CREDIT RATING REPORT
ON
MARICO BANGLADESH LIMITED

REPORT: RR/237/09

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Entity Rating:
Long Term: AA+
Short Term: ST-1

Rating based on financials of 1st Quarter FY2009

MARICO BANGLADESH LIMITED

PRINCIPAL ACTIVITY
Manufacturing & marketing

CHAIRMAN
H.C. Mariwala

MANAGING DIRECTOR
Mr. Debashish Neogi

INCORPORATED ON
6th September 1999

Equity:
Tk. 895.27million

This is a credit rating report as per the provisions of the Credit Rating Companies Rules 1996. CRISL's Long-term Rating is valid for one year only and Short-term rating is valid for 6 months only. After the above periods, these rating will not carry any validity unless the company goes for rating surveillance.

	Long Term	Short Term
Entity Rating	**AA+**	**ST-1**
Outlook	**Stable**	
Date of Rating	**26 January 2009**	

1.0 RATING RATIONALE

CRISL has reaffirmed the rating of Marico Bangladesh Limited at AA+ (pronounced as double A plus) rating in the long term and ST- 1 rating in the short term. The above has been done on the basis of its continued maintenance of its good fundamentals such as its market leadership position with strong brand equity for Parachute Brand, sound equity base company having no long term loan, sound operational & financial performance with its cost efficient operating approach, strong supply chain management, robust IT infrastructure, sound HR practices, sound liquidity & financial flexibility, systematic internal control procedure and others. However, the above rating was moderated, to some extent, by its high dependence on single product for revenue generation, raw material procurement from a single source, stressed-profitability of its soap line. Entities rated in this category are adjudged to be of high quality, offer higher safety and have high credit quality. CRISL also placed the entity at 'stable' outlook with the expectation of its continued and stable business. However, after tax - profitability may change with the change of tax rate on its IPO flotation and reduction of bank loan exposures.

This level of rating indicates a corporate entity with a sound credit profile and without significant problems. Risks are modest and may vary slightly from time to time because of economic conditions. The short term rating indicates the highest certainty of timely payment. Short-term liquidity including internal fund generation is very strong and access to alternative sources of funds is outstanding. Safety is almost like risk free Government short-term obligations.

2.0 CORPORATE PROFILE

2.1 The Genesis

Marico Bangladesh Limited (hereinafter referred to as MBL), a wholly owned subsidiary of Marico Limited India, (hereinafter referred to as Marico), is one of the front footer in the Fast Moving Consumer Goods (FMCG) market in Bangladesh. It was incorporated on 6 September 1999 under the Companies Act-1994 as a private limited company with an authorized and paid-up capital of Tk. 10.00 million and went into commercial operation on 30 January 2000 with its flagship brand "Parachute Coconut Oil". However, it increased Authorized and Paid Up Capital to Tk. 300 Million and Tk. 90 Million respectively on 18 September 2008 and converted into a public limited company on 21 September 2008. Again it increased authorized and paid up capital to Tk. 400 million and Tk. 283.50 million vide special resolution passed in the extra ordinary general meeting held on 31 December 2008. Within a couple of years Parachute Coconut oil captured a significant market share in Bangladesh and at present it holds 72% market share of branded coconut oil market in the country. In global, Marico is a branded player in Beauty and Wellness solutions. Marico's Products and Services in Edible Oil, Hair care, Skin Care and Healthy Foods reach out to more than 20 countries in the USA, Middle East, South Africa, Egypt, Asian sub-continent, Australia and India. Marico markets well-known brands such as Parachute, Saffola, Kaya, Sundari and Fiancee to name few, most of which have significant market shares in respective categories. Recently its "Parachute" brand was rewarded as the 6th Overall Best Brand Award out of 849 Brands (both local and MNCs)

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One of the fastest growing FMCG producer in the country

operating in Bangladesh and 3rd Best Brand in the FMCG category.

Initially it started factory operations in a leased factory at Gazipur just bottling of its imported coconut oil from India, and thereafter, the factory infrastructure with land was acquired in 2007. However, with the growth in turnover, it started processing of imported copra (the basic raw material) to extract coconut oil locally through different "Contract Manufacturers" under the close supervision of MBL management. Meanwhile, MBL acquired the intellectual property right of "Camelia" in the early 2005 to signal its entry in the toilet soap market and also acquired "Aromatic" brand in October 2005 which was highly recalled soap brand in the then period. Now, MBL is considered as one of the fastest growing FMCG Company in the country. During the last 8 years, the company achieved a Compounded Annual Growth rate of 37.71% in turnover and its turnover reached to near about Tk.2.65 billion in FY 2008 from Tk. 0.20 billion in FY 2001. MBL already has established its own Corporate Office at Uttara, Dhaka and also in the process of developing other required infrastructures. Management of MBL has planned to be listed in both the bourses of the country by early 2009. The proceeds from the IPO will be used mainly to finance working capital of the company.

2.2 Products and Market Share

Being a subsidiary of global FMCG player, MBL is also highly echoed locally for its Organic Products inter alia flagship brand "Parachute" in both the coconut oil and hair oil market segment. Its inorganic product line includes locally acquired brand "Camelia" and "Aromatic" (relaunched as "Aromatic Gold") in the toilet Soap segment. The Parachute brand already enjoys firm loyalty both in urban and rural households of the country due to its consistent quality; packaging innovations, distinctive natural flavor and keen concentration by its management to gain business from loose oil market to branded products. Parachute is considered as the No.1 brand in the high flying category due to its move from around 45% market share to 72% in the branded coconut oil market in the course of just less than two years.

Holds 72% market share in the branded coconut oil market

Its Soap line products are facing tough competition due to strong dominance of Uniliver's Soap brands and as well as local brands. However, its toilet soap segment presently captured a market share of about 4.2%, from 1.8% in September, 2006 with a steady growth rate. .

Soap line profitability is under stress

In addition, MBL also recently launched new category of Hair Dye "Hair Code" products. Parachute Advanced has extended in the styling area with after shower jell and creams while Parachute Therapie catered for specialty care against hair fall. Presently these products are being imported by "MBL Industries Limited", the former subsidiary company of MBL now acquired by Marico Middleast FZE (a subsidiary of Marico Limited, India); and marketed & distributed by the same distribution channel of MBL albeit formal distribution agreement is yet to be between the two companies. MBL is highly ambitious to capture a commendable market share for these products within a short period of time due to its ample potential and may reap the new source of revenue if operation is performed under a formal agreement between the two companies. Globally, Marico is highly encouraged to develop new products, acquiring local and international brands for diversification of its product line.

