## Inputs for synthetic rating estimation

| Enter the type of firm = |  | 1 (Enter 1 if large manufacturing firm, 2 if smaller or riskier firm |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
| Enter current Earnings before interest and taxes (EBIT) = |  |  |  | 10000 | (Add back only |
| Enter current interest expenses $=$ |  |  |  | 2000 | (Use only long |
| Enter current long term government bond rate = |  |  |  | 6.00\% |  |
| Output |  |  |  |  |  |
| Interest coverage ratio $=$ |  |  | 5.00 |  |  |
| Estimated Bond Rating $=$ |  |  | A |  |  |
| Estimated Default Spread $=$ |  |  | 1.00\% |  |  |
| Estimated Cost of Debt = |  |  | 7.00\% |  |  |
|  |  |  |  |  |  |
| For large manufacturing firms |  |  |  | For financial service firms |  |
| If interest coverage ratio is |  |  |  | If long term interest coverage , |  |
| > | ? to | Rating is | Spread is | greater than | ? to |
| -100000 | 0.199999 | D | 10.00\% | -100000 | 0.049999 |
| 0.2 | 0.649999 | C | 7.50\% | 0.05 | 0.099999 |
| 0.65 | 0.799999 | CC | 6.00\% | 0.1 | 0.199999 |
| 0.8 | 1.249999 | CCC | 5.00\% | 0.2 | 0.299999 |
| 1.25 | 1.499999 | B- | 4.25\% | 0.3 | 0.399999 |
| 1.5 | 1.749999 | B | 3.25\% | 0.4 | 0.499999 |
| 1.75 | 1.999999 | B+ | 2.50\% | 0.5 | 0.599999 |
| 2 | 2.499999 | BB | 2.00\% | 0.6 | 0.799999 |
| 2.5 | 2.999999 | BBB | 1.50\% | 0.8 | 0.999999 |
| 3 | 4.249999 | A- | 1.25\% | 1 | 1.49999 |
| 4.25 | 5.499999 | A | 1.00\% | 1.5 | 1.99999 |
| 5.5 | 6.499999 | A+ | 0.80\% | 2 | 2.49999 |
| 6.5 | 8.499999 | AA | 0.50\% | 2.5 | 2.99999 |
| 8.50 | 100000 | AAA | 0.20\% | 3 | 100000 |
|  |  |  |  |  |  |
| For smaller and riskier firms |  |  |  |  |  |
| If interest coverage ratio is |  |  |  |  |  |
| greater than | ? to | Rating is | Spread is |  |  |
| -100000 | 0.499999 | D | 10.00\% |  |  |
| 0.5 | 0.799999 | C | 7.50\% |  |  |
| 0.8 | 1.249999 | CC | 6.00\% |  |  |
| 1.25 | 1.499999 | CCC | 5.00\% |  |  |
| 1.5 | 1.999999 | B- | 4.25\% |  |  |
| 2 | 2.499999 | B | 3.25\% |  |  |
| 2.5 | 2.999999 | B+ | 2.50\% |  |  |
| 3 | 3.499999 | BB | 2.00\% |  |  |
| 3.5 | 4.499999 | BBB | 1.50\% |  |  |
| 4.5 | 5.999999 | A- | 1.25\% |  |  |
| 6 | 7.499999 | A | 1.00\% |  |  |
| 7.5 | 9.499999 | A+ | 0.80\% |  |  |
| 9.5 | 12.499999 | AA | 0.50\% |  |  |
| 12.5 | 100000 | AAA | 0.20\% |  |  |



