Credit Analysis Career Book

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Overview Of Credit Analysis:

Credit analysis is the process or practice to check the creditworthiness of a borrower (company or individual) to repay a loan. Credit analysts perform exhaustive financial analysis, and ratio analysis, look into qualitative factors, and check borrower repayment history, among others, to understand creditworthiness.

We will now walk you through how to perform credit analysis using the 5C framework.

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The 5 C's Framework of Credit Analysis:

- **Character –** It talks about the many aspects of the borrower including credit history, market reputation, a management strategy for growth, accounting, tax policy, and prior treatment of bondholders.

- **Capacity –** Capacity talks about the competitive position in the industry, liquidity analysis, leverage analysis, coverage analysis, and other ratio checks including profitability

- **Condition –** This refers to the economic and market conditions that may affect the borrower's ability to repay the loan. Lenders consider factors such as the borrower's industry, competition, and overall economic climate when assessing the risk of the loan.

- **Collateral –** Analysts check the quality of collateral provided before sanctioning a loan and finalizing interest rates

- **Capital –** In this section, analysts check how much capital the borrower is infusing into the business or paying as a down payment. Ideally, it should be a minimum of 20% of the total borrowing amount which builds trust in the lender and reduces the burden.

Leverage Ratios

- **Debt to Equity = Total Debt / Common Equity**

- **Debt to Tangible Equity = Total Debt / (Common Equity – Intangible Assets)**

- **Debt to Total Capital = Total Debt / (Total Debt + Total Equity)**

- **Debt to EBITDA = Debt / EBITDA**

Coverage Ratios

- **EBIT Interest Coverage = EBIT / Interest Expense**

- **EBITDA Interest Coverage = EBITDA / Interest Expense**

- **DSCR = Net Operating Income / Total Debt Service**

Liquidity Ratios

- **Cash Ratio = (Cash & Short Term Investments) / Current Liabilities**

- **Quick Ratio = (Cash & Short Term Investments + Receivables) / Current Liabilities**

- Current Ratio = Current Assets / Current Liabilities

Credit Analyst Salary Details

- **Entry Level**: Entry level Credit Analyst **salary ranges from 4 to 8 lacs per annum** depending on the qualification, certification, and skills required for the post. Equally, those with 0 to 2 years of industry experience are considered in this category, although freshers are also important for entry-level jobs where they can learn and advance into higher roles in the company's credit analyst area.

- **Mid Level**: At this level, the industry considers **candidates with 3 – 5 years of experience** in a credit analyst role; salary ranges, however, vary depending on the previously drawn salary; however, as candidates become more familiar with the industry and the work, the company provides good salary packages based on their experience and expertise, with **salaries ranging from 10 to 15 lacs per annum**. If a candidate is extraordinary, the organization may promote them to the manager or team leader.

- **Senior Level**: Senior positions generally consists of senior managers or AVPs, or Presidents among others. They may possess **10+ years of experience** in credit analysis & underwriting and have an average **salary package between 25 lacs to 35 lacs,** however, salary standards vary from company to company.

What Are the Roles of a Credit Analyst?

- **Analyze Financial data** – Financial data plays a key role in credit analysis. Analysts analyze the financial statements and financial history of the borrower so that they can check the borrower's financial position.

- **Ratio Analysis & Covenants Check** - Analysts also perform exhaustive ratio analysis to see if borrowers are following covenants and having a healthy balance sheet.

- **Review Credit Limits of Existing Borrowers** –Analysts reviews the current situation of the loan for existing customers.

- **Due Diligence** –Analysts also perform due diligence on various loan applications and advice whether the applicant can be sanctioned the loan or not.

What Are the Top Skills That Are Valuable for Credit Analysts?

- **Microsoft Excel** – MS Excel is an evergreen tool for financial data analysis or numerical calculation. IT provides important features to clean the raw data, summarize the data, and make the data more understandable and visual for everyone. Today every industry requires MS Excel knowledge in the candidate due to managing the large quantity of numerical data.

- **Financial Ratio Analysis** – Financial ratios are one of the important parts of credit analysis. There are various specific ratios for credit analysts that they analyze to make the decision, and every ratio comes with a threshold (It is a limit or the industry benchmark that the company set to analyze and make the resolution). Knowledge of financial ratios is intensely beneficial, in credit analysis.

- **Market research** – Analysts must have solid market research skills to uncover important data for analysis so that they can make decisions based on their study. Market research helps analysts become aware of interest rates, different rates, currency exchange rates, and so on.

- **Report writing** – Today, credit rating companies, banks, and other financial service companies provide reports to clients and other customers for them to learn about a company's or an individual's credit rating.

- **Communication skills** – Communication skills are one of the most important skills to have in any industry. Credit analysts need to interact with their clients to learn about their history and other information, so communication must be excellent so that analysts can effectively interact with customers.

- **Presentation skills** – Due to a large amount of financial data presentation in credit analysis, analysts provide data in many formats, whether it is pie charts, bars, or any other. Presentation skills are also essential in the credit analyst profession due to the large amount of data presented to management and customers.

- **Basic Accounting skills** –Accounting skills help to analyze all three financial statements inefficiently based on analysis. Analysts decide whether they should provide Credit to their clients or not. They should have experience in accounting and analyzing financial statements efficiently.

Top Sectors That Are Actively Looking for Credit Analysts:

1. Banking Sector	7. Investment Companies
2. Asset Management	8. Insurance
3. Research Firms	9. Savings Institutions
4. Securities Firms	10. NBFCs
5. Fund Houses	11. Credit Unions
6. Investment Banking	12. Rating Agencies

FAQs related to entry-level credit analyst salary

1. Can a non-commerce student become a credit analyst?

Yes, Non-commerce students can apply for the credit analyst role with requisite skills such as accounting skills, financial statements, and financial ratios analysis. There are various certifications and professional courses which help to build a career in credit analyst roles such as **Investment Banking Course (CIBR)**. Visit *www.cfieducation.in* for more information

2. Can I go for a credit analyst role after B.com?

Yes, many companies offer credit analyst roles to fresh graduates who have excellent skills and knowledge.

3. Which companies offer the role of Credit analyst?

Most banks offer credit analyst roles as they provide credit to the clients. Moreover, credit rating agencies, research companies also require credit analysts for reporting writing and covenants testing.

4. What is the salary range of entry-level credit analyst jobs?

In India, the salary of a credit analyst depends on years of experience and the skills/knowledge that candidates carry in their hands. The entry-level range of salary is 4 lakh to 8 lakh however it depends on company to company.