3.0 PARENT PROFILE: MARICO LIMITED, INDIA

3.1 Preamble

A leading global FMCG producer

Marico, a leading Indian company having business interests both in manufacturing and retailing of consumer products as well as providing services in the beauty space. It is a listed company in the Indian Stock Exchanges having diversified ownership stake from both individual and institutional participation. However, the sponsor's family i.e. Mariwala family has controlling stake of more than 63.45% in its ownership. The company is highly respected

Mariwala family holds 63.45% in its ownership

in India for its excellent corporate governance practices and HR policies. Its history can be traced back to 1948 when the Mumbai-based Mariwala family was in the trading business with their company namely Bombay Oil Industries Limited (BOIL). Over the years, BOIL expanded and entered into branded consumer products. The Mariwala family then launched another company namely Marico Foods Limited (subsequently renamed Marico Industries Limited and later Marico Limited) in 1988 to market the BOIL's consumer products. In 1990 Marico entered into an agreement with BOIL for the use of its coconut oil brand "Parachute" and edible oil brand "Saffola". The company subsequently purchased these two brands from BOIL. Within a decade, Marico launched many new products like Sweaker, Edible Oil, Hair and Care hair oil, Revive Starch, Parachute Jasmine etc. Thereafter, to add to its product portfolio, the company made several acquisitions.

3.2 Business Periphery

Marico owns 12 well-established global brands in FMCG category

Over the years Marico has progressed into a consumer focused FMCG company in the beauty and wellness space through 12 well-established brands. It has broadly three business segments – Consumer Products (comprising the consumer products business of Marico Limited and its other subsidiaries such as Marico Bangladesh Limited, MBL Industries Limited, Marico South Africa, Marico Middle East, MEL consumer care, Marico Egypt etc), Skin Care (services and products retailed through Kaya Skin Clinics and Kaya Life) and Global Ayurvedics (Sundari) Skin Care Products of USA. In January 2006, Marico made a direct entry into the soap market in India through the acquisition of the herbal bath soap brand Manjal from Kerala-based Oriental Extractions. Marico has developed a significant franchise across countries in the Middle East, Asian sub-continent, Australia and USA and the market shares of Marico's brands overseas have been rising over the years. Marico is present in the Skin Care Solutions segment through Kaya Skin Clinics (84 clinics in different part of the world) since 2003 and Weight Management segment through Kaya Life (3 clinics). Beyond India, Marico's subsidiaries operate in Bangladesh, Egypt, United Arab Emirates, USA and South Africa with its 13 Subsidiaries. The International Business Group comprising all the subsidiaries of Marico is expected to grow by over 15-20% for the next two years. This would be largely due to Marico's strong understanding of customer needs in countries like Bangladesh and other SAARC nations, which have identical life style.

3.3 Financial Strength

Turnover crossed USD 455 million in FY 2008

The consolidated turnover of the company (including the turnover of its subsidiaries) crossed the Rs. 19.1 Billion (USD 455 million) mark in FY 2008. The revenues of the International Business Group, including the revenues of the two subsidiaries in Bangladesh, crossed the Rs. 3,068 million mark. At the group level, the sales have grown at a CAGR of 29% during the last 3 years and profit after tax has grown at the CAGR of 39%. The Group continues to remain low on outside debt, with a debt-equity ratio of 1.20 (changed - basis FY08) times. It also consistently reported a return on capital employed higher than 25% per cent over the years. Out of the 13 subsidiaries, six subsidiaries are profit earning, one subsidiary is yet to go for operation while the rest six are under investment phase, hence yet to reach in profitable position.

4.0 PRODUCTION FACILITIES

Own no oil processing plant i.e. copra crushing plant

Globally the manufacturing process in the FMCG industry is not high capital intensive and most companies have a combination of both in-house production facilities and outsourcing arrangement through Contract Manufacturers. MBL has also been following the same principle to reduce fixed cost and keep concentration only in the core area of operation to increase efficiency. In view of the above, its production facilities includes own plant for bottling of oil, Contract manufacturing arrangement with three parties for bottling of oil and processing of copra and own soap manufacturing plant on a leased property. In addition, it has agreements with different parties for support service facilities like transport and also with the bottles manufacturers. The terms and conditions of the contract manufacturers are outlined by the Marico Global in line with the global business policy & quality control policy and each after every six months, is renewed subject to the conditions followed. The payments to the subcontractors are based on cost plus margin basis or any base followed as agreed between the parties. The production infrastructures are detailed below:

Coconut Oil Production Facilities:

Own bottling plant

About 80% Oil processing is performed by two sub-contractors

"Parachute" the flagship brand of Marico Bangladesh is bottled at its own factory located at Mouchak, Gazipur on about 66 decimal lands. Plant production capacity is around 1300 – 1500 KL depending on the sku mix having 7 filling machines with changeover flexibility. Plant entries are governed by SAP system. At present 20 % of the oil requirement is directly imported from India and the balance 80% is extracted locally after processing of imported Copra (the basic raw materials of coconut oil) through its two sub contractors located at Chittagong. Sourcing of copra is mainly from India, however, also a few from Indonesia, Malaysia and Srilanka. It has another sub contracting facility at Narayanganj for "Parachute Beliphool" brand just to bottle and it can cater to 100 KL to 150 KL Parachute volume per month. It has around 5 dedicated vendors to plastic bottles located in and around Dhaka. All other packing materials are sourced locally. Its own factory has a 500 KL oil storage facility at present and additional 500 KL storage capacity is under construction.

Soap Production Facilities:

Own soap plant set up at contact manufacturing unit

The company manufactures Aromatic and Camelia brand soaps through a sub contracting facility located at Tongi. However, the machineries and the 600 KW gas generator of that factory are owned by MBL. The two Mazzoni Lines of Italian origin were acquired from "Jamuna Group" having 400 MT production capacity per month. The factory is manned by Marico executives to have a control over the soap quality. The soap noodles are sourced mainly from Malaysia, all other packing materials are sourced locally. Out of the two lines, one line is basically utilized for production of big size soaps i.e., 75 gm and 100 gm soap. The other line is used for manufacturing of 25/35 gm soap.

Quality Control System:

Marico's in house developed quality control system is followed all over the world namely "QCERT system": which basically developed following the Malcolm Baldridge system, ISO, TQM and TPM models. The QCERT is implemented from raw material sourcing to finished goods level as well as in selection of vendor and contract manufacturers. Vendors are also rated using the system.

