

MIRA INFORM REPORT

Report No. :	540458
Report Date :	19.11.2018

IDENTIFICATION DETAILS

Name :	ISRAEL AEROSPACE INDUSTRIES LTD.
Registered Office :	Ben Gurion International Airport LOD 7010000
Country :	Israel
Financials (as on) :	31.12.2017 [Consolidated]
Year of Establishment :	1953
Legal Form :	A Government-Owned Company
Line of Business :	Subject is engaged in the development, manufacture, overhaul, repair, maintenance, export and marketing of civilian and military aircrafts, medium-sized jets and aerospace equipment, electronic and advanced technology systems, weapon and armament systems, law enforcement, training and simulation systems.
No. of Employees :	595 [IAI Group - 30.06.2018]

RATING & COMMENTS

(Mira Inform has adopted New Rating mechanism w.e.f. 23rd January 2017)

MIRA's Rating :

A+

Credit Rating	Explanation	Rating Comments
A+	Low Risk	Business dealings permissible with low risk of default

Status :	Excellent
Payment Behaviour :	Regular
Litigation :	Clear

NOTES:

Any query related to this report can be made on e-mail: infodept@mirainform.com while quoting report number, name and date.

ECGC Country Risk Classification List

Country Name	Previous Rating (30.06.2018)	Current Rating (30.09.2018)
Israel	B1	B1

Risk Category	ECGC Classification
Insignificant	A1
Low Risk	A2
Moderately Low Risk	B1
Moderate Risk	B2
Moderately High Risk	C1
High Risk	C2
Very High Risk	D

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ISRAEL - ECONOMIC OVERVIEW

Israel has a technologically advanced free market economy. Cut diamonds, high-technology equipment, and pharmaceuticals are among its leading exports. Its major imports include crude oil, grains, raw materials, and military equipment. Israel usually posts sizable trade deficits, which are offset by tourism and other service exports, as well as significant foreign investment inflows.

Between 2004 and 2013, growth averaged nearly 5% per year, led by exports. The global financial crisis of 2008-09 spurred a brief recession in Israel, but the country entered the crisis with solid fundamentals, following years of prudent fiscal policy and a resilient banking sector. Israel's economy also weathered the 2011 Arab Spring because strong trade ties outside the Middle East insulated the economy from spillover effects.

Slowing domestic and international demand and decreased investment resulting from Israel's uncertain security situation reduced GDP growth to an average of roughly 2.8% per year during the period 2014-17. Natural gas fields discovered off Israel's coast since 2009 have brightened Israel's energy security outlook. The Tamar and Leviathan fields were some of the world's largest offshore natural gas finds in the last decade. Political and regulatory issues have delayed the development of the massive Leviathan field, but production from Tamar provided a 0.8% boost to Israel's GDP in 2013 and a 0.3% boost in 2014. One of the most carbon intense OECD countries, Israel generates about 57% of its power from coal and only 2.6% from renewable sources.

Income inequality and high housing and commodity prices continue to be a concern for many Israelis. Israel's income inequality and poverty rates are among the highest of OECD countries, and there is a broad perception among the public that a small number of "tycoons" have a cartel-like grip over the major parts of the economy. Government officials have called for reforms to boost the housing supply and to increase competition in the banking sector to address these public grievances. Despite calls for reforms, the restricted housing supply continues to impact younger Israelis seeking to purchase homes. Tariffs and non-tariff barriers, coupled with guaranteed prices and customs tariffs for farmers kept food prices high in 2016. Private consumption is expected to drive growth through 2018, with consumers benefitting from low inflation and a strong currency.

In the long term, Israel faces structural issues including low labor participation rates for its fastest growing social segments - the ultraorthodox and Arab-Israeli communities. Also, Israel's progressive, globally competitive, knowledge-based technology sector employs only about 8% of the workforce, with the rest mostly employed in manufacturing and services - sectors which face downward wage pressures from global competition. Expenditures on educational institutions remain low compared to most other OECD countries with similar GDP per capita.

Source : CIA

COMPANY NAME & ADDRESS

ISRAEL AEROSPACE INDUSTRIES LTD.

