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## ACRA's rating approach to non-financial SMEs

ACRA has partially adapted its approaches laid down in the [Methodology for Credit Ratings Assignment to Non-Financial Corporations Under the National Scale for the Russian Federation](#) (the Methodology) and used to assign credit ratings to SMEs, which, according to the classification below, include companies with annual revenues not exceeding RUB 4 bln in the last three years ended. ACRA shall not assign a credit rating under the Methodology to any microenterprises.

**Table 1. ACRA's classification of SMEs**

Category	Revenue
Medium-sized enterprise	< RUB 4,000 mln
Small-sized enterprise	< RUB 2,000 mln
Microenterprise	< RUB 400 mln

Source: ACRA

ACRA may conduct a rating analysis of SMEs basing on the information sources other than those specified in section 2 of this methodology. In particular, the Agency is ready to conduct a rating analysis of those non-financial companies that are able to provide solely their RAS financial statements (with certain details added), provided that such rated entities do not have significant intragroup turnovers, i.e. when the business is concentrated solely on the rated entity.

Minimum information required to assign a credit rating to an SME:

- Annual financial statements of a rated entity and companies within a group under RAS, including relevant notes, for the most recent three fiscal years;
- Quarterly financial statements of a rated entity and companies within a group under RAS, including relevant notes, for the most recent three fiscal years;
- Management reports for the most recent most recent three fiscal years;
- Information provided verbally or in writing during a rating meeting;
- Financial and operating model of a rated entity;
- ACRA forms filled in by a rated entity and other information provided by a rated entity in the course of the rating process (answers to Agency's questions, spreadsheets and presentations).

For the purpose of more granulated comparison of rated SMEs, ACRA applies an additional rating scale with the letter indicator (ru.sme), where each rating step from BBB-(RU) to B-(RU) is further broken down in two segments.

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Table 2. Matching the main rating scale and the SME rating scale

Rating	SME rating
BBB-(RU)	BBB-.1(ru.sme)
	BBB-.2(ru.sme)
BB+(RU)	BB+.1(ru.sme)
	BB+.2(ru.sme)
BB(RU)	BB.1(ru.sme)
	BB.2(ru.sme)
BB-(RU)	BB-.1(ru.sme)
	BB-.2(ru.sme)
B+(RU)	B+.1(ru.sme)
	B+.2(ru.sme)
B(RU)	B.1(ru.sme)
	B.2(ru.sme)
B-(RU)	B-.1(ru.sme)
	B-.2(ru.sme)
CCC—C(RU)	CCC—C(ru.sme)

Source: ACRA

Despite the fact that the Methodology does not limit the maximum achievable credit rating for SMEs, the Agency believes that the credit rating BBB(RU) and higher may be achieved if a rated SME has, among other things, stable market positions, well-organized corporate governance, and stable access to significant sources of liquidity.

The Methodology applies common rating analysis and assessment approaches to both large enterprises and SMEs, including unified sets of rating sub-factors, ratings ceilings, economic sector categories and other components. ACRA expects that the largest share of rated SMEs will be those belonging to industries with low entry barriers. For those industries that are not listed in the methodology, the Agency shall apply a universal approach. In particular, if a rated SME operates in an industry that is not mentioned in the Methodology and is classified by ACRA as "other industries," the business profile shall be assessed by ACRA based on an analysis of the costs and cost-sensitive factors, business structure and diversification, and the specifics of markets and distribution channels.

As part of an analysis of geographical diversification, ACRA shall identify one to two sub-factors. The diversification of the economy and the economic development of the regions of operation may be taken into account (the "Regional economy" factor, as defined in the [Methodology for Credit Ratings Assignment to Regional and Municipal Authorities of the Russian Federation](#), shall be used), as well as the accessibility and diversification of sales markets.

ACRA takes into account that significant investments and expenses are required to build and maintain a corporate governance system. Therefore, the rating of an SME may be pressured by the high concentration of share capital, significant control over management decisions exercised by the owner, poor organization or absence of the risk management function, and low information transparency.

The set of sub-factors and their ceilings used to assess the financial risk profile of the rated SME are the same and depend on the rated entity's industry. The maximum proportion of the "Size" factor is 10%. Taking into account the SME categorization criteria, ACRA expects that the score of this factor will not exceed

"4." The remaining financial metrics are independent of the size of the rated entity. At the same time, ACRA notes that high qualitative assessments of the "Leverage" and "Liquidity" factors imply rather high financial flexibility of the rated entity, which is not typical for SMEs.

ACRA may also apply its support methodologies in the rating assessment of SMEs. Notwithstanding the governmental SME sector support programs, some SMEs rarely have significant government support due to their low systemic importance. The criteria used by ACRA to determine the relevant adjustment to the rated entity's standalone creditworthiness assessment are described in the [Methodology for Analyzing Relationships between Rated Entities and the State](#).

A much greater impact on the final rating of an SME can be exerted by the financial condition of the group to which it may belong. Such impact can either increase or decrease the rating score. The criteria applied by ACRA to determine the relevant adjustment to the rated entity's SCA are described in the [Methodology for Analyzing Member Company Relationships within Corporate Groups](#).

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