5.0 SUPPLY CHAIN MANAGEMENT

Strong supply chain

MBL is renowned for its sound supply chain management both in India and in Bangladesh. One of the main reasons of Marico's double digit growth is identified in its supply chain management. In order to lower inventory and reduce supply chain operating costs, MBL introduced stand –alone business applications from planning to reaching the product to the retailer and providing technological support in the form of highly integrated applications systems i.e. SAP, an integrated ERP system. In view, it established a "Bottom-Up" approach from production planning to distribution at retail level. From the bottom level i.e. sales force at retail level (referred Area Sales Executive-ASE in Marico) place a demand Planning happens through SNP (Supply Chain Network Planning) module in SAP system. A three months' rolling plan is also generated. Material buying and allocation for different plants and vendors is based on the above. Capacity planning for all products at vendor locations, sub contracting locations as well as at its own plants are also formulated through the above model. Dispatch plan for different depots is based on the requirement derived through SNP module. It helps to reach right material at right time at right place. For effective implementation and risk minimization, alternative sources of suppliers are also selected.

6.0 DISTRIBUTION NETWORK

Presently established its own distribution network

MBL has strong presence in all over the country in rural and urban area through its own depots and distribution partners. Initially, Kallol was the key partner. As per mutual agreement with MBL and Kallol, MBL has phased out the distribution in a well planned manner since 2006. Presently the company established its own distribution network in 4 zones (Dhaka, Chittagong, Jessore, and Bogra). The company now controls 100% of area under its own depots. Earlier till 31st December 2008, Kallol Limited acted as distribution partner for greater Dhaka region.

MBL's own sales professional are nourishing and controlling the entire distribution channel. At present, there are 192 distributors and 128 stockiest all over the country. Side by side MBL's own employees like RSM (regional sales manager), ASM (area sales manager) and ASE (area sales executive) physically monitor and rigorously control the distributor's function time to time. Moreover, MBL's 20% of its total soap sales come through nontraditional distributional channels which include BRAC channel, cycle distribution, partnering with self help groups in rural area, direct selling etc. Most of the DBSMs are provided with a PDA: the mobile system to support the sales force before going to the market with a details store and supply position within his territory.

7.0 MARKETING & BRANDING

Sound brand equity- Parachute brand

Corporate branding at developing stage

The company is moving towards mass market with a comprehensive marketing plan under its dynamic marketing team. Already its flagship brand "Parachute" availed dominant leadership position in the coconut oil category and is synonymous with pure coconut oil in the market. After acquiring Aromatic and Camelia soap it renamed its Aromatic brand to Aromatic Gold to convey the change in brand in consumers mind, though it is yet to achieve high brand recognition as compared to its competitor. The entire marketing campaign entails communications plan, embracing television, print media and bill boards throughout the length and breadth of the country. Though in case of product branding, the company is successful, however, in corporate branding, it is at growing stage. Corporate branding may result significant economies of scope, specially, for new products under its corporate banner. So far, MBL enjoys product branding boon under the name of Parachute but while introducing new product line, other than Parachute, MBL is facing tight penetration problem in the market. Recently it has been trying to adopt various strategies for corporate branding including image building, internet branding, nurture Marico values, sponsoring program, campus program, trade body discussion, CSR activities and others.

8.0 BUSINESS RELATION WITH THE PARENT

MBL is an independent and self managed company in Bangladesh. It has business relationship with its parent company, Marico Limited. Under a royalty agreement (1% on parachute turnover upto 30th September 2011), Marico Limited has licensed the use of its brand name 'Parachute' to MBL for use in Bangladesh. Being a global player, International

Business Group (IBG) of Marico India has been formed to consolidate and share the ideas, innovations, practices, development activities and others among the subsidiaries of Marico. Thereby, it has developed a systematic platform to monitor the overseas operations in line with the Marico's global principle and policy, Quality control practices and others. In view, MBL Managing Director submits monthly operation report to the CEO of IBG regularly. MBL is also fulfilling all the above requirements and participating accordingly. MBL also gets regular supply of copra from Marico India at a competitive price which ensures timely supply of raw materials for MBL. MBL has adopted the International HR practices, business policy, innovation, Quality control policy, diversification process through its global partner.

9.0 INDUSTRY OUTLOOK

FMCG industry in Bangladesh is a growing sector with huge local demand for its differentiated product lines. Presently it is considered as one of largest sector in the economy. Its principal constituents are foods, personal care, fabric care and house hold products. Industry size of the FMCG products is considered to be 8700 crore taka where coconut oil market is considered to be around 500 crore; out of FMCG market size, Food & beverage account for almost 64%, household and personal care products are about 34% and the rest are OTC products.

Growing demand for branded product

During the last 10 years, the use of branded FMCG goods has increased significantly with more and more women and men taking greater interest in personal grooming, increasing disposable incomes, changing life styles, influence of satellite television, emergence of young working class and branded products and greater product choice and availability. With the demand for FMCG on the rise and the opening up of the market to foreign companies, many of the world renowned players with different brand entered into the market in the early and mid-nineties. However, penetration level of overseas branded products in Bangladesh is still low. A major reason for low penetration of overseas brands can be attributed to high product pricing and the low earning power of the people as well. The urban population with increasing purchasing power is the major force driving demand for branded cosmetics and toiletries. Bangladesh is a very price-sensitive market and mass-market products i.e. unrecognized sector constitute the major part of the cosmetics and toiletries market due to lower prices of the products. Most of FMCG products are manufactured by simple manufacturing process that requires fairly low capital investments. In view, this has made the proliferation of localized brands/products being offered in loose form and less brand awareness of the rural people instigates the issue. However, the scenario has been changing as depicted by the industrial data if only coconut oil is considered; where loose coconut oil constituted 60% and branded coconut oil 40% of the total market value in YTD Aug 2006. The above scenario has been changed sharply as the data also on August 2008 reveals that the market share of loose oil has been reduced to 34% and branded oil has increased to 66%

Study reveals that the development of FMCG in the country has a link with the development of the local Ready Made Garments (RMG) since nineties as well as the increasing young professionals and students of private universities. These RMGs are employing huge number of young girls coming from rural area are the major promising consumers of branded FMCG products. In addition, quality of life of urban and rural people especially young people has improved substantially in Bangladesh during the last two decades, expecting various fashionable products. Though significant portion of the above demand is being met by the multinational companies, however, some local companies are also operating in the country with own plants to cater to the local demand. Though local players are small in number but market share is highly concentrated among a few producers. Generally local producers used to produce beauty soap, laundry soap, detergent powder, coconut oil, emollient cream and others cosmetics & toiletries products, but Marico is unique with its uncommon way of doing business compared to other multinationals.