(Known in short as IAI)

Telephone 972 3 935 85 09; 953 85 62; 953 34 35
Fax 972 3 935 42 67
E-mail: schami@iai.co.il
Ben Gurion International Airport
LOD 7010000 Israel

HISTORY & LEGAL FORMATION

A government-owned company, incorporated as per file No. 52-002719-4 on the 27.02.1966 (incorporation formation as a limited shares company), taking over activities originally founded in 1953, as part of the Ministry of Defense.

Originally registered under the name ISRAEL AIRCRAFT INDUSTRIES LTD., which changed to the present name on the 06.11.2006.

Bonds are traded on the Tel Aviv Stock Exchange since May 2007.

Note: Regarding the privatization process, *see more in below.*

SHARE CAPITAL

Authorized share capital NIS 2,600,000,001.00, divided into -
2,600,000,001 ordinary shares of NIS 1.00 each, of which 2,559,514,386 shares amounting to NIS 2,559,514,386.00 were issued.

SHAREHOLDERS

Subject is fully owned by the State of Israel, through the Ministry of Defense (Minister in charge Mr. Avigdor (Evet) Lieberman).

DIRECTORS

1. Harel Locker, Chairman,

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2. Ms. Aya Avidor,
3. Ms. Tali Bellish Michaud,
4. Ms. Dvora Chen,
5. Ms. Hana Muriel Setteboun,
6. Itzhak Shariv,
7. Ms. Eti Langermann,
8. Hilel Kain,
9. Haim Dahan,
10. Maha Ali.

GENERAL MANAGER

Nimrod Shefer (Mg. Gen., Res.), as of September 2018.

BUSINESS

Engaged in the development, manufacture, overhaul, repair, maintenance, export and marketing of civilian and military aircrafts, medium-sized jets and aerospace equipment, electronic and advanced technology systems, weapon and armament systems, law enforcement, training and simulation systems, etc.

In 2017, 70% of sales were to the military/ defense sectors (73% in 2016), the rest to the civilian sector.

76.5% of 2017 consolidated sales are for export (77% in 2016), 31% of which to Asia, 28% to the North America and 11.5% to Europe.

In the BEDEK Aviation Group 88% of sales were export, 46% to North America, 23% to Europe and 11% to South America.

Activities are through 5 operating Groups:

BEDEK Aviation Group: one-stop shop for commercial aircraft conversion into cargo and fueling airplanes (among customers: UPS) and aircraft upgrading, as well as maintenance services for aviation companies, and the Israeli Air Force. This segment comprised 15.5% of 2017 activities (14.5% in 2016).

Note: this segment operates from Parking Area in Ben Gurion Airport.

Civilian Aircraft Group: develop, engineer and manufacture of mid-size business jets and perform works for major international OEMs, including aero structure assemblies and systems, etc. The Group has a strategic cooperation with GULFSTREAM of the USA, for the manufacturing of executive mid-size jets. Among main plant in the Group is the Ramta Div. This segment comprised 11.5% of 2017 activities (12.5% in 2016).

Military Aircraft Group: Operating in front of the military clients in Israel and all over the world and include development, manufacturing and providing of manned and unmanned Aerial Vehicles (UAV) solutions. Also deal in the development of avionic systems and data channels for the upgrading of combat aircrafts, training aircrafts

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and helicopters, delivering maintenance and logistic services for world air forces. Also manufacturing wires for aircrafts and helicopters and operating as a main subcontractor in assemblies manufacturing.

This Group also upgrades military aircrafts and manufactures unique aviation parts, for instance for LOCKHEED MARTIN's F-16 aircraft and the JSF. Among main clients is the Israeli Air Force.

Group includes the following Divisions: MLT Div., Magnet Div. and the Lahav Div. This segment comprised 18% of 2017 activities (21% in 2016).

Missile Systems and Aerospace Group: development, manufacturing and marketing of various sorts of missiles (including the "Arrow" and "Barak" naval anti-ballistic missiles system), as well as satellites, including communication satellites ("Amos" series) and observation satellites ("Ofeq" and "Eros").

Group includes the following Divisions: MLM Div., MBT Missiles Div., MBT Space Div., MBT Technologies Div. and TMM Div. (Tamam Div.). This segment comprised 25% of 2017 activities (27% in 2016).

Note: TMM Div. develops inertial guidance and electro-optic systems.

