



BankT&D Consulting

Credit Ratings

An in-depth look at the Methodologies of Rating Agencies

Course description

This intensive credit course seeks to enhance credit analysis skills by providing an in-depth look into the methodologies of major rating agencies. (Moody's, Standard & Poor's etc.).

The course covers, step by step, the mechanics of several rating methodologies across various industries. The choice of key factors and metrics (ratios), and how these are weighted in scoring systems to arrive at a rating, is explained in detail.

This is a practical course, which is based on real life case studies discussed first in groups and then in class.

Course objectives and benefits

Ratings are used by a wide variety of investors, banks and regulators, including the Basel Accords, and as such their workings are mandatory knowledge for analysts and credit professionals.

The primary objective of the course is to enhance the analytical skills of the delegates by giving them hands-on exposure to the technical aspects of the rating process: choice of key factors, choice and relevance of quantitative metrics, calculation of the score and conversion into a rating.

Audience

Understanding the workings and implications of credit ratings is essential knowledge for analysts, lenders, investors and fund managers.

The metrics (E.g. ratios) used by rating agencies are analysed in depth but no accounting knowledge is assumed.

Please note that the use by banks of credit agencies ratings to map their internal ratings for capital calculation purposes is addressed in another version of this course more specifically aimed at bankers and regulators.



Day 1.

I. Concepts and definitions

- What do ratings measure?
- What is rated? Instruments vs. issuers.
- Who are the issuers?
- Investment grade vs. speculative grade.
- Ratings scales-Moody's, S&P, Fitch.
- Global vs. local scales.
- Sovereign and Cross-border risk.
- Ratings and probability of default (PD).
- Mapping internal ratings to external ratings.

II. The credit rating process

The credit rating process is explained step by step using a real-life retail company as an example.

A. Identification of the industry's "critical" or "key" rating factors

1. The economic fundamentals of the industry.

What are the fundamentals of a specific industry or sector?

The drivers of the identification and selection process.

2. The financial fundamentals of the industry

What are the industry's financial fundamentals?

How are they identified?

The choice of metrics and ratios.

B. The scoring system

Scoring the key factors and arriving at a rating-Mechanics

III. Case studies applying the acquired knowledge.

Case studies are based on real-life companies and their financial statements, the use of industry analysis modules and the credit rating methodologies for the industries concerned.

Cases are first discussed in groups, then presented and discussed in class.

In each case, delegates are required to:

1. Use the approach provided by the course facilitator to try and identify the industry's fundamentals and key factors, as though they were a rating agency.
2. Compare the rating agency's methodology for the industry with their findings.
3. Use the rating agency's methodology to work out, step by step, a rating for the company.



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Case Study 1- Retailer

Using the annual report of a major retailer, delegates are asked to:

- Step 1. In groups, identify the economic and financial fundamentals of the retail industry.
- Step 2. From these fundamentals, identify the critical success factors of the retail industry.
- Step 3. Assign a rating as though they were a rating agency.
- Step 3. Compare their findings with the key factors used by the rating agency.
- Step 4 Apply the retail industry rating methodology to the company and compare the result with their own assessment.

Case Study 2 – Chemical Company

- Same steps as case study 1.

Day 2.

Case Study 3 – Pharmaceutical Company

- Same steps as case study 1.

Case Study 4 – Mining company

- Same steps as case study 1.

Case Study 5 – Steel company

- Same steps as case study 1.

Case Study 6 – Oil company

- Same steps as case study 1.



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The Instructor

Jean-Charles spent seven years in the Credit, Corporate and Investment Banking divisions of Citibank, including three years in the World Corporation Group in London as Vice-President, managing a portfolio of UK multinationals on a worldwide basis.

He subsequently worked as Director of Project Finance and Acquisition Financing for Security Pacific in Frankfurt before returning to South Africa in 1993 as Head of Corporate Banking (Senior Vice-President) for the local operation of ABN-Amro.

Jean-Charles has broad credit experience gained over 20 years as credit analyst, credit officer and credit committee member at Citibank and ABN-Amro, covering Corporate Investment Banking, including, inter alia, Syndications, Project Finance, Leveraged Transactions and Asset Securitisation.

He was also in charge of ABN-Amro's Financial Institutions Unit for the whole of Africa for a number of years and acquired extensive specialist credit and transactional experience in that field.

He has provided in-house training to international banks such as Citibank, Deutsche Bank, ING, Nordea, CIBC, Investec and many others.

He is Director, Credit and Basel IV Services, at BankT&D Consulting Limited, a London-based consulting firm.

He holds an LLB and an LLM in Tax Law from the University of Liège in Belgium.