The quality of products of local producers and foreign producers are not too different in some categories like soaps and detergents. However, the brand image plays an important role in the market share of the producers. Although at the initial stage, the brands of multinational producers create their image to ensure consumer preference and gradually extend the brand promise to the mass end of the consumers.

As a developing country, with a large part of the population with modest incomes, the country provides an opportunity of value for money for FMCG products. The overall economic growth has been accompanied by increased disposable incomes and education level both in rural and urban areas is considered as important factors to choose branded and quality FMCG products.

At the backdrop of recent financial turmoil in western countries, it is perceived that Bangladesh is insulated to the world economy, but a lower growth and less demand for consumable goods may happen in near future. As a part of global turmoil, most of the sector globally lost its market price and demand also drastically. Due to recession in the developed countries, it is assumed that domestic market may be affected due to lower growth and income generating capacity, which may also affect the FMCG market locally.

10.0 CORPORATE GOVERNANCE

Corporate governance is a blend of law, regulations, enforcement and appropriate voluntary practice by the companies that permit a corporate to attract capital, perform efficiently and generate long term economic value for its shareholders while respecting the interest of its stakeholders and society as a whole. The specific areas covered are transparency in disclosure of relevant, reliable financial and operational information, information on ownership and control, information on internal processing of management. Some of the areas are reviewed as follows:

10.1 Board

MBL has its own independent and full functional Board of Directors. The Board is comprised with five members chaired by Mr. Harsh C. Mariwala, who is also the Chairman & Managing Director of Marico Limited, India. Under his dynamic leadership, Marico Group has been rated as one of the India's Most Innovative Company. Among the Board members, Mr. Debashish Neogi, Managing Director and Mr. Kunal Gupta, Head of Sales of MBL are representing locally to the Board. Board mainly deals with policy making issues and local management team is highly empowered by the Board. In order to comply with the best corporate governance guideline, the board will be required to have at least one Independent Director, which is also under process. The quorum of Board is at least two members, are accessible locally.

10.2 Corporate Management

Experienced management team

The operation of MBL is being looked after by a long experienced management team having multi dimensional exposures. The Management Team of MBL is headed by the Managing Director Mr. Debashish Neogi. Mr. Neogi is actively aided by key persons Mr. Kunal Gupta, Head of Sales; Mr. Soumendra Sankar Das, Head of Marketing; Mr. Balaji K.S., Head of Operations; Mr. Matiur Rahman, Regional Sales Manager; Mr. Souvik B. Mazumder, Senior Finance Manager; Mr. Iqbal Chowdhury, Senior Manager- Corporate Affairs & Treasury and Company Secretary; Mr. Tarif Aziz, Regional Sales Manager. Mr. Neogi completed his Professional Chartered Accountancy and Cost Accountancy degree and during his 14 years of service he performed in different corporate group and MNCs under different capacities. He is also regional head of South East Asia under IBG. The other high officials of the company are highly qualified and have wider experiences. Over and above, the Finance, Administration, Marketing, Sales and Distribution are overseen by the highly qualified and professionally sound people under the above heads of functions.

10.3 Human Resources Policy

Sound human resource policy

MBL has sound human resource policy to ensure the congenial working environment and better career path. The compensation structure is framed with the objective to attract and retain high quality people. Its empowerment and membership philosophy beget belongingness and reduce the employer – employee contractual relationship. On the other hand, Membership feeling works as catalyst of taking responsibility voluntarily. Total human resource strength of the company stood 75 as on 20th November 2008. Its HR development plan and performance evaluation system is excellent than other MNCs in the country. The company has conducted numerous training programs both in home and abroad on variety of topics, ranging from sales training to six sigma training which ensures proper succession planning. The arrangement of organization communication (open house question) is a commendable initiative. Dominance of the foreign employees in the operation top level is reducing to create scope for local employees to grow up the ladder.

10.4 Management Information System

Robust IT infrastructure

MBL has been operating with a good IT infrastructure. MIS in MBL is in focus of establishing technology driven process to reduce human error\ dependency, high security to ensure accuracy and reliability of data, excellent communication with the retailer etc. Its MIS serve mainly two purpose – operational purpose and sales purposes. Total operation of MBL has been developed on ERP by SAP, the most modern software. The SAP suite of ERP (SAP R/3, SCM, APO) provides real time check on various transactions emanating from various business processes of the Company and provides up to date information of manufacturing operations, financial results etc. to the user and management. Mi-Net, another web based interface which links MBL to its business associates. In order to reap maximum benefits from its sales and distribution network, Mi-net provide real time information on the status of various business operations between Marico and its distributors. Distributor's Sales men are given PDA which is a mobile and palm top like device linked with Mi-Net. This PDA is user friendly and written in Bengali which is used to record the ordered quantity, out let, supply date, product etc. So, Mi-Net ensures availability of the product at the right distributor point, at the right time in right quantities. It helps the company exercise similar controls over its sales system.

10.5 Internal Control System

Sound internal control system

MBL has been following sound internal control system to ensure compliance of its Standard Operating Procedure in order to keep the company on track. Its total operation, sales and distribution are controlled through SAP and Mi-net. This system does not allow any rectification of error and any transaction beyond the users limit. Moreover, MBL has two internal auditors, one is a local Chartered Accountant Firm, Hossain Farhad & Co. who does audit throughout the year and the other one is M/S Aneja Associates, a Chartered Accountant Firm of India, which has been associated with Marico Group as its Internal Auditor for long and do audit for Marico Limited, India and its subsidiaries also. The task of internal auditors is coordinated by an internal team at Marico. This combination of Marico's internal team and expertise of Aneja Associates ensured independence as well as effective value addition. Internal Audit is undertaken on a continuous basis covering areas across the value chain like manufacturing operations, sales and distribution, marketing, finance etc. Reports of the internal auditors are regularly reviewed by the management and corrective actions are initiated to strengthen the controls and enhance the effectiveness of the existing systems.

Summaries of the reports are presented to the audit committee of the Marico Group Board. Monthly Operation report is submitted by the Managing Director to parent.