ELTA SYSTEMS LTD., subject's largest wholly-owned subsidiary, developers, manufacturers, exporters and marketers of defense electronic systems, specializing in radar systems, electronic warfare and communication, information systems, homeland security, etc., as well as in the cyber field. This segment comprised 25.5% of 2016 activities (23.5% in 2015).

Also having other activities which are un-segmented.

It should be noted that IAI Group has been ongoing an extensive re-organization and streamlining process, which will include among others:

1. Unification of all the civilian activities, currently operating under 3 divisions, under 1 division.
2. Outsourcing Group's logistics activities which are located in Group's plants, to GLOBUS PACKAGES & INTERNATIONAL FOWARDING, which will operate a central logistics center.
3. Transfer of manufacturing activities abroad, for cost cutting.

Local suppliers (among many others): TEKTEAM, TILTAN SYSTEMS ENG., ELBE LEADING TECH. SOLUTIONS, T. BERKE, TAMEX, B.T.I., HAAS TCM, LEWENSTEIN WOLFSON AGENCIES, BEZALEL YERUSHALMY & SON, GRAND ENTERPRISES, NEXTEC TECHNOLOGIES, TEDER ELECTRO-MECH. ENG., SHAFIR PROD. SYSTEMS, KANFIT, VERED EROSA, NEW TECH. R.K., AVNET DATA SECURITY, BEIT SHEMESH ENGINES, etc.

Operating from a large complex of plots and buildings in the Ben Gurion International Airport Compound (2,000,000 sq. meters, long-term lease from the State), Lod. Also operating from plants in the Industrial Zones Yehud (MBT & TMM Divs.), Beer Yaakov (MLM Div.), Beer Sheva (RAMTA Div.), Ashdod (ELTA), Golan Heights (Golan Inds.) and in Atarot Industrial Zone. Total area used by subject is 3,500,000 sq. meters.

Subject also leases properties abroad.

Having 14,857 employees in IAI Group as of end of 2017 (had 15,359 employees in the end of 2016).

As noted above, IAI Group is ongoing streamlining measures, and as of 30.06.2018, 595 employees left on early retirement.

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MEANS

In January 2011 the Minister of Finance approved an IPO of subject in 2 stages. In May 2012 it was reported that it will be done through 3 stages. According to the privatization plan subject is valued at US\$ 3 billion – US\$ 3.5 billion.

In 2007 subject published prospects offering its bonds for the public via the Tel Aviv Stock Exchange (TASE), raising a sum of approximately NIS 1 billion.

In 2009 subject raised NIS 450 million by issuing bonds via TASE.

In January 2013 subject raised NIS 1,200 million by issuing bonds via TASE.

In July 2014 subject raised NIS 463.3 million by issuing bonds via TASE.

Accrued orders as of 30.06.2018: US\$ 11,611 million.

In December 2015 received waivers from its banks until the end of 2016 regarding not meeting its financial covenants. Since then, subject meets its financial covenants

Consolidated B/S shows:

	US\$ (millions)	
	31.12.2017	30.06.2018
ASSETS		
Current assets		
Cash and equivalents	652	694
Short term financial assets	918	912
Customers	557	651
Accounts receivable for work-in-process, net	934	713
Other debtors and receivables	254	510
Inventory and work-in-process, net	<u>597</u>	<u>846</u>
	3,912	4,326
Non-current assets		
Fixed assets, net	801	824
Intangible assets, net	57	63
Other non-current assets	<u>181</u>	<u>280</u>
	1,039	1,167
	4,951	5,493
	=====	=====
LIABILITIES		
Current liabilities		
	3,406	4,052
Non-current liabilities		
	552	517
Equity	<u>993</u>	<u>924</u>
	4,951	5,493
	=====	=====

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There are several charges for the total sum of circa US\$ 200 million registered on the company's assets (financial assets), in favor of Bank Hapoalim Ltd.

REVENUES

Consolidated Statement of Income

Year ended 31.12

US\$ (millions)

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Revenues, net	3,708	3,577	3,520
Gross profit	495	477	538
Operating income (loss)	47	(105)	121
Profit before tax	22	(138)	89
Net income	9	(110)	81
	=====	=====	=====

Note: on subject's worsening results and loss in 2016 – see *CHARACTER*.

