



# **CariCRIS' SME Credit Ratings - Creating a Credit Flow Environment**

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**Seminar on Financing and Guarantees to  
Support SMEs in the Caribbean**

**Kingston, Jamaica  
15-16 October 2015**

# CariCRIS - a background



- First credit information and rating services company in the Caribbean
- Owed by regional Central Banks, commercial banks, CDB, IDB and CRISIL (an S&P subsidiary)
- We provide independent credit analysis and opinions, to enable more informed financial decisions and remove information asymmetry

# Access to information

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- **Access to information is the real problem**
  - Communication gap between SMEs and providers of capital
  - Poor quality of financial disclosure of SMEs
  - Lack of research coverage

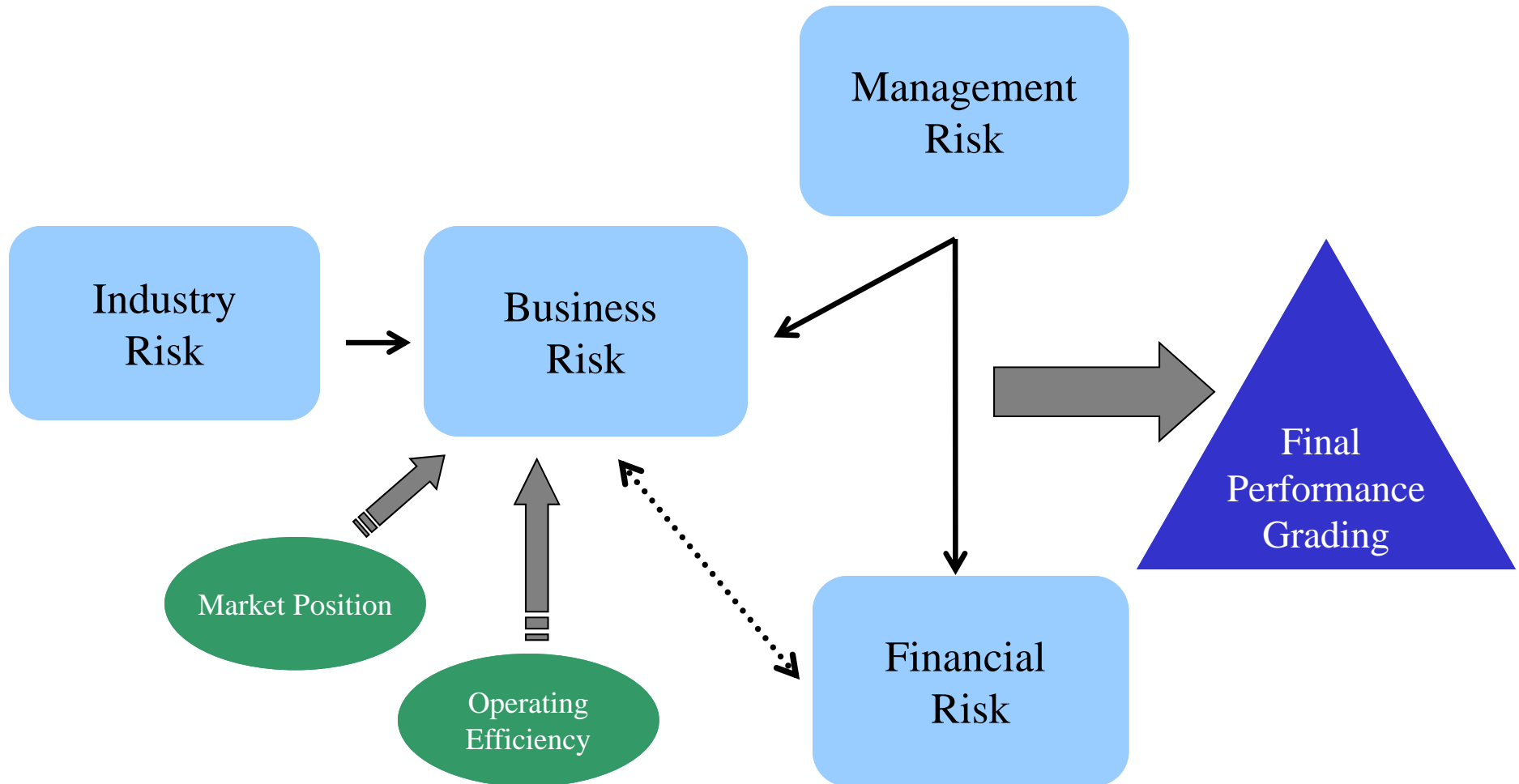
# SME Ratings

- a tool to help bridge the gap



- Measures the SME's business and financial performance and its ability to sustain or improve its performance
- Each rating is accompanied by a comprehensive credit report that highlights the firm's key strengths and weaknesses
- An effective tool to help SMEs improve their credit profile and become more investment ready for commercial and alternate funding

# SME Rating Framework



# SME Rating Model



RISK PARAMETERS	Weights (%)	Score (0-5)	Weighted Score
<b>INDUSTRY RISK</b>	15%		#DIV/0!
Prospects for industry (growth rates, demand-supply)			
Impact of Government regulations (licences, taxes etc)			
Official financial support (soft loans, subsidies, tax breaks etc)			
Level of competition			
Key input risks			
<i>Total possible score</i>			

# SME Rating Model (cont'd)



BUSINESS RISK	25%		#DIV/0!
Relationship with customers			
Customer concentration			
Relationship with suppliers			
Supplier concentration			
Relationship with employees			
Staff turnover			
Level of technology employed			
Quality of facilities			
Integration of operations (vertical, horizontal)			
Multi-locational advantage			
Capacity Utilisation			
Brand equity			
Proximity to market			
Product range			
Availability of raw materials			
Availability of skilled labour			
Adherence to environmental regulation			
Overall ability to manage costs			
<i>Total possible score</i>			

# SME Rating Model (cont'd)



MANAGEMENT RISK	40%		#DIV/0!
<i>Competence</i>			
Number of years in business			
Presence of appropriate competencies & training			
Track record in business (ability to meet goals & targets)			
Presence of second tier management			
Succession plan			
Quality of systems & processes			
Business planning (documented & level of implementation)			
Ability to access support through networking/ Association membership & participation			
<i>Integrity</i>			
Banker's report (repayment of past debt service)			
Litigation against the company (past or present)			
Litigation against the promoters (past or present)			
<i>Total possible score</i>			



# SME Rating Model (cont'd)



<b>FINANCIAL RISK</b>	<b>20%</b>		<b>#DIV/0!</b>
<i>Quantitative Factors</i>			
Size (sales & networth)			
Net worth to total assets			
Profitability (Profit after tax to net sales)			
Current Ratio/Working Capital management			
Debt service coverage			
Cash accrual to debt ratio			
Return on capital employed			
Contingent liabilities			
<i>Qualitative factors</i>			
Accounting quality			
Repayment of borrowing (in full & on time)			
Relationship with banks			
Ability to access additional cash if required			
Access to additional capital if required			
<i>Total possible score</i>			
<b>SCORE</b>	<b>100%</b>		<b>#DIV/0!</b>

# SME Grading Scale



Grade	Definition	Description	Score (%)
SME 1	Excellent	Displays excellent business and financial performance and has excellent prospects for sustaining this performance.	75 - 100%
SME 2+	Strong	Displays better than average performance with reasonable prospects for improving its performance.	70 - 74%
SME 2-	Strong	Displays better than average performance with reasonable prospects for maintaining its performance.	65 - 69%
SME 3+	Good	Displays average performance with reasonable prospects for improving its performance.	57 - 64%
SME 3-	Good	Displays average performance with reasonable prospects for maintaining its performance.	50 - 56%
SME 4	Below Average	Displays less than average business and financial performance and has below average prospects for improving or even sustaining its performance.	35 - 49%
SME 5	Weak/Vulnerable	Displays weak performance and is highly vulnerable with low prospects for maintaining viability.	0 - 34%

# Linking Ratings to Pricing



- Assuming that the Prime Rate is reserved for the “best clients” i.e. lowest risk client, the table below presents a suggested framework
- Increases between categories can be widened (or narrowed) depending on the overall target yield and competitive environment

Grade	Definition	Pricing
SME 1	Excellent	Prime
SME 2+	Strong	Prime + 0.50%
SME 2-	Strong	Prime + 0.75%
SME 3+	Good	Prime + 1.50%
SME 3-	Good	Prime + 1.75%
SME 4	Below Average	Prime + 2.75%
SME 5	Weak/Vulnerable	?? (Prime + 4.00%)

# Outcomes



- CariCRIS' SME Ratings have been used to:
  - Renew existing credit lines with banks
  - Access new loans from banks
  - Negotiate lower interest rates
  - Attract a joint venture partners
  - Negotiate credit from international suppliers
  - Procure new contracts
  - Generally improve business operations

# Role for SME Ratings in Guarantee Systems



- Dual role – Rating of SMEs and Lending Institutions
  - Reduces information asymmetry from these entities
    - esp. beneficial with NBFIs
  - Reduces moral hazard of Guarantee-lending
  - Independent diagnostic of SMEs and lenders

# Framework for the Rating of Lending Agencies

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- **'C'**apital
- **'R'**esources
- **'A'**ssets
- **'M'**anagement
- **'E'**fficiency
- **'L'**iquidity



# THANK YOU

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