11.0 RISK MANAGEMENT

11.1 Supplies Risk

MBL is fully dependent on imported raw materials i.e. Copra, Coconut Oil and Soap Noodles. Though there is not adequate availability of Local copra and quality is also an issue, therefore, supply of raw materials can not be ensured from locally. In view, MBL is sourcing copra from India through its parent and is also exploring the possibility of importing from Indonesia, Malaysia and Srilanka. CRISL views, there is always a natural resources constraint in any specific area; moreover it may be affected by any uncontrollable event or country risk to transaction or political barrier. Considering the above risk, MBL has a plan to diversify its sourcing and has already started process for sourcing from Srilanka, Malaysia and other part of world for its high grade raw materials. The company has a long term plan to source copra locally by providing seeds, fertilizer, education etc. to the farmer in the coastal area.

11.2 Market Risk

MBL has been enjoyed leadership position in Parachute coconut oil and its profitability is highly dependent on parachute oil business. New entry is difficult in branded coconut oil industry due to MBL's leadership in the category. Parachute has gained a sound brand image till date but MBL has long way to built its corporate image. MBL already has taken initiatives for corporate branding which is in developing phase. Again, as a FMCG company, MBL is trying to diversify its product portfolio to avoid the single source revenue; for which high corporate branding is essential.

11.3 Price Escalation risk

Raw material price in the international market is relatively volatile for FMCG. During 2008 coconut oil price was increased by 58% and soap noodles price increased by 26% in the international market. Being a market leader, MBL can absorb the price escalation shock to some extent by increasing selling price of coconut oil. However, in case of soap, MBL cannot do the same due to severe competition in the market. So, there is a risk in its soap line products which may face price escalation. However, raw material price for soap is now on declining.

11.4 Distribution Risk

For any FMCG company, the most crucial wing is the distribution channel. Wide distribution network and control over the network is essential to make the quality product available to the consumer at right time and at right price. MBL has strong presence in all over the country in rural and urban area through its own depot and distribution partner. Initially, Kallol was the key partner. Later on MBL has phased out the distribution in a well planned manner since 2006. Recently it took full control on its distribution network all over the country through its four depots strategically located around the country at Gazipur, Chittagong, Bogra and Jessore.

11.5 Sub- Contracting Risk

MBL has contract manufacturing facility for copra crushing, bottle filling and soap manufacturing in addition to its own factory at Mouchak, Gazipur. It has signed the sub-contracting agreement for copra crushing with two renowned local business conglomerates on the ground of win-win situation for both the company. Both the plant was idle and MBL has made them operative exclusively for the company only. Though, contract manufacturing is well known practice in the FMCG industry around the world, a few risk is associated with it.

Each contract with the subcontractor is renewable in every 6 months after fulfilling the conditions specified by MBL. All the sub-contracting plants are old in nature and being used by the local producers in the past; hence quality consciousness is generally less than giant producer. However, to minimize the above risk, MBL has deputed its own quality control tools and executives to control the stringent quality parameters of oil. Besides Copra crashing is fully dependent on sub-contractor which may expose bargain power over MBL. However, if the sub contractors do not renew their contract for any reason, the MBL may adopt the alternative arrangement either through import from its parent or from other possible local sources within the expected time frame.

11.6 Foreign Currency Risk

MBL is trying to reduce the significant foreign currency risk and price escalation risk through forward booking. However, volatility of Taka against Dollar and recent trend of dropping price may expose foreign currency risk. Due to its prudent management, the company gained through forward booking position during this year.

11.7 Receivable Collection Risk

MBL has a policy of 100% cash sale to its distributor. Under the above backdrop CRISL does not foresee any kind of risk regarding receivable collection. MBL is yet to conduct any service agreement with MBL industries Ltd. due to distributing the products through MBL's channel and for other services which may be a source of revenue.

12.0 BUSINESS PERFORMANCE

Indicators	2008	2007	2006
Sales revenue growth (%)	83.13	63.45	30.94
PBT Growth (%)	108.32	85.64	-29.32
Profit growth (%)	35.68	92.42	-34.58
Coconut oil sales volume Growth (%)	55.64	22	19
Soap sales volume growth (%)	11.11	29.5	49.46

Good business performance

Overall business performance of MBL has been found good with a substantial growth over the year. The turnover of the company was Tk. 2,658.85 million and Tk. 1,451.89 million in FY2008 and FY2007 respectively, indicating 83.13% growth and it fetched a 23.82% growth (on annualized) in 1Q of FY2009. The revenue pie largely shared by its flagship brand Parachute coconut oil of 93.11% in the 1st quarter of 2009 followed by Aromatic Soap 5.79%, Parachute Beli 0.82% and Camelia 0.28%. The growth in turnover is mainly contributed by the volume growth of 55.64% (11,177.13 K.L during 2008 against 7181.44 K.L during 2007) and product price increase of 19.84%. On the other hand soap line of MBL faces cut throat competition and remains as a loosing unit due to many strong players in the industry. Sales volume of Aromatic Soap increased to 200 Ton per month in 2008 from 180 Ton per month in 2007 indicating 11.11% growth.

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13.0 FINANCIAL PERFORMANCE

13.1 Profitability

Indicators	1Q of FY 2009*	FY2008	FY2007	FY2006	FY2005
Return on Average Assets After Tax (ROAA)%	20.41	23.13	23.27	16.24	42.43
Return on Average Equity After Tax (ROAE)%	36.89	38.27	39.80	28.14	60.06
Return on Average Capital Employed(After tax)%	36.43	37.82	39.55	28.14	60.06
Gross Profit Margin%	22.51	29.31	35.65	35.15	36.67
Operating Profit Margin%	14.08	15.54	14.86	13.73	21.91
Net Profit Margin%	9.59	10.05	13.57	11.53	23.07

** The quarterly figure from 1st Oct 08 to 31st Dec 08 has been annualized for analysis purpose*

Highly profitable company

MBL is a highly profitable company albeit its profitability indicators faced a fall in the last few years. The company fetched a profit after tax of Tk. 267.28 million in FY 2008 against Tk. 196.99 million in FY 2007 indicating a sharp increase of around 35.68%. However, it achieved around 18.12% growth (on annualized) in the 1Q of FY 2009. Though growth in turnover is praiseworthy, however, gross profit margin faced a fall in the last few years mainly due to sharp price increase of raw materials in the international market. The gross profit margin fell at 29.30% in FY2008 against 35.65% and 35.15% in YE2007 and YE2006 respectively and further it fell to 22.51% in the 1Q of FY 2009. It has been reveled that the company faced a sharp price increase of raw materials by 58%, and 37% during FY2008 and FY2007 respectively. In the same, the net profit margin showed a recent fall at 9.59% in the 1Q of FY 2009 and 10.05% in FY 2008 against 13.57% in FY 2007 and 11.53% in FY2006. Basically, MBL enjoyed tax holiday upto 30th September 2007 and the resultant impact of charging tax reduced the above net profit margin.

