1.27	1.21	1.07
Current ratio (x)	2:1	1.79	1.74	1.91	1.76	1.54

FY2020-2024 data obtained from audited financial statements

The organization has accessed debt financing through loans from Trust Bank PLC, First Security Islami Bank PLC, and PKSF, in addition to utilizing member savings. The majority of PBF's funding is sourced from loans provided by PKSF, followed by its own capital and members' savings accounts. The capital adequacy ratio improved slightly from 26.40% in FY2023 to 33.65% in FY2024. According to PKSF standards, the NGO is required to maintain a minimum capital adequacy ratio of 10%, which it successfully achieved. The debt-to-capital ratio decreased from 3.15 times in FY2023 to 2.36 times in FY2024, primarily due to a 39.70% increase in PBF's equity. The organization's current ratio rose to 1.79 times in FY2024, up from 1.74 times in FY2023.

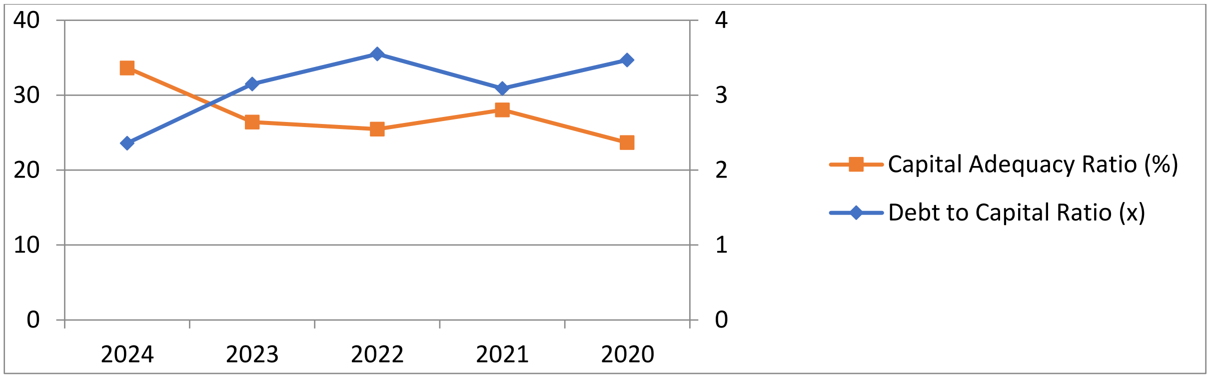


Figure 2: Selected Indicators: PRISM Bangladesh Foundation

D.5. Bank Facilities & Credit History

Exhibit 7: Credit Facilities (in BDT millions): PRISM Bangladesh Foundation

Bank	Mode	Outstanding	Limit
Trust Bank Limited (As on August 13, 2024)	Term Loan (Commercial)	300.00	300.00
	Total	**300.00**	**300.00**
First Security Islami Bank PLC (As on October 22, 2024)	Bai-Murabaha Agricultural Investment	95.12	100.00
	Bai-Murabaha (EMI) Under Agricultural Investment	15.51	50.00
	Total	**110.63**	**150.00**
PKSF (As on June 30, 2024)	Jagoron, Agrashor, Buniad, Sufalan, Sufalan(KGF), Agrashor (MDP), Enrich (IGA, LIL)	1,350.60	1,350.60
	Total	**1,350.60**	**1,350.60**
Grand Total		**1,761.23**	**1,800.60**

PBF has been availing loans from Trust Bank PLC, Banani Branch, First Security Islami Bank PLC, and Corporate Branch. The loan is disbursed to undertake Micro-Credit finance/ agricultural credit to the marginal and underprivileged farmers to produce seasonal crops, livestock and other agricultural products. The total sanctioned amount is BDT 1,800.60 million. Above mention dated the outstanding position of the organization stood at BDT 1,761.23 million. As per the bank documents, repayment history of the organization found regular.

D.6. Security & Collateral

Major Securities held by Trust Bank PLC:

1. Duly discharged FD Revaluing BDT 15.00 million under lien
2. An undertaking of cash flows receivable from loan portfolio
3. Personal guarantee of all the members of Executive Committee
4. Undated/post-dated cheque covering the total facility

Major Securities held by First Security Islami Bank PLC:

1. Hypothecation of stock which under insurance
2. Lien 10% amount of all total investment

E. MANAGEMENT & OTHER QUALITATIVE FACTORS

The strategic management and operational aspects of PRISM Bangladesh Foundation are looked after by an Executive Committee consisting of seven members. This management committee makes the operational plan and implements through a group of dynamic personnel in the field level. The members of this committee are the founder member of PBF and they have different involvement in business, private services, consultancies and social aspects.

