Metodology

Credit rating

Credit rating is calculated once per year based on the credit rating of the previous year and the ormula composed of the company's bussines enterprise. The credit rating is divided into five grades:

- AAA (the highest credit rating)
- AA+
- A+
- BBB
- CCC (the lowest credit rating)
- - (credit rating is unpossible to calculate)

The process of assigning a credit rating involves the mutual calculation of indicators and the categorization of results and financial ratings. When calculating, we use the most important groups of indicators, which are liquidity indicators and performance indicators. From each group of indicators we use the most representative ones.

The credit rating is adjusted to the size of the company, the number of employees and the amount of annual turnover, in relation to companies with similar activities. A credit rating is issued only to entities that have all the indicators calculated.

Those for whom it is impossible to calculate a certain indicator needed to calculate the credit rating, the same will not be assigned.

Credit rating have funcion for company and its stability. A credit rating also outlines the company's future operations and gives us insight into how likely it is that a company will go bankrupt or have its accounts blocked in the future.

We can calculate credit rating for the next sectors:

- Public monetary and financial institutions
- National private monetary and financial institutions
- Monetary and financial institution by foreign control
- Public insurance companies and peace funds
- Insurance companies and peace funds by foreign control
- Entire sector of Financial and insurance bussines
- Self-employed people
- New enterprise

Metodology of calculating credit rating

The financial assessment shows the company's operations in the past year, and is calculated once a year. Credit rating is calculated from the most important and most representative groups of indicators:

1. Liquidity ratio

Liquidity is the ability of a company to meet its obligations on time. The current liquidity ratio measures a firm's ability to meet liabilities when they fall due. The liquidity ratio is calculated according to the formula: general liquidity ratio = inventories + receivables + cash / current liabilities.

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The liquidity ratio implies:

$$\textit{Current liquidity ratio} = \frac{\text{Current assets}}{\text{Short-term liabilities}}$$

$$\textit{Reduced liquidity ratio} = \frac{\text{Current assets}}{\text{Short-term liabilities}}$$

2. Solvency ratio

The solvency ratio or the ratio of the financial structure shows long-term liquidity. The following coefficients are used to assess the long-term financial position of a company: indebtedness ratio and capital to capital ratio. This means:

$$\textit{Fixed asset coverage ratio} = \frac{\text{Capital}}{\text{Fixed assets}}$$

$$\textit{Real asset coverage ratio} = \frac{\text{Long-term capital}}{\text{Real assets}}$$

$$\textit{NOK stock coverage ratio} = \frac{\text{NOK}}{\text{Stock + AVR}}$$

$$\textit{Ratio of coverage of current assets by NQF} = \frac{\text{NOK}}{\text{Current assets}}$$

$$\textit{Indebtedness ratio} = \frac{\text{Total liabilities}}{\text{Capital}}$$

$$\textit{Earnings coverage ratio} = \frac{\text{EBIT}}{\text{Interest paid}}$$

3. Efficiency Ratio

The ratio of efficiency or activity shows the course of the purchasing and sales process. The most important indicators of this type are the turnover ratio of customers (receivables), the turnover ratio of suppliers (debts) and the turnover ratio of inventories:

$$\textit{Business asset turnover ratio} = \frac{\text{Sales revenue}}{\text{Average business assets}}$$

$$\textit{Fixed asset turnover ratio} = \frac{\text{Sales revenue}}{\text{Average fixed assets}}$$

$$\textit{Capital turnover ratio} = \frac{\text{Sales revenue}}{\text{Average equity}}$$

$$\textit{Turnover ratio of current assets} = \frac{\text{Sales revenue}}{\text{Average current assets}}$$

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$$\textbf{\textit{Stock turnover ratio}} = \frac{\text{Sales revenue}}{\text{Average inventories + AVR}}$$

$$\textbf{\textit{Turnover ratio of trade receivables}} = \frac{\text{Sales revenue - externally}}{\text{Average trade receivables}}$$

$$\textbf{\textit{Turnover ratio of trade payables}} = \frac{\text{Total procurement}}{\text{Average trade payables}}$$

4. Profitability ratio

The profitability ratio shows the earning capacity of a company and is a key coefficient in assessing financial success. This ratio includes:

$$\textbf{\textit{Gross operating profit rate}} = \frac{\text{Gross operating profit}}{\text{Sales revenue}}$$

$$\textbf{\textit{Net operating profit rate}} = \frac{\text{Net operating profit}}{\text{Sales revenue}}$$

$$\textbf{\textit{Net profit margin ratio}} = \frac{\text{Net profit + Cost kam * (1-Tax rate)}}{\text{Sales revenue}}$$

$$\textbf{\textit{ROA}} = \frac{\text{Net profit + Cost * (1-Tax rate)}}{\text{Average assets}}$$

$$\textbf{\textit{ROE}} = \frac{\text{Net profit}}{\text{Average net equity}}$$

The methodology on the basis of which the credit rating is calculated was established by financial experts through precise and credible analyzes. Based on a detailed analysis of all these indicators according to the given formulas, financial analysts calculate the credit rating of the company.

This assessment is a precise indicator of the financial condition of a particular company and the way in which that company operates. Based on the credit rating, the quality of the company's business, its reliability and success are assessed. This makes it easier for companies and entrepreneurs to predict how careful they need to be when doing business with potential or existing partners. It also greatly contributes to business transparency, as well as safer and faster partnerships.