While analyzing the profitability of MBL in terms of Return on Average Assets (ROAA), Return on Average Capital Employed (ROACE) and Return on Average Equity (ROAE); it was reveled that ROAA stood at 20.41% in the 1Q of FY 2009 and 23.13% in FY 2008 against 23.27% in FY 2007 and 16.24% in FY 2006. ROAE had also been found good for the last couple of years and stood at 36.59% in the 1Q of FY 2009 and 38.27% in FY 2008 against 39.35% in FY 2007 and 27.72% in FY 2006. ROACE had been found good for several years and maintain the ratio above 30% almost in the last five years. ROACE stood at 58.83% in the 1Q of FY 2009 and 60.75% in FY 2008 against 40.86% in FY 2007. Earning Per Share (EPS) of Tk. 10 stood at TK. 9.43 at YE2008 and TK. 2.78 for 1st quarter (Oct-Dec) FY2009 which is equivalently Tk. 11.12 on annualized figure.

It is mentionable here that as a part of Marico Group restructuring, MBL has transferred its investment in its subsidiaries at face value of Tk. 10 per share to its another associate company Marico Middle East FZE on 21 September 2008. In transferring share on the above process, the company sacrificed an unrealized gain of about Tk. 52 million against its investment of Tk. 1 million, though it remains within the Marico group.

13.2 Cost Efficiency

Indicators	1Q of FY 2009	FY2008	FY2007	FY2006	FY2005
Cost to Revenue Ratio (%)	77.49	70.69	64.35	64.85	63.33
Administrative Exp to Revenue Ratio %	4.88	5.86	7.73	8.84	7.17
Selling & Distribution Cost to Revenue Ratio %	3.54	7.91	13.06	12.59	7.59
Finance Cost to Revenue Ratio %	0.38	0.22	1.08	3.05	0.00

Cost efficiency ratio in increasing trend

The cost efficiency ratio (i.e. cost of goods sold as compared to its sales) was in increasing trend which stood at 77.49% in the 1Q of FY 2009 against 70.69% in FY 2008 and 64.35% in YE 2007. The fall in the cost efficiency was due to the sharp increase in the raw material price, as mentioned earlier.
The company imports major parts of raw materials through its parents because of its prime raw material source is south India, where its parent has sound sourcing infrastructures. Contribution of raw material cost to Cost of goods sold was very high and it was 98.22% in the 1Q of FY 2009 and 97.94% in 2008 against 96.79% in 2007. It revealed that price of copra/ coconut oil increased by 58% in 2008 and 37% in 2007; soap noodles price increases 26% in 2008 and 46% in 2007. Contribution of variable overhead cost to Cost of goods sold was 1.03% in FY2008 and 1.06% in FY2007. Contribution of fixed overhead cost to Cost of goods sold was 1.03% in FY2008 and 1.60% in FY2007.

However, administrative overheads as percentage of total costs decreased to 4.88% in the 1Q of FY 2009 and 5.86% in YE 2008 against 7.73% in 2007. Selling and distribution overheads as percentage of total costs also substantially decreased to 3.54% in the 1Q of FY 2009 and 7.90% in 2008 against 13.06% in YE 2007. Finance cost to revenue ratio decreased at 0.38% in the 1Q of FY 2009 and 0.22% in FY 2007 against 1.08% in FY 2008.

14.0 CAPITAL STRUCTURE AND LEVERAGE

Indicators	1Q of FY 2009	FY2008	FY2007	FY2006	FY2005
Leverage Ratio (X)	0.85	0.77	0.50	1.01	0.38
Internal Capital Generation (%)	35	29	29	22	36

Sound equity based company

MBL is a sound equity based company without having any contribution of long term loan in the capital structure. The capital structure also reveled that 98.78% of the net capital employed of Tk. 906.32 million was financed by the equity i.e. Tk. 895.27 million as on 31 December 2008. Due to its sound internal capital generation policy, the capital build-up significantly boosted in FY2008 and in FY2007. Again, the company recently increased its share capital to Tk. 283.50 million as on 1Q of FY 2009 against Tk. 90.00 million as on FY 2008 through stock dividend. Internal capital generation of the company was 35%, 29%, 29%, 22% and 36% in the 1Q of FY 2009, FY2008, FY2007, FY 2006 and FY 2005 respectively. Other than the royalty payment, the company reimburses its profit to the parents for the last three consecutive years of TK. 31.50 million, Tk. 26 million and Tk. 11.10 million in 2008, 2007, and 2006 respectively. Against the above equity base it has an outside liabilities of Tk. 756.82 million as 31st December 2008 representing the leverage ratio 0.85 times and 0.77 times as on 30th September 2008. Net asset value per share of Tk. 10 reached to Tk. 32.69 in the 1QE of FY2009, against Tk. 29.91 in FY2008 considering the latest number of shares. The share capital was increased by 215% stock dividend in the 1st Quarter of FY 2009.

15.0 LIQUIDITY AND FUND FLOW ANALYSIS

Indicators	1Q of FY 2009	FY2008	FY2007	FY2006	FY2005
Current Ratio (X)	1.68	1.70	1.83	1.19	2.89
Quick Ratio (X)	0.96	1.10	1.47	0.98	2.63

Sound liquidity position

MBL has been operating with sound liquidity position from its inception due to short cash conversion cycle. The liquidity ratio of the company stood at 1.68 times, 1.70 times and 1.83 times in 1QE of FY2009, FY 2008 and FYE2007 respectively. CRISL considers the proposed cash dividend as a part current liability than in the equity, which was also adjusted in the above liquidity ratio. MBL has been operating with short inventory turnover and receivable turnover which ultimately results good cash flow over the year. Principally MBL try to avoid to pile-up huge inventory. Average number of days inventory in stock was about 32 days, 23 days, 36 days, and 36 days in the 1Q of FY 2009, FY2008, FY2007 and FY2006 respectively. Besides, the company has a policy to incur all sales in cash. So there is no chance of noticeable trade receivable' and zero days in receivable outstanding. Both the above indicator are quite good than the industry average. Against the above the company can stagger the payment liability on an average 13-30 days, which ultimately result short cash conversion cycle of 15-30 days. The company maintains considerable Investment in FDR & securities which stood at Tk. 412.00 million i.e. 33% of the current assets. The company maintains significant investment in FDR to have another source of revenue and also to maintain easily liquidable assets.