Dr. Zia-Us-Sabur is holding the position as Chairman of PRISM Bangladesh Foundation and he is involved with PRISM for more than 16 years. Dr. Zia Us Sabur Was working with BRAC for long time under the BRAC Education Program. He did his PhD from University of Sussex, UK. He did his bachelor degree from University of Chittagong in Economics and then did his master's in Business Administration from the Institute of Business Administration (IBA), University of Dhaka. He also did his masters in Development Studies from North South University. He has a long track record in consultancy in ADB, Polytechnic International, Newzealand, UNESCO, Swiss Development Cooperation (SDC) and SIDA. He was the Education Advisor of British Council and served there for 2 Years. He was the Senior Program Officer of NGO Forum for Safe Water Supply and Sanitation. He served there from 1989 to 1995. He attended many national and international training courses in development sector. He hosted key note papers in different seminar in Bangladesh and abroad.

A.F.M Zahirul Islam is Vice-Chairman of PRISM Bangladesh Foundation. Now he is retried person from Government Service. He was working with Bangladesh House Building Finance Corporation for long time as a general manager. He did his Master's Degree and bachelor degree from University of Dhaka in Management. He was the principal officer of Bangladesh Krishi Bank and served from 1992 to 1995.

Mr. Khondkar Anisur Rahman is the Founder Secretary General of PRISM Bangladesh Foundation and he is holding the position as Executive Director of PRISM. This is the full-time responsibility and he is the key person of PRISM and looking after all planning, operation and implementation of programs and projects of PRISM. He is serving PRISM from 2001 to till now. He also served in PRISM as Chief Accountant from 1990 to 1995. Then he joined in Square Pharmaceuticals Limited and served as Administrator in the factory for 3 years. He also served as Administrator in the factory of Square Toiletries Limited for 3 years. Mr. Khondkar Anisur Rahman did his masters from University of Dhaka and did his MBA from Canada. He also completed his article-ship from M. A Quader Kabir and Company, Chartered Accountants. He has the capability in accounts and finance, administration, planning, management, project implementation, analytical abilities etc. He has good commitment and dedication in the development of PRISM. He set a dream to make a sustainable organization and to work for a long time in the development sector to eradicate poverty of the rural people and empowerment of women. He is developing the management and human resources to make a sustainable growth of business and operation. The organization is grooming up under his leadership and management.

Mrs. Zannatul Ferdous is the Member of Executive Committee of PRISM. She completed Bachelor of Arts and involved in different social services. She has good family track record.

Md. Shamsuzzman is the Member of the Executive Committee of PRISM. He did her Bachelor degree from National University. She has good family track record.

Mr. Syed Atiqur Rahman is the Member of Executive Committee of PRISM. He did his Bachelor degree from National University. She has good family track record.

Dr. Daulatunnaher Khanam is the Member of the Executive Committee of PRISM. She holds a Ph.D. in Economics, which she earned from Banaras Hindu University in Varanasi, India. Dr. Khanam boasts an extensive career spanning over 36 years in the banking sector, with valuable contributions to various financial institutions such as Bangladesh Krishi Bank, Bangladesh House Building Finance Corporation as Deputy Managing Direcor, and Sonali Bank Ltd. She presently holds a prominent position as a Director within the esteemed organization of Sonali Bank Ltd.

Exhibit 8: Executive Committee members: PRISM Bangladesh Foundation

Name	Qualification	Designation	Profession
Dr. Zia-Us-Sabur	PhD, MBA	Chairman	Dev. Consultant
Mr. A.F.M Zahirul Islam	M.Com	Vice-Chairman	Govt. Service (Retried)
Mr. Khondkar Anisur Rahman	MBA	General Secretary	Private Service

Dr. Daulatunnaher Khanam	PhD	Member	Govt. Service (Retried)
Mrs. Zannatul Ferdous	BA	Member	Home Maker
Md. Shamsuzzman	BA	Member	Business
Mr. Syed Atiqur Rahman	MBA, M.Com	Member	Private Service

3.1 Various Rating Methodology of Emerging Credit Rating Ltd

Emerging Credit Rating Ltd conducts its credit ratings following a well-defined methodology. As per the guidelines of the Bangladesh Securities and Exchange Commission (BSEC), every credit rating agency is required to establish a methodology for conducting credit ratings. The methodologies used by Emerging Credit Rating Ltd include:

- **Corporate Debt Rating Methodology**
- **SME Rating Methodology**
- **Financial Institution Rating Methodology**
- **Financial Holding Companies Rating Methodology**
- **Islamic Financial Institutions Rating Methodology**
- **General Insurance Rating Methodology**
- **Life Insurance Rating Methodology**
- **Project Finance Rating Methodology**
- **Government Agencies Rating Methodology**
- **Bond Rating Methodology**

Credit Rating Methodology

For credit ratings the analytical framework consists of the following core areas:

- **Business Risk Analysis**
- **Financial Risk Analysis**
- **Management and Other Qualitative Factors**
- **Issue Structure and Terms**

Business Risk Analysis evaluates factors such as industry characteristics, competitive position, and operations, while Financial Risk Analysis is divided into three sub-sectors: profitability, cash flow/debt service capacity, and capitalization/financial policies and flexibility. In most "non-structured transactions," Business Risk and Financial Risk typically carry weights of 50% and 40%, respectively, with Management and Other Qualitative Factors accounting for the remaining 10%. However, there may be instances where specific factors have a greater impact on the rating, warranting adjustments to the usual weightings. In such cases, ECRL will explain the changes and the reasons behind them in its rating opinion.

Business Risk Analysis

The industry assessment component of ECRL's business risk analysis evaluates the operating environment of the entity being rated (ratee). This includes examining the industry structure, relative market share of participants, market trends, industry growth rates, competitive dynamics, and regulatory framework. These factors collectively influence the ratee's ability to grow, operate profitably, and generate sufficient cash flow to service its debt. Assessment of both current and long-term fundamentals of the industry includes considerations such as pricing power, potential for product or service substitution, and barriers to entry and exit. Some industries are highly sensitive to economic cycles, while others remain relatively immune. Industries also exhibit unique characteristics throughout their lifecycle, which significantly impact returns and the sustainability of financial performance.

ECRL places particular emphasis on the predictability of the regulatory environment and its influence on competition within the industry. Regulatory factors that support investment returns for both existing players and new entrants are critical to the analysis.

Ratees operating in industries with less favorable characteristics must adopt more conservative financial policies to achieve the same rating level as those in more favorable industries. Favorable industry characteristics generally enable stable earnings and cash flow generation, even during economic downturns. Conversely, industries with declining growth rates create uncertainties about earnings and cash flow reliability.

The competitive position aspect of ECRL's analysis delves into the ratee's business model, assessing strengths and weaknesses relative to peers. Analysts seek to determine whether the firm's market position and business strategies allow it to distinguish itself favorably or limit it to average performance. Size is advantageous when it translates into economies of scale, purchasing power, or pricing leverage. Geographic and operational diversity are viewed positively, as they help balance risks across markets and business segments. Net operating margin, a measure of profitability before interest and taxes relative to sales revenue, is used to compare firms within the same industry. However, segment-specific information is necessary for meaningful comparisons across diverse industries.

Operations Analysis

This component assesses the ratee’s operational efficiency and effectiveness, focusing on implications for cost management, profitability, and competitive positioning. Factors vary by industry but typically include manufacturing efficiency, age and quality of equipment, and business process effectiveness. For service industries, differences in performance are often linked to strategy quality and execution rather than size. Ongoing cost improvements are essential for sustaining margins in competitive markets where price increases are limited.

The ability to introduce competitive offerings efficiently and ahead of rivals significantly influences business strength and growth potential. ECRL evaluates operational initiatives aimed at enhancing productivity, competitiveness, quality, order fulfillment, and service standards.

Financial Risk Analysis

ECRL evaluates the ratee’s operational profitability over a five-year period to gauge earnings consistency and volatility. Firms demonstrating stable earnings generation are better positioned for higher ratings, as they have greater access to capital and flexibility for investments. High revenue volatility and narrow profit margins, however, may result in periods of low returns on assets.

Key return measures include:

- **Return on Assets (ROA):** Indicates the productivity of all assets, calculated before and after taxes.
- **Return on Permanent Capital:** Relates profits to funding provided by debt and equity capital, excluding trade financing and current liabilities.
- **Return on Equity (ROE):** Reflects profits relative to equity, influenced by the ratee’s capital structure.

Shareholder-friendly financial policies can constrain improvements in credit measures and balance sheet strength over time. ECRL analyzes the dividend payout ratio and retained earnings ratio to assess the ratee’s capacity for internal capital formation. A high dividend payout ratio limits the ability to self-fund working capital and investments, while a rising retained earnings ratio indicates increasing reliance on internally generated funds for asset growth.

ECRL also considers the ratee’s willingness to issue equity to improve its capital structure. Metrics such as the interest coverage ratio, which measures the extent to which operating profits cover gross interest expenses, are used to differentiate credit quality among companies. Variations in interest coverage results are attributed to differences in profitability and interest expenses, providing a key indicator of financial stability across industries.