Consolidated revenues for the first 6 months of 2018 were US\$ 1,778 million (5% increase compared to parallel period in 2017), making a gross profit of NIS US\$ 292 million, an operating profit of US\$ 64 million, and a net profit of US\$ 21 million.

OTHER COMPANIES

Main subsidiaries (100%, unless otherwise stated):

ELTA SYSTEMS LTD., developers, manufacturers, exporters and marketers of defense electronic systems, specializing in radar systems, electronic warfare and communication, information systems, Airborne Early Warning & Control systems, homeland security solutions, etc. Having several subsidiaries.

IAI NORTH AMERICA INC.,

STARK AEROSPACE INC.,

I.A.I ASIA PTE LTD.,

EUROPEAN ADVANCED TECHNOLOGY S.A,

MARDAN HOLDCO PTE LTD.,

ISRAEL AEROSPACE INDIA PTE LTD.

CUSTODIO PTE LTD.

I.A.I ASIA PTE LTD.

TSG IT SYSTEMS ADVANCED LTD., 50%,

IMAGESAT INTERNATIONAL NV (ISI), 46.4%.

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BANKERS

According to our (since we could not speak to subject's officials, we are unable to verify the u/m bank details):
Bank Hapoalim Ltd., Business Central Branch (No. 600), Tel Aviv.
Bank Leumi Le'Israel Ltd., Principal Branch Tel Aviv (No. 800), Tel Aviv.
Israel Discount Bank Ltd., Tel Aviv Main Branch (No. 10), Tel Aviv.
Also working with other local branches of the above banks.

CHARACTER AND REPUTATION

As of December 2017 there are legal claims against subject and subsidiaries in total volume of US\$ 333 million. Appropriate deductions made.

Also in December 2015, it was reported that subject will compensate BOEING by US\$ 27 million (a compromise) regarding overcharging aviation sub parts.

In February 2018, subject's and ELTA's employees together with the Labor Union, declared a "working dispute" (which enables a strike after 2 weeks). So far no further steps were taken by employees.

Subject's performance has been worsening in recent years, mainly to the losses inflicted by its Civilian Aircraft Group, although till 2015 the company as a whole has been profitable in the bottom line. Subject's operating profit plunged from US\$ 134 million in 2011 (US\$ 79 million, US\$ 84 million, US\$ 141 million in 2012, 2013 & 2014, respectively) to US\$ 47 million in 2015 and loss in 2016, and so has the net profit.

Other reasons are the fierce competition, with decreasing orders, while subject fails to become more efficient, mainly due to its labor related structure (a strong workers' union) and excessive expenditures in salaries and rewards. As part of subject's recovery plans and as noted above, in August 2016 subject reached an agreement with the workers for the layoff of 830 employees, as well as salary and benefit cuts and freezes. This procedure is expected to cost some NIS 1.5 billion (employees compensation), which negotiations with the Ministry of Finance for the finance part of the moves are taking place, though subject is preparing to carry the cost on itself.

Apart from the above, nothing unfavorable learned.

In May 2012 it was reported on the renewal in process of subject's privatization, now to be handled in 3 stages, in which the first stage will include an IPO of some 30%, and then additional 2 share offerings. The State is estimated to hold some 30% of subject in the end. This plan is under the restriction of any shareholder to hold more than 5% and no controlling body. So far this plan has not reached legislation or operative stages.

In October 2018 the Minister of Defense ordered a halting off all privatization procedures, due to security reasons.

In the prestigious American "Defense News" magazine 100 of the world leading defense industry corporations in published July 2017, subject was ranked 33rd (29th in 2016, 32nd in 2015, 35th in 2014), of the defense industry companies.

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In 2001 subject sold its 50% subsidiary GALAXY AEROSPACE LTD., manufacturers of executive jets "Galaxy", to GENERAL DYNAMICS' subsidiary GULFSTREAM, in consideration of US\$ 365 million and further US\$ 315 million, according to GALAXY performance till 2006. The cooperation between subject and GULFSTREAM intensified and by 2008 subject delivered 200 executive airplanes (G-200) in total value of US\$ 4 billion.

In 2002, subsidiary ELTA acquired from KOOR INDUSTRIES 30% of ELISRA ELECTRONIC SYSTEMS LTD. based on company value of US\$ 330 million.