While analyzing the fund flow, it revealed that the company generated sufficient fund internally to service its debt burden and other liabilities also. As on FY2008, it was revealed that it generated fund from operation of Tk 470.55. million, operating cash flow of Tk. 137.47 million and free operating cash flow of Tk 671.12 million.

16.0 FINANCIAL SOLVENCY AND FLIXIBILITY

Indicators	1Q of FY 2009	FY2008	FY2007	FY2006	FY2005
Debt Service Coverage Ratio (X)	44.34	77.13	15.36	5.46	0
Interest Coverage Ratio (X)	41.71	72.87	14.12	5.10	0

Being a sound equity base company and having its strong market image, it enjoys sound

Sound financial flexibility

financial flexibility to avail fund from different sources. Due to its sound credibility, it also enjoys a large credit limit from different banks. Presently it enjoys both funded limit of Tk.875 million as on 1Q of FY2009 and non funded limit of Tk. 378 million. However, out of the above limit, the outstanding bank loan liability was only Tk. 103.17 million (i.e. 8.23% of the limit) as on 31 December 2008. It also enjoys a non funded corporate guarantee of Tk. 510.00 million from the parent through City N.A. It is mentionable here that, it planned to issue shares in the capital market at premium, which is to be used to reduce the above funded exposures and also to be used for other working capital requirement.

While analyzing the creditworthiness of the company, it revealed that in absence of long term loan, the company has been utilizing the revolving credit limit duly. The cash generation of the company supported to service the interest obligation against the revolving loan. The interest coverage ratio of the company was 41.71 times, 72.87 times, 14.12 times, 5.10 times in 1Q of FY2009 , FY 2008 FY 2007, FY 2006 respectively, reflects strong solvency.

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17.0 OBSERVATION SUMMARY

Rating Comforts:	Rating Concerns:
• Market leader with strong brand equity - Parachute Brand • Sound equity base • Sound operational and financial performance • Strong supply chain management • Robust IT infrastructure • Sound HR Practice • Outstanding business growth • Sound liquidity position • Equity based capital structure • Sufficient financial flexibility • Strong parent support • Enjoying cost efficiency • Systematic internal control procedure	• Major parts of Raw materials (i.e. copra and oil) are imported from a single source i.e. India • High dependence on single product : "Parachute oil" in revenue composition • Highly dependent on sub contract manufacturing • Corporate branding in developing stage • Soap line profitability is under stress • Transfer at face value of its investment in subsidiary to another company substantially disadvantageous to the interest of the company • No inter subsidiary agreement for the use of its distribution network
Business Prospects: • Opportunity of market growth • Scope of new products development • Diversification in the business • Scope of enhancing capacity utilization	**Business Challenges:** • Highly Competitive soap market • Political instability • Unethical Practice and Tax evasion by competitor • Control over distribution network

END OF THE REPORT

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18.0 CORPORATE INFORMATION

Date of Incorporation : 6th September 1999

Commercial operations of Business: 30th January 2000

Board of Directors	:H.C. Mariwala	Chairman
	:Milind S. Sarwate	Director
	:Vijay Subramanian	Director
	:Debashish Neogi	Managing Director
	:Kunal Gupta	Director
Auditor	**: Rahman Rahman Huq** *Chartered Accountants*	
Key Management	:Mr. Debashish Neogi	Managing Director & Regional Head- South East Asia (SEA)
	:Mr. Kunal Gupta	Head of Sales
	:Mr. Soumendra Sankar Das	Head of Marketing
	:Mr. Balaji K.S.	Head of Operations
	:Mr. Matiur Rahman	Regional Sales Manager
	:Mr. Souvik B. Mazumder	Senior Finance Manager
	:Mr. Iqbal Chowdhury	Senior Manager- Corporate Affairs & Treasury and Company Secretary
	:Mr. Tarif Aziz	Regional Sales Manager

Capital History:

Year	Authorized Capital(M.Tk)	Issued, Subscribed and Paid-up Capital (M. Tk.)	Rate of Increase	Source of Paid-up Capital
2004	10.00	10.00	-	
2005	10.00	10.00	-	-
2006	10.00	10.00	-	-
2007	10.00	10.00	-	-
2008	300.00	90.00	800%	Issue of Bonus Share
December 2008	400.00	283.50	215%	Issue of Bonus Share

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19.0 Financials

A. Balance Sheet *** (As on 30th September)** In million Tk.

Balance Sheet	1Q of FY 2009	*2008	*2007	*2006	*2005
Non-Current Assets:					
Property, Plant & Equipment.	243.54	240.24	114.97	93.79	22.83
Capital work in progress	65.00	65.00	130.00	130.00	0.00
Intangible Assets(net)	14.63	15.30	17.99	19.79	7.02
Investment			1.00	1.00	1.00
Other Non-Current Assets	74.92	77.79	89.29	100.79	62.29
Total Non-Current Assets	**398.09**	**398.33**	**353.25**	**345.37**	**93.14**
Current Assets:					
Inventories	535.53	369.75	101.25	83.83	30.29
Trade Debtors	56.62	4.21	115.21	125.50	34.08
Adv. Deposits & Prepayments	126.34	120.59	165.78	96.53	122.88
Short Term Investment	100.00	100.00	0.00	0.00	0.00
Other Current Assets	13.00	4.15	0.64	5.05	2.76
Cash & Bank Balances	422.52	444.70	133.48	167.30	154.38
Total Current Assets	**1,254.01**	**1,043.40**	**516.37**	**478.21**	**344.39**
Current Liabilities:					
Short Term Loan	103.17	30.77	65.75	240.78	0.00
Long Term Loan-CP			0.00	0.00	0.00
Trade Creditors	135.65	190.02	90.48	48.71	48.59
Liabilities for Expenses	262.69	189.31	64.87	88.48	41.62
Proposed Dividend	31.50	31.50	26.00	11.10	0.00
Other ST Liabilities	212.77	173.27	35.79	25.06	29.13
Total Current Liabilities	**745.77**	**614.86**	**282.88**	**414.12**	**119.34**
Net Current Assets	**508.24**	**428.53**	**233.48**	**64.10**	**225.05**
Non-Current Liabilities:		---	0.00	---	---
Deferred Liabilities	8.82	8.29	6.18	0.00	0.00
Provision for Gratuity	2.24	2.24	0.00	0.00	0.00
Total Non-Current Liability	**11.05**	**10.53**	**6.18**	**0.00**	**0.00**
Shareholders' Equity:					
Share Capital	283.50	90.00	10.00	10.00	10.00
Other Reserve	0.00	0.00	305.55	182.48	138.14
Retained Earnings	611.77	726.34	265.01	216.98	170.05
Total Shareholder's Equity	**895.27**	**816.34**	**580.55**	**409.46**	**318.19**
Total Equity and LT Liability	**906.32**	**826.86**	**586.73**	**409.46**	**318.19**
Total Assets	**1,652.09**	**1,441.72**	**869.61**	**823.58**	**437.53**

