

Bank Loan

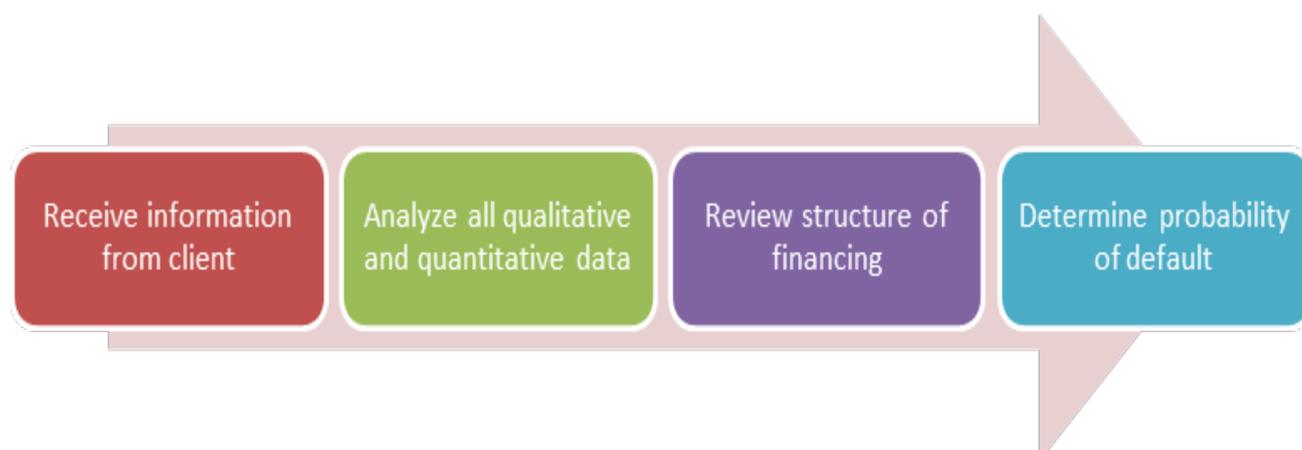
Similar to instrument ratings by JCR-VIS, a Bank Loan Rating (BLR) indicates the degree of risk regarding timely payment of the interest and principal or commitments being rated. In addition to this, JCR-VIS also places significant emphasis on the banking behavior of the counterparty with its existing bank partners as well as collateral offered against the facilities. All BLRs are assigned the acronym “blr” in the long term to distinguish them from other ratings.

BLRs are aimed at enhancing the liquidity and transparency of the bank loan market. BLRs incorporates the underlying credit risk of the borrower and support provided by the collateral and covenants package, which improves the recovery prospects of specific financings. BLR combines JCR-VIS’s assessment of an organization’s ability to meet its unsecured financial obligations, with the likelihood of ultimate repayment of the particular financing being rated through the enforcement of securities by the lender. The higher the entity (i.e. senior unsecured debt) rating, the more importance is given to timeliness of repayment of the financing as the probability of default diminishes; the lower the entity rating, more emphasis is placed on the recovery prospects of the financing in the post default scenario.

BLRs provides important independent risk appraisals of specific financings, where ease in financing indicates an objective basis for pricing of bank financings linked to the risk factor indicated by the rating. A further potential benefit is the possible creation of a secondary market for repackaged rated financings (such markets already exist in most developed economies) providing lenders with a fresh source of funding and increasing the flexibility of the lender’s asset portfolio.

PROCESS FOR BLR RATINGS

The initial process of assigning a BLRs is similar to that of an entity rating i.e. JCR- VIS’s analysts examine all qualitative and quantitative factors that impact the credit quality of the borrower. Once the entity rating has been arrived at; our analysts review the specific characteristics and the structure of the financing being rated in order to determine the extent to which the lender gains advantage or disadvantage with respect to the unsecured creditors of the borrower in the case of default on that particular financing.



JCR-VIS places the BLRs under surveillance for their outstanding tenor and will monitor the financial performance of the borrower; status of security and enforcement of covenants of the financing being rated. And specific BLRs may be maintained, upgraded or downgraded at any time during their tenor. For the purpose of maintaining uniformity, JCR-VIS rates BLRs on its issuer/issue rating scale. Short term instruments such as working capital finance are mapped on to the short term scale, whereas ratings of long term loans will be mapped on long term issuer/issue rating scale. This is in line with JCR-VIS's methodology on rating debentures. Such ratings are appended with the suffix (BLRs) to distinguish from other credit ratings.

