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WHATSINIT 4me

Tips to improve firm's credit rating for funding

CREDIT ratings are opinions on the creditworthiness or the relative degree of risk of timely payment of interest and principal on a debt instrument. To enhance creditworthiness, the borrower should be able to appreciate the views of the credit rating agency and lender/investor. The borrower should also strive to strengthen the business model, outperform the peers, raise the level of management standards, and improve the long-term financial health of the company.

Strengthening the business model: The business model can be defined as consisting of two elements: While analysing the business model, two critical parameters required attention: a) Market Position and b) operating efficiency. Generally, a strong market position will be reflected in good operating profitability of an entity. A very large market share will not necessarily mean a strong market position if it is doesn't result in a pricing power for a company. An efficient operation will result in higher returns on capital employed. Higher profitability does not in itself mean anything if the capacity utilisation is expected to be poor.

Raising the levels of management: The assessment of management is based on such factors as tenure, industry experience, a grasp of industry issue and knowledge of customers and their needs. Management's ability and willingness to develop workable strategies to address its system's needs, to execute reasonable and effective long-term plans, and to be proactive in leading the company into the future are also assessed. Thoughtful balancing of any public and private priorities, a record of credibility and effective communication also indicate management quality with the public, regulatory bodies and the financial community.

Outperforming the Industry Peers: To assess their competitive positioning and better evaluate their performances, organisations need to view themselves as one institution among a group of peers. Benchmarking allows an institution to use objective data to answer important questions in comparison to peers. In effect, the analysis would help in understanding whether the final result makes sense when viewed against the ratings assigned to peers. If, at first sight, the rating appears too high or low – relative to peers – then this represents a "flag" to review the performance.

Improving firm's long-term financial health: Assessing the long-term financial health of a company is an important task for considering the extension of credit and for insiders in their formulation of strategy. For this, the quality of the financial statements should be assessed, and appropriate adjustments made, before any rations are calculated. Attention should be placed on assessing the reasonableness of the accounting choices and assumptions embedded in the financial statements.

- D Ravishankar
Founder Director, Brickwork Ratings

mail to:
mymoney@mydigitalfc.com