In 2011 ELTA sold its shares in ELISRA to ELBIT SYSTEM for US\$ 67.5 million.

Major deal reported in 2005: won a US\$ 500 million tender to provide aviation parts to BOEING.

Main contract in 2006 was with the R&D agency of the Indian Ministry of Defense (D.R.D.D.) for the development of naval missile "Barak 8", in volume of over US\$ 300 million.

In 2007 subject (via its BEDEK Div.) and Japanese MITSU & CO. established M&B CONVERSIONS LTD. joint venture, for converting Boeing passenger airplanes type 767-300 into cargo airplane.

Also in 2007 subject signed a long term cooperation agreement with German RHEINMETAL, for the development of advanced intelligence combat systems.

In 2008, subject signed of an agreement with Indian TATA Concern for cooperation, to develop and manufacture defense and aviation equipment and systems, establishing joint new company TASL (subject's share 26%), and subject's Board approved initial investment of up to US\$ 50 million. TASL would be the platform for vast operation with Indian government. In late 2010 it was reported that TATA also entered with subject (via subsidiary ELTA) in another joint venture for radar manufacturing. In 2009 subject announced a huge deal with the Indian Army in value of US\$ 1.4 billion, where subject will develop ground and naval defensive missile systems.

In 2010 subject sold all its shares (20.5%) in SPACE COMMUNICATION (SPACECOM), marketers of satellite services from the Israeli Satellite "Amos" (developed and manufactured by subject), for NIS 167.325 million. In 2012 SPACECOM announced decided to acquire "Amos 6" satellite from subject, expected to be launched in 2015 1stQ (and remain in space at least 16 years), in deal valued at US\$ 195 million.

Subject's "Amos 4" satellite for SPACECOM was launched from base in Kazakhstan in September 2013 and was delivered to SPACECOM.

In September 2016 a SpaceX rocket which carried a telecommunication satellite Amos-6 built by subject for SPACECOM exploded on the launchpad in Florida, causing a total loss. Subject held the responsibility for the satellite until launch, and is to pay SPACECOM US\$ 173 million as compensation. Subject reported it has full insurance coverage.

In September 2017 it was reported that SPACECOM is suing subject for further US\$ 138 due to the delay in the delivering the satellite (which exploded).

Subject's legal advisers estimate the chances of the claim to be accepted are slim.

Over the last years subject signed and delivered several major contracts for supply of UAVs to foreign armies. In 2010 subject signed a continuous deal with the Australian Army in volume of tens of US\$ millions (also with MDA). Other deals: sale of UAVs systems to the Russian company OPK OBORNOPROM in volume of US\$ 400 million (in 3 years).

Subject's subsidiary ELTA is a co-developer –with local RAFAEL, the main partner- of the break-through military technology and system of the "Iron Dome", which was developed in less than 3 years and became operational during 2011, designed for protecting population from short-range rockets. The latest conflict in the Gaza Strip (in summer 2014) showed a ~90% success for "Iron Dome", unprecedented in any parameter.

During 2012: Subject announced on its largest ever deal (in 2 stages, to be spread over 4 years) to supply systems and equipment to an Asian client in total volume of US\$ 1.6 billion. It was also reported that subsidiary ELTA will supply advanced radar systems to an Asian country for US\$ 150 million. ELTA also won 3 contracts in total volume of US\$ 76 million for supply of radar systems and satellite communications systems.

In addition, it was reported that subject, together with ELBIT SYSTEMS, will supply the Israeli Ministry of Defense services for the new training aircrafts in volume of US\$ 603 million (subject's share US\$ 183 million).

In March 2013 subject reported on a large contract to convert Boeing civilian aircrafts into military uses. The value of the contract was not published, though estimated to be US\$ 250 – US\$ 400 million.

In April 2013 a cooperation contract was signed between subject and LOKHEED MARTIN for the manufacturing plan of Stealth Bomber F-35, where subject will manufacture wings to the future jet. Subject estimates the potential of the future contract at US\$ 2.5 billion for the next 10-15 years.

In July 2014 it was reported that subject is entering a tender to supply 4 fueling aircrafts to South Korea in volume of US\$ 1.4 billion.

In July 2016 it was reported that subject signed with Asian clients, deals in the Cyber field in total volume of US\$ 40 million.