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B. Income Statement (*for the year ended 30 September)

In million Tk.

Particulars	1Q of FY 2009	*2008	*2007	*2006	*2005
Sales Revenue	823.08	2658.85	1451.89	888.28	678.37
CGS Excluding Dep.	631.70	1860.24	919.32	568.63	426.08
Depreciation-Mfg	6.08	19.35	14.98	7.40	3.53
Cost of Good Sold	**637.78**	**1879.59**	**934.30**	**576.02**	**429.62**
Gross Profit	**185.30**	**779.26**	**517.59**	**312.26**	**248.75**
Salary & Allowances	16.47	62.71	39.79	28.85	19.61
Depreciation-Admin.	2.17	6.03	4.44	2.53	2.14
Other Admin. Expenses	21.56	87.18	67.98	47.12	26.86
Total Adm. Exp	**40.20**	**155.91**	**112.22**	**78.50**	**48.61**
Selling & Distribution Exp.	29.17	210.21	189.56	111.80	51.50
Total Selling & Dist. Expenses	**29.17**	**210.21**	**189.56**	**111.80**	**51.50**
Profit from Operation	**115.92**	**413.14**	**215.81**	**121.96**	**148.64**
Other Income	14.66	21.55	5.67	15.96	8.22
Financial Cost	3.13	5.97	15.68	27.06	0.00
Profit Before Tax	**127.45**	**428.72**	**205.80**	**110.86**	**156.86**
Income Tax	48.52	161.44	8.81	8.48	0.37
Profit After Tax	**78.93**	**267.28**	**196.99**	**102.38**	**156.49**

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CRISL RATING SCALES AND DEFINITIONS
LONG-TERM RATINGS OF CORPORATE

RATING	DEFINITION
AAA Triple A (Highest Safety)	**Investment Grade** Entities rated in this category are adjudged to be of best quality, offer highest safety and have highest credit quality. Risk factors are negligible and risk free, nearest to risk free Government bonds and securities. Changing economic circumstances are unlikely to have any serious impact on this category of companies.
AA+, AA, AA- (Double A) (High Safety)	Entities rated in this category are adjudged to be of high quality, offer higher safety and have high credit quality. This level of rating indicates a corporate entity with a sound credit profile and without significant problems. Risks are modest and may vary slightly from time to time because of economic conditions.
A+, A, A- Single A (Adequate Safety)	Entities rated in this category are adjudged to offer adequate safety for timely repayment of financial obligations. This level of rating indicates a corporate entity with an adequate credit profile. Risk factors are more variable and greater in periods of economic stress than those rated in the higher categories.
BBB+, BBB, BBB- Triple B (Moderate Safety)	Entities rated in this category are adjudged to offer moderate degree of safety for timely repayment of financial obligations. This level of rating indicates that a company is under-performing in some areas. Risk factors are more variable in periods of economic stress than those rated in the higher categories. These entities are however considered to have the capability to overcome the above-mentioned limitations.
BB+, BB, BB- Double B (Inadequate Safety)	**Speculative Grade** Entities rated in this category are adjudged to lack key protection factors, which results in an inadequate safety. This level of rating indicates a company as below investment grade but deemed likely to meet obligations when due. Overall quality may move up or down frequently within this category.
B+, B, B- Single B (Risky)	Entities rated in this category are adjudged to be with high risk. Timely repayment of financial obligations is impaired by serious problems which the entity is faced with. Whilst an entity rated in this category might be currently meeting obligations in time through creating external liabilities.
CCC Triple C (Vulnerable)	Entities rated in this category are adjudged to be vulnerable and might fail to meet its repayments frequently or it may currently meeting obligations in time through creating external liabilities. Continuance of this would depend upon favorable economic conditions or on some degree of external support.
CC Double C (High Vulnerable)	Entities rated in this category are adjudged to be very highly vulnerable. Entities might not have required financial flexibility to continue meeting obligations; however, continuance of timely repayment is subject to external support.
C (Extremely Speculative)	Entities rated in this category are adjudged to be with extremely speculative in timely repayment of financial obligations. This level of rating indicates entities with very serious problems and unless external support is provided, they would be unable to meet financial obligations.
D (Default)	**Default Grade** Entities rated in this category are adjudged to be either already in default or expected to be in default.

For long-term ratings, CRISL assigns + (Positive) sign to indicate that the issue is ranked at the upper-end of its generic rating category and - (Minus) sign to indicate that the issue is ranked at the bottom end of its generic rating category. Long-term ratings without any sign denote mid-levels of each group.

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SHORT-TERM RATINGS OF MANUFACTURING COMPANIES

ST-1	**Highest Grade** Highest certainty of timely payment. Short-term liquidity including internal fund generation is very strong and access to alternative sources of funds is outstanding. Safety is almost like risk free Government short-term obligations.
ST-2	**High Grade** High certainty of timely payment. Liquidity factors are strong and supported by good fundamental protection factors. Risk factors are very small.
ST-3	**Good Grade** Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Although ongoing funding needs may enlarge total financing requirements, access to capital markets is good. Risk factors are small.
ST-4	**Moderate Grade** Moderate liquidity and other protection factors qualify an entity to be in investment grade. Risk factors are larger and subject to more variation.
ST-5	**Non-Investment/Speculative Grade** Speculative investment characteristics. Liquidity is not sufficient to ensure discharging debt obligations. Operating factors and market access may be subject to a high degree of variation.
ST-6	**Default** Entity is in default or is likely to default in discharging its short-term obligations. Market access for liquidity and external support is uncertain.