

## OVERVIEW OF SMERA's RATING PROCESS

### SMERA's Rating Process

SMERA Rating is a comprehensive assessment of the enterprise, taking into consideration the overall financial (Profitability and growth ratios, gearing levels, liquidity ratios, etc – size and industry specific) and non-financial performance (Management experience and qualifications, certifications, customer and supplier base, constitution, etc.) of the SME vis-à-vis other peers of similar size in the industry. The entire rating process is transparent, reliable, time bound and customer friendly. The rating process begins with the receipt of rating mandate along with the application form and ends with the dispatch of the rating report and rating certificate.

The rating process in brief is enumerated below

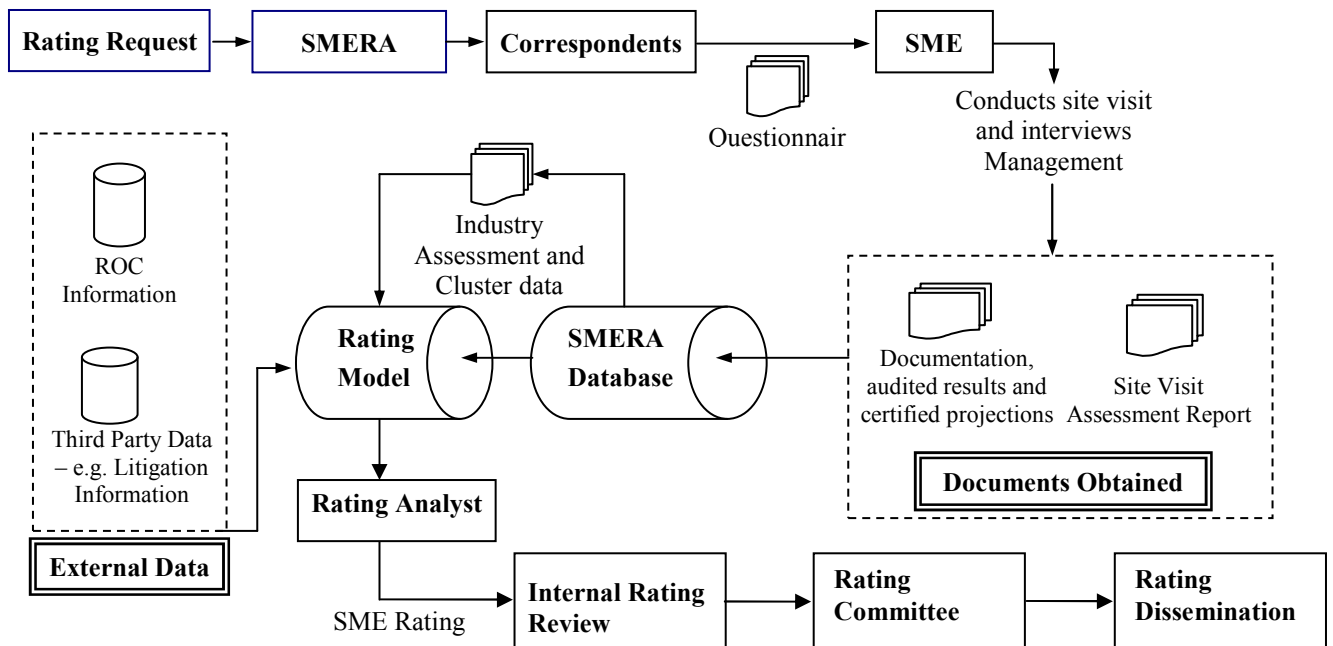


Figure 10: SMERA's Rating Process

SMERA's rating process consists of the following steps:

**1. Receipt of rating request/mandate**

A bank or a lending institution places a rating request/mandate on SMERA. In case of self-solicited ratings, the enterprise directly places a request.

**2. Enquiry placed with the SMERA's Correspondents located across India**

Once the minimum documents are received, SMERA initiates site visit through its correspondent network. These correspondents are specialized firms of good repute and network who conduct site visits within reasonable time and submit the report to SMERA.

**3. Dispatch of relevant documentation to SMERA's centralized office**

- a) The completed questionnaire and site observations, along with the firm's financial statements and other relevant documentation, are dispatched to SMERA's centralized office.
- b) The information is entered into the SMERA database for further analysis and future audit.

**4. Draft Report preparation**

On receipt of Documents and Site Visit Report the report gets prepared. Once the report is prepared and checked for accuracy and consistency of the data entered, a draft confirmation report is sent to the enterprise.

**5. Detailed analysis on both financial and non-financial information and rating assignment**

- a) On receipt of confirmation from the enterprise SMERA's business analysts carry out a detailed analysis on various financial and qualitative aspects of a firm's performance. The various parameters looked into while assessing the risk of an entity include enquiries on the firm's business activities and products, its relationship with the suppliers and customers, its export/import profile, terms of purchase and sale of goods, firm's banking relationship, management details, ownership structure, insurance coverage in ensuring business continuity, related company transactions, group company support etc. The analyst also has a management discussion to discuss future plans and strategies and seek clarification of important issues that have a bearing on the rating.

- b) In addition to the above, SMERA analysts also take into account the present industry scenario, domestic policies, bi-lateral and multi-lateral agreements, benchmarking with companies in the same line of business and other external factors that might have an effect on the risk of a company.
- c) Key market intelligence information in the form of media reports are factored in the rating assessment and the rating report is finalized.
- d) For arriving at ratings SMERA, through its criteria committee has developed detailed methodologies for manufacturing and non manufacturing companies and also industry specific criteria for key industries.
- e) To ensure that the Ratings are assigned in transparent manner, rating methodology is consistently adhered to and the ratings are free from subjectivity and bias which is in conformance with the IOSCO guidelines on best practices for credit rating agencies, SMERA has also started the process of assigning ratings through the rating committee. Every rating report is presented through Rating Committee Meeting (RCM). The rating committee comprises of senior members within the organization as well as external experts from the field of banking, finance and economics and bring with them extensive Industry experience. The RCM process ensures the objectivity of the rating, since the decision results from the collective decision of a group of experts analysing the various risks pertaining to the enterprise vis-à-vis its peers, and the industry and markets in which they operate. The RCM process ensures the highest degree of analytical quality and consistency in methodologies are maintained. The RCM discussions are focused on critical rating factors that are relevant to the enterprise.

## **6. Dispatch and Dissemination**

After finalization of Ratings by Rating Committee SMERA dispatches the Rating report and Rating Certificate. In the letter addressed to SMEs SMERA requests for acceptance and on acceptance of the rating, it is intended to disseminate the Rating on the web site [www.smera.in](http://www.smera.in). In case of Private Ratings and Ratings referred by the Banks the Ratings may not be disseminated.

## **7. Request for Rating Review**

The Rating Committee is the final authority for assigning Ratings. In the event that the enterprise disagrees with the assigned rating, and has additional information which the enterprise believes can make a material difference to its rating, then such appeal is considered by the SMERA's rating committee. Upon receiving valid information, it is first reviewed and incorporated by the analysts in the rating report and the case is once again presented at RCM for final decision.