



# DataPro

## **CORPORATE RATING REPORT**

## **RUSSELSMITH NIGERIA LIMITED**

Ground Floor, Foresight House  
163-165 Broad Street,  
By Marina Water Front  
Lagos, Nigeria  
☎ 234-802 220 5312, 8055303677  
Email: info@datapronigeria.net  
dataprong@gmail.com  
Website: www.datapronigeria.com

June, 2024

# RUSSELSMITH NIGERIA LIMITED

## Long-Term Rating:

# BBB<sup>+</sup>

Short Term Rating: A2

Rating Outlook: Stable

Trend: UP

Currency: Naira

Date Issued: 26 June, 2024

Valid Till: 25 June, 2025

## Reference:

Abiodun Adeseyoju, FCA.

Abimbola Adeseyoju

Oladele Adeoye

This report is provided by DataPro subject to the Terms & Condition stipulated in our Terms of Engagement

## EXECUTIVE SUMMARY

	2023 N'000	2022 N'000	2021 N'000	2020 N'000	2019 N'000
Gross Earning	5,170,628	2,685,913	1,851,986	1,346,603	4,470,706
Profit before Tax	685,324	494,663	133,845	(300,777)	(467,956)
Total Asset	7,991,771	7,181,824	4,049,152	3,326,370	3,916,570
Equity	2,927,168	2,558,033	(189,048)	(296,974)	10,542
Total Liabilities	5,064,603	4,623,791	4,238,200	3,938,143	3,906,028
Fixed Asset	3,945,995	4,497,273	1,394,212	1,512,860	1,367,918

### Rating Explanation

The Short-Term Rating of **A2** indicates *Fair Credit Quality* and adequate capacity for timely payment of financial commitments.

The Long-Term Rating of **BBB<sup>+</sup>** indicates *Slight Risk*. It shows Fair Financial Strength, Operating Performance and Business Profile when compared to the standard established by **DataPro**. This Company, in our opinion, has the ability to meet its ongoing obligations, but its financial strength is vulnerable to adverse changes in economic conditions.

## RATING SYNOPSIS

The Rating took into consideration all relevant qualitative and quantitative factors to arrive at the assigned risk indicator.

The qualitative information used were based on industry and market intelligence including public information. The quantitative information were obtained from the Company's Audited and Management Accounts.

The risk factors were assessed using the Company's Capitalization, Earnings Profile, Liquidity, Corporate Governance, Regulatory Compliance and Sustainability of its current healthy profile in the medium to long term period.

Overall, the following were observed:

### Positive Rating Factors:

- Good Liquidity
- Good Revenue Profile
- Good Capitalization

### Negative Rating Factors:

- Potential Credit Risk Exposure
- Weak Profitability
- Low Asset Utilization

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## BACKGROUND

*RusselSmith Nigeria Limited ("The Company")* was incorporated in Nigeria on the 26th of July, 2001. It however commenced business on 26th July, 2005. It is an ISO 9001: 2015 and ISO 9001: 2018 Certified Integrated Energy Services Provider.

The Company's specialties include Asset Integrity, Oilfield Management, Smart Manufacturing and Sustainable Energy. Its Assets Integrity Management Services comprise Topsides Asset Integrity Management, Mechanical and Structural Integrity Inspections, Construction Support, Pipeline Integrity Management, Non-Contact Magnetometry Technology for Pipeline Inspections.

The Company has undertaken over 800 Successful Projects including Topsides, Subsea, UAV & Digital Solutions, Operations and Production. The registered headoffice of the Company is in Lagos, Nigeria with an average number of 73 employees in the year 2023.

The ownership of its shares is distributed equally between *Mr Kayode Adeleke* and *Mr. Leslie Oghomienor*.

## DIRECTORS' PROFILE

The following are serving members of the Board; *Mr. Leslie Oghomienor - Chairman; Mr. Kayode Adeleke -Managing Director/CEO*

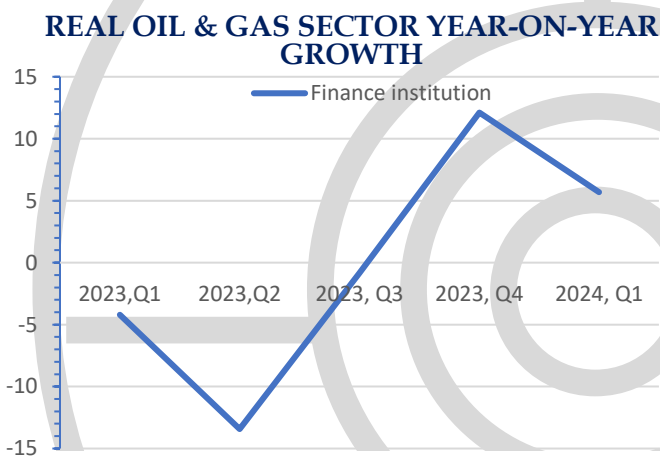
The Directors' profile is as follows.