According to a report from January 2017, subject signed in 2016 contracts in the cyber field in volume of over US\$ 100 million.

In March 2017 subject reported it won 2 contract to supply South American countries systems in volumes of several tens US\$ millions each.

In March 2017 it was reported ELTA will supply an Asian country systems in volume of US\$ 200 million.

In April 2017 subject reported it signed an agreement with a foreign country to manufacture air defense systems in volume of US\$ 1.6 billion.

In May 2017 subject reported it signed an agreement with a foreign country (India) to manufacture air defense systems in volume of US\$ 630 million.

In December 2017 FIMI Fund completed the investment of US\$ 40 million in IMAGESAT (ISI) for 53.6% of shares. ISI will redeem its debt to subject of US\$ 69 million (US\$ 35 million at first stage).

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In October 2017 it was reported that subject intends to outsource its logistics activities, which intends to cut logistic expenses by some 30%, and bring a saving of some NIS 2 billion in the following years.

In December 2017 subject's General Manager, Mr. Yossi Weiss, informed that will step-down by August 2018, after on-the-job training .with his replacement. In June subject's Board approved the appointment of Nimrod Shefer (Mg. Gen., Res.), as general Manager.

In April 2018 it was reported that subject exposed its new autonomous heavy duty vehicles, intended to be operated in mines and quarries.

In July 2018 subject reported that it signed an agreement with Finland to supply missiles in volume of US\$ 195 million.

In August 2018 it was reported subject will supply missiles to the Israeli Navy in volume of US\$ 300 million.

In October 2018 it was reported subject will supply missiles to India in volume of US\$ 777 million.

Israel is considered one of the largest exporters of military and defense equipment in the world, with volume of 2014 sales by the Israeli defense/ military industries reaching US\$ 8.2 billion, placing Israel the world's 8th largest. Export by the Israeli military and defense companies amounted to US\$ 9.1 billion in 2017, representing 40% jump from 2016 (US\$ 6.5 billion, compared to US\$ 5.7 billion in 2015, similar to 2014, was US\$ 6.5 billion in 2013). In terms of world trade in these sectors, Israel share comprised 2.9% of the global sales.

The division of export in 2017 was: ballistics and areal defense systems (31%), radars & EW (17%), aircraft renovation and systems (14%), ammunition & weapons (9%), teleprocessing & communications (9%), reconnaissance & electro-optics (8%), intelligence & cyber (5%), and others (7%).

Asia & Pacific is the largest geographical market for the export (58%), while the U.S.A. is the largest country market for the military and defense industries' export.

Sales by the 4 largest local defense industries (ELBIT, *subject*, RAFAEL and IMI SYSTEMS) comprise some 75%-80% of overall sales. There are some 700 companies in the branch, most small and medium.

SUMMARY

Good for trade engagements.

FOREIGN EXCHANGE RATES

Currency	Unit	Indian Rupees
US Dollar	1	INR 71.80
UK Pound	1	INR 91.92
Euro	1	INR 81.46
ILS	1	INR 19.32

Note : Above are approximate rates obtained from sources believed to be correct

INFORMATION DETAILS

Analysis Done by :	NIY
Report Prepared by :	NIT

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RATING EXPLANATIONS

Credit Rating	Explanation	Rating Comments
A++	Minimum Risk	Business dealings permissible with minimum risk of default
A+	Low Risk	Business dealings permissible with low risk of default
A	Acceptable Risk	Business dealings permissible with moderate risk of default
B	Medium Risk	Business dealings permissible on a regular monitoring basis
C	Medium High Risk	Business dealings permissible preferably on secured basis
D	High Risk	Business dealing not recommended or on secured terms only
NB	New Business	No recommendation can be done due to business in infancy stage
NT	No Trace	No recommendation can be done as the business is not traceable

NB is stated where there is insufficient information to facilitate rating. However, it is not to be considered as unfavourable.

This score serves as a reference to assess SC's credit risk and to set the amount of credit to be extended. It is calculated from a composite of weighted scores obtained from each of the major sections of this report. The assessed factors are as follows:

- Financial condition covering various ratios
- Company background and operations size
- Promoters / Management background
- Payment record
- Litigation against the subject
- Industry scenario / competitor analysis
- Supplier / Customer / Banker review (wherever available)