Cash Flow Generating Ability and Debt Servicing Capacity

The ability to generate cash flow and effectively service debt obligations is fundamental to assessing a company's financial health. Cash flow, derived from both operating and non-operating activities, serves as the primary source for repaying debt. Operating cash flow (CFO) typically refers to pretax profit adjusted for non-cash items, such as depreciation and amortization, while accounting for changes in working capital. Non-operating cash flows usually stem from asset sales, including property, equipment, or business units, though these are often considered non-recurring.

Cash outflows, on the other hand, include expenditures like capital investments, dividends, interest expenses, and changes in working capital. Changes in working capital may act as either a source or use of cash, depending on year-to-year variations in current assets and liabilities, excluding cash and short-term debt. A historical analysis of cash flow surpluses or deficits is crucial to understanding their origins. For instance, cash surpluses are less reassuring if they arise from insufficient reinvestment in core assets.

To assess cash flow health, analysts compare annual cash inflows with outflows—both historical and projected—a process referred to as the Cash Flow Match. This comparison reveals the company's reliance on external funding and its capacity to maintain financial independence. Surpluses and deficits are evaluated in the context of their origins, such as investment in growth versus high dividend payouts.

An optimal scenario involves firms borrowing for expansion or acquisition, quickly generating enough cash flow to repay the debt. However, external factors like business cycles, unforeseen working capital changes, and opportunistic transactions often influence cash flow. Therefore, analyzing the reasonableness of cash flow forecasts requires an understanding of assumptions, industry trends, and potential stress scenarios. For instance, delays in production facility completion can impact operational margins and borrowing costs.

CFO-related ratios, such as CFO Interest Coverage, CFO Debt Coverage, and CFO Capital Expenditure (Capex), provide deeper insights into a firm's ability to generate cash and service debt. Ratios like Capex/Depreciation help determine whether a company is adequately maintaining or upgrading its assets. Comparisons with industry peers are essential for identifying deviations and understanding their implications.

Capitalization and Financial Policies

A firm's approach to capitalization significantly influences its financial risk profile. While equity financing is costlier than debt, a balanced mix of the two is often preferred. Total Debt/Equity and Total Liabilities/Total Capital ratios are commonly used to measure leverage, with equity values derived from book or market valuations. Variations in these metrics, such as high goodwill or asset revaluations, may signal potential vulnerabilities or strengths.

Debt maturity profiles and liquidity positions are also critical. Firms reliant on short-term debt or with significant upcoming maturities face heightened refinancing risks, particularly during economic downturns. Liquidity evaluations often involve ratios like the Cash Ratio, Quick Assets Ratio, and Current Ratio, alongside assessments of unencumbered assets and access to alternative financing.

Management and Governance

Management quality is a vital qualitative factor in financial analysis. This includes evaluating the team's track record, strategic execution, and responses to economic cycles. Corporate governance also plays a significant role, as alignment between stakeholders' interests fosters stability and reduces regulatory risks. Analysts must consider the influence of significant shareholders, ensuring their goals align with those of management and other stakeholders.

Issue Structure and Terms

When analyzing debt instruments, understanding the structure and terms is crucial. This includes evaluating covenants such as limits on additional debt, restrictions on distributions, and cross-default provisions. These covenants reflect management's willingness to adhere to financial discipline. Additionally, structural subordination, reserve funds, and debt maturity alignment with underlying assets are factors that influence risk assessment.

In conclusion, a holistic approach to evaluating cash flow, financial policies, governance, and debt structures is essential for assessing a company's financial health and creditworthiness.

Corporate Rating Symbol

LONG – TERM RATINGS	
ECRL's Long-Term Ratings are given to debt instruments with maturities exceeding one year. These ratings specifically evaluate the likelihood of timely repayment of both principal and interest throughout the life of the debt until its maturity.	
RATING	**DEFINITION**
AAA	Extremely High Ability: Indicates an exceptionally high ability to repay principal and pay interest on time.
AA	Very Strong Ability: Indicates a very strong ability to repay principal and pay interest on time, with limited incremental risk compared to the highest-rated issues.
A	Strong Ability: Indicates a strong ability to repay principal and pay interest, though these issues may be more vulnerable to adverse developments, both internal and external, than those with higher ratings.
BBB	Adequate Ability: Indicates an adequate capacity to repay principal and pay interest. These issues are more vulnerable to adverse developments, both internal and external, compared to higher-rated obligations.
BB	Low Risk of Default: Suggests that the likelihood of default is significantly lower than for lower-rated issues, but there are considerable uncertainties that could affect the ability to adequately service debt obligations.
B	Increased Uncertainty: Indicates a higher degree of uncertainty, leading to a greater likelihood of default. Adverse developments could negatively impact the timely repayment of principal and interest.
C	High Likelihood of Default: Indicates a high likelihood of default, with limited capacity to withstand further adverse financial changes.
D	Default: Payment in default.
SHORT – TERM RATINGS	
ECRL's Short-Term (ST) Ratings are assigned to debt instruments with original maturities of one year or less, and are designed to assess the likelihood of timely repayment of both principal and interest.	
RATING	**DEFINITION**
ST – 1	Highest Category: Indicates a very high likelihood that both principal and interest will be paid on time.
ST – 2	Strong Safety: While the safety regarding timely repayment of principal and interest is strong, it is not as high as issues rated ST-1.
ST – 3	Adequate Capacity: Indicates that although the obligation is more vulnerable to adverse internal and external developments, the ability to service principal and interest on time is considered adequate.
ST – 4	Low Default Likelihood: Suggests that the likelihood of default is significantly lower than for lower-rated issues, but there are notable uncertainties that could affect the ability to meet financial obligations.
ST – 5	High Default Likelihood: Indicates a high likelihood of default, with limited capacity to manage further adverse financial changes.
ST – 6	Default: Payment in default.

SME Rating Symbol

RATING	DEFINITION
ESME1	Highest Credit Quality: Indicates minimal credit risk with the highest credit quality.
ESME2	Very Strong Credit Quality: Indicates very strong credit quality with limited credit risk compared to issues rated in the highest category.
ESME3	Adequate Credit Quality: Indicates adequate credit quality with low credit risk.
ESME4	Moderate Credit Quality: Indicates average credit quality with moderate credit risk.
ESME5	Below Average Credit Quality: Indicates below-average credit quality with above-average credit risk.
ESME6	Low Credit Quality: Indicates low credit quality with a higher degree of credit risk.
ESME7	Very Poor Credit Quality: Indicates very poor credit quality with very high credit risk.
ESME8	Lowest Credit Quality: Indicates the lowest credit quality with the highest credit risk.

RATING OUTLOOK	
ECRL's Rating Outlook assesses the potential direction of the SME Rating over the intermediate term (typically over a one to two-year period). The Rating Outlook may either be	
POSITIVE	Indicates potential for a rating upgrade
NEGATIVE	Indicates potential for a rating downgrade
STABLE	Indicates that a rating is likely to stay the same
DEVELOPING	Indicates that a rating could be raised, lowered, or remain unchanged

Chapter: Five

Finding, Recommendation & Conclusion

5.1 Findings:

Strengths:

- ECRL employs a robust credit rating methodology, adhering to industry standards.
- Strong team collaboration and experienced management.
- Credibility and recognition from both the Bangladesh Securities and Exchange Commission (BSEC) and Bangladesh Bank.

Challenges:

- Limited investor awareness about credit ratings.
- Operational challenges due to inconsistent data from clients.
- Need for enhanced technological tools for data analysis.

5.2 Recommendations:

Based on the findings, the following recommendations are proposed:

Enhance Awareness Campaigns:

- Increase awareness about the significance of credit ratings among SMEs and potential investors through workshops and seminars.

Invest in Technology:

- Adopt advanced data analytics and machine learning tools to improve the efficiency and accuracy of credit rating processes.

Strengthen Client Collaboration:

- Develop structured client training programs to ensure consistent and accurate data submission.

Expand Services:

- Diversify into new rating services, such as ESG (Environmental, Social, and Governance) ratings, to attract a broader client base.

Improve Operational Efficiency:

- Streamline internal processes to reduce turnaround time for delivering credit ratings while maintaining quality.

5.3 Conclusion:

The credit rating industry in Bangladesh holds immense potential to strengthen the financial sector by providing objective and reliable assessments of creditworthiness. However, to fully realize this potential, Emerging Credit Rating Limited is trying to address key challenges such as transparency issues, regulatory gaps, and limited market penetration. By adopting more dynamic rating models, expanding services to underserved sectors like SMEs, and embracing technological advancements, these agencies can enhance their credibility and effectiveness.

Moreover, regulatory bodies like the Bangladesh Securities and Exchange Commission (BSEC) must enforce stricter compliance and transparency to ensure unbiased ratings. With the right reforms, investments in skills, and increased public awareness, the credit rating sector can play a crucial role in driving sustainable economic growth, improving access to capital, and fostering greater confidence in the country's financial markets.

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