1. **Name:** Mr. Lesile Merede Oghomienor  
**Position:** Chairman  
**Profession:** Management Consultant  
**Years of Experience:** 25 years  
**Education:**
  - B. Sc - University of Jos, Plateau State**Work Experience:**
  - RusselSmith Nigeria Limited
  - Andersen Consulting
  - Frank's International
2. **Name:** Mr. Kayode Adeleke  
**Position:** Managing Director/ CEO  
**Years of Experience:** 23 years  
**Education:**
  - B.Sc- University of Ibadan, Oyo State
  - M.Sc - Southeastern University, USA.**Experience:**
  - RusselSmith Nigeria Limited
  - WorldBank
  - RusselSmith Toastmasters Club
  - Blaugrana Sports International

## SECTOR REVIEW

Nigeria is the leading economy in Africa, with a population of over 200 million people. In the first quarter of 2024, the country's Gross Domestic Product (GDP) demonstrated a real-term growth of 2.98% year-on-year, higher than the 2.31% recorded in the same quarter of 2023 but lower than 3.46% from the fourth quarter of 2023. Notably, the Services sector propelled this growth, contributing 58.04% to the overall GDP with a growth rate of 4.32%.

According to the data released by the NBS, the Crude Petroleum and Natural Gas Sectors' growth in real terms totaled 5.7% (Q1 2024), higher by 9.91% points from the rate recorded in Q1 2023 and lower by 6.41% points from the rate recorded in Q4 2023. Quarter-on-quarter growth in real terms stood at 13.77%. The contribution of the Sector to real GDP totaled 6.38%, higher than the contribution of 5.35% recorded in Q1 2023 and Q4 2023 which recorded 6.21% and 4.70% respectively.



Source: Nigeria Bureau of statistic

The Oil benchmark for the year 2024 budget is \$77.96 per barrel at 1.78 million barrel per day. This compared well with the current selling price of Oil which is above the benchmark (\$85.97 as at 25th of June, 2024 according to oil price.com). In the first Quarter of 2024, Nigeria recorded an average daily Oil Production of 1.57 million barrels per day (mbpd). This is higher than the daily average production of 1.51 mbpd recorded in the same

quarter of 2023 by 0.06 mbpd and higher than the fourth quarter of 2023 production volume of 1.55 mbpd by 0.02 mbpd.

Following the economic sanctions by a coalition of western Countries on Russia and Russia's counter-sanctions on the coalition Countries, crude oil and gas supplies from Russia to Europe were impacted just as agricultural produce from Ukraine to the entire world were disrupted. In response to this breach of energy security, there has been a heightened interest and development initiatives to secure new fossil fuel energy sources other than from Russia as Oil and Gas prices continues to soar and retain high yields.

The elevated prices of Crude Oil and Gas in the last two years has watered the appetite of investors to invest more capital in Oil and Gas field developments across the world and Nigeria. The World rig count rose from 642 in January, 2022 prior to the Russian invasion to 729 by the end of 2023. Nigeria's rig count moved from 6 to 15 within the



same reference period according to *Y Charts*, an Oil and Gas Investment Research Agency.

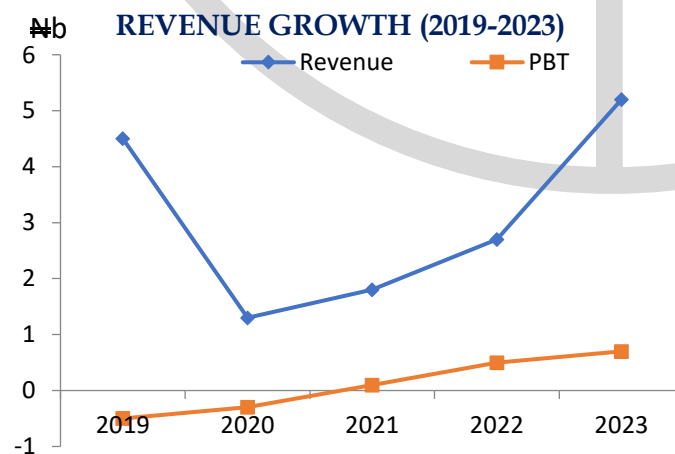
Nigeria is battling with the challenge of foreign currency scarcity arising from lower Oil receipt and limited export capacity of the Country. The Naira exchanged against the Dollar at the official market was ₦1,488.95/\$1 as at June 24th, 2024, while the parallel market value was an average of ₦1,550/\$1. In June 2023, the Central Bank of Nigeria floated the naira after unifying all segments of the forex market, which resulted in significant devaluation of the local currency.

The Monetary Policy Committee (MPC) of the CBN at its meeting on 21st May 2024, raised the Monetary Policy Rate (MPR) by 150bps to 26.25%. This marks a departure from the previous rate of 24.75% maintained since March, 2024. This is the third consecutive MPR hike this year, showing the CBN's focus on price stability. Other parameters remained unchanged. The Apex Bank retained the Cash Reserve Ratio (CRR) at 45%, while retaining the Liquidity ratio at 30%. The increase in MPR was done to manage inflation which has been on a steady rise. Headline Inflation rose to 33.69% in April 2024 from 33.20% in March, 2024. The rise in MPR could have the effect of limiting borrowing from Financial Institutions due to the high costs and lead borrowers to find alternative sources of finance.

Operators in Oil & Gas Services Sector earned a significant portion of their revenue in US Dollars. This provide a short-term benefit of foreign exchange gain arising from local currency devaluation. However, operators' services could be disrupted by possible adverse decision of the International Oil Companies to seek alternative investment destination outside Nigeria. Therefore, critical success factor is the ability