

SMERA Rating Model

SMERA adopts a hybrid credit evaluation methodology that encompasses financial elements, non-financial qualitative parameters and certain specific event triggers that have a material impact on the company's rating. The choice of rating factors and the weighting schema is an amalgamation of statistical analysis and expert judgment.

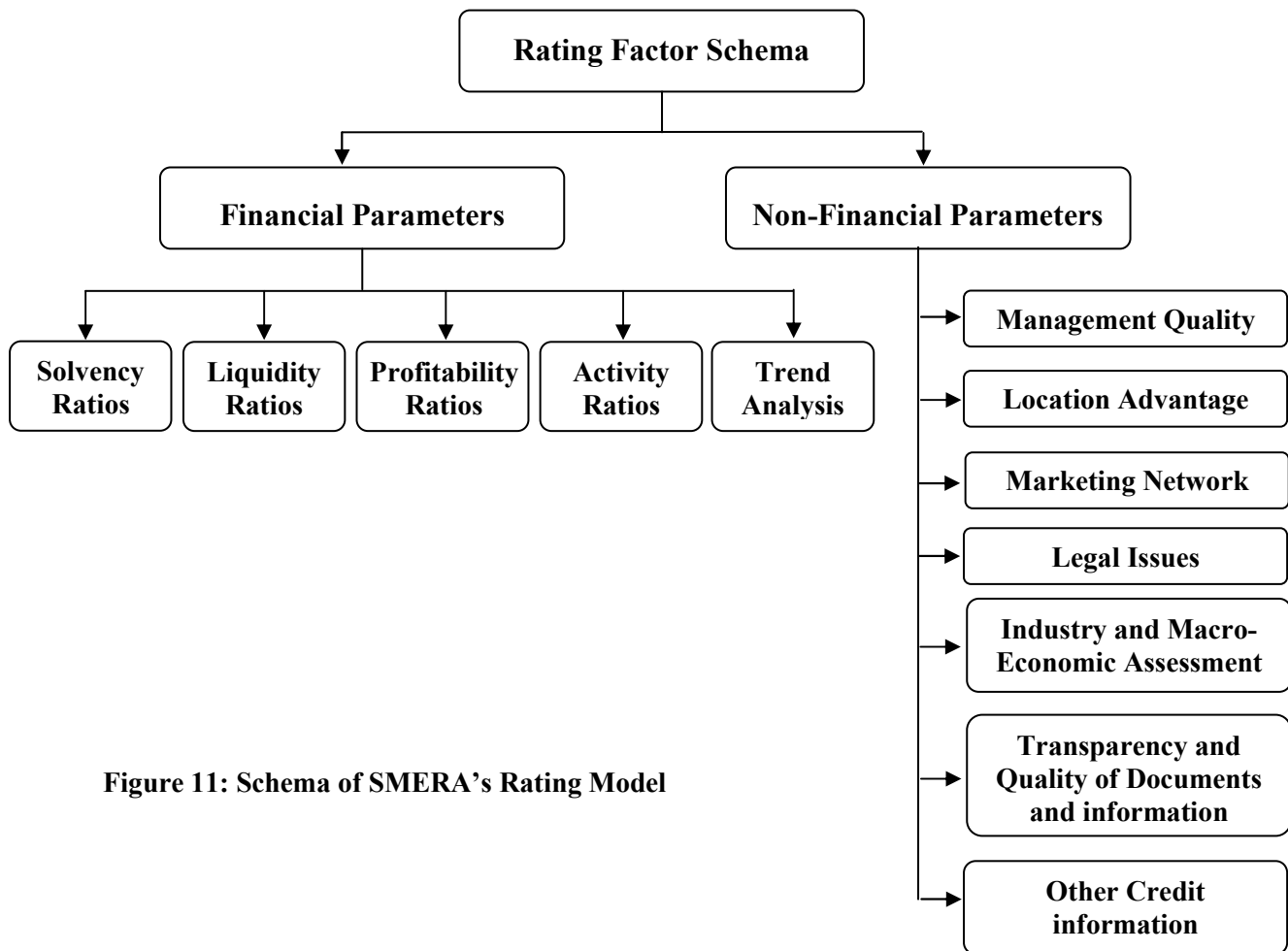


Figure 11: Schema of SMERA’s Rating Model

Financial elements are in-turn broken down into accounting measures, cash flow based measures and growth or trend indicators. Accounting measures uses profit and loss and balance sheet as a

base for arriving at suitable ratios of profitability, activity and gearing. Cash flow based measures are more robust indicators of the cash generation capacity and hence its liquidity. Growth or Trend indicators generally speak about the fluctuations in key financial parameters over a period of time usually 3-4 years. The financial elements are benchmarked with respect to the nearest peer groups based on industry and size. SMERA uses D&B extensive database of commercial entities which also gets enriched by its own ratings to arrive at suitable benchmarks for the financial elements used in the rating.

Non-financial elements such as quality of management, locational advantages, ISO compliance, the relationship of a company vis-à-vis its suppliers, customers, the product range offered, satisfactory repayment and transaction record with bankers and other key statutory bodies, the influence of other related entities etc are all forward looking measures that are difficult to quantify, yet vital in any credit assessment.

Adjustment factors or overrides are factors are given by the analyst to upgrade or downgrade the rating score. These include parameters like occurrence of fraud, tax raids, occurrence of industrial accidents, fire, labour disputes, CIBIL etc that impact the rating of a firm. In a nutshell these are unique events that need to be factored in arriving at the final entity score.