Financing Structure

The financing structure is analyzed to cover such factors as the positioning of the financing in the capital structure (e.g. the higher the positioning, the better will be the chances of ultimate recovery), the repayment schedule of the financing (e.g. shorter tenor and faster amortization of the financing may mitigate the level of uncertainty associated with the future performance of the borrower), and quality and reliability of security against the financing.

In reference to assessment of quality of securities, a number of factors such as their current valuation (including forced sales values), nature of charge, probability of obsolescence, and the level of enforceability of the securities as incorporated in the legal documentation. The asset valuation technique used will vary according to the nature of the business of the borrowing entity and that of the underlying securities. Assets that do not have saleable value or utility outside of the business of the entity, such as media & telecommunication equipment and refineries, may not be taken into account for notching relative to the entity rating. Presence of other covenants does not automatically translate into a higher rating, however, the covenants can serve to reinforce the security package.

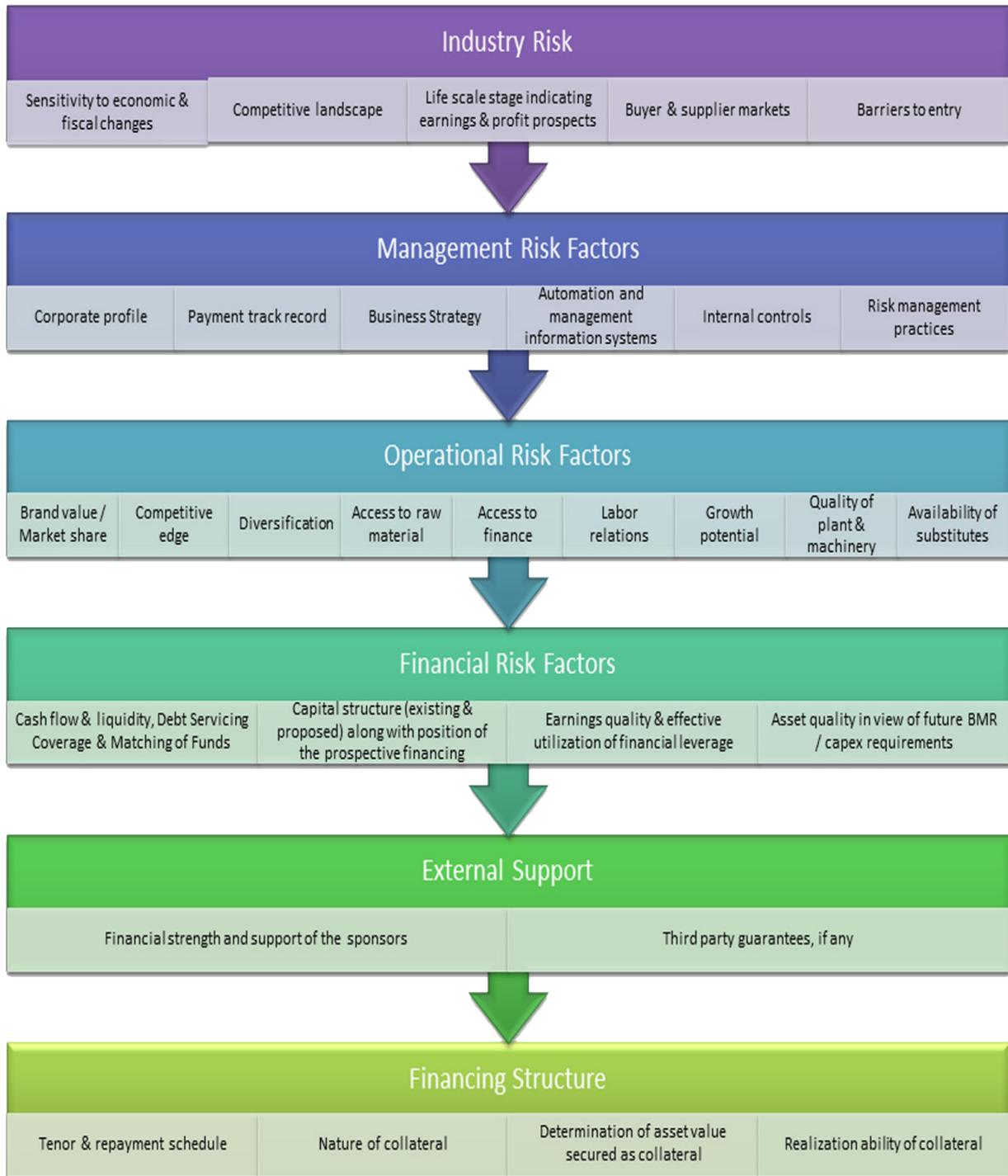
Notching the Rating

The above explained analysis determines the degree of variation of the BLRs from the entity rating of the borrower. While recovery statistics may not be readily available in Pakistan, the practice of notching is in line with global studies on ultimate recoveries that continue to reinforce the importance of debt structure for facility level recoveries. Generally speaking, at the facility level, recoveries are likely to be higher, where there is a larger cushion of structurally subordinated debt. The legal environment also has significant bearing on the effectiveness of enforcing collateral and the length of time required for recovery. Impact of the same is incorporated in BLRs assigned by JCR-VIS.

Secured financings may normally receive a rating that is one to three notches higher than the entity rating of the borrower. JCR-VIS adjusts its notching policy as the rated entities approach investment grade resulting in smaller variations from their entity ratings for higher rated entities. As the ratings become higher, the reliance on collateral becomes progressively lower. Conversely, in the lower rating grades, the ultimate recovery prospects and claim priority assume greater importance. An unsecured loan that is effectively subordinated to other senior unsecured debt may be rated below the entity rating of the borrower.

Considerations in BLRs

(these are more elaborately explained in Corporate Credit Risk methodology)



**Faheem Ahmad**

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Mr. Ahmad possesses 30+ years experience in financial risk assessment with focus on Islamic finance, venture capital and general management. He has top level management experience at international level in the fields of credit ratings, Islamic and conventional financial risk assessment modeling, industrial management and construction engineering. Mr. Ahmad is an active participant at international forums on Credit Ratings. He obtained his B.S in Civil Engineering from NED University of Engineering and Technology, Karachi. He also has Masters Degrees in Engineering and Business Administration from USA. He could be contacted at faheem@jcrvis.com.pk

**Muniba Khan**

Senior Manager

Muniba Khan is involved in the credit analysis of various industrial companies and financial institutions. She has been associated with JCR-VIS since 2013 and her overall experience in ratings includes insurance, microfinance banks, commercial banks and manufacturing sectors. She holds a Masters degree in Business Administration from Institute of Business Administration, Karachi (IBA). She is also currently pursuing a Masters degree in Economics from IBA.”

Jahangir Kothari Parade (Lady LLOYD Pier)
Inspired by Her Excellency, The Honorable Lady Lloyd, this promenade pier and pavillion was constructed at a cost of 3 Lakhs and donated to the public of Karachi by Jahangir Kothari to whose genrosity and public spirit the gift is due. Foundation stone laid on January 5, 1920. Opened by Her Excellency, The Honorable Lady Lloyd on March 21, 1921.

Dome: A roof or vault, usually hemispherical in form. Until the 19th century, domes were constructed of masonry, of wood, or of combinations of the two, frequently reinforced with iron chains around the base to counteract the outward thrust of the structure.

Origins: The dome seems to have developed as roofing for circular mud-brick huts in ancient Mesopotamia about 6000 years ago. In the 14th century B.C. the Mycenaean Greeks built tombs roofed with steep corbeled domes in the shape of pointed beehives (tholos tombs). Otherwise, the dome was not important in ancient Greek architecture. The Romans developed the masonry dome in its purest form, culminating in a temple built by the emperor Hadrian. Set on a massive circular drum the coffered dome forms a perfect hemisphere on the interior, with a large oculus (eye) in its center to admit light.



Jahangir Kothari Parade

National Excellence, International Reach

JCR-VIS Credit Rating Company Limited is committed to the protection of investors and offers a blend of local expertise and international experience to serve

the domestic financial markets. With its international reach, JCR-VIS is positioned to aim for an international mark. In this regard, the global experience of our principal, Japan Credit Rating Agency, Ltd. has been invaluable towards adding depth to our ongoing research endeavors, enriching us in ways, that enable us to deliver our responsibilities to the satisfaction of all investors.

The edifice of the Jahangir Kothari Parade has stood proudly through the years and is a symbol of our heritage. Its 'Dome' as the most stable of building structures, exemplifies architectural perfection. Committed to excellence, JCR-VIS continues its endeavor to remain an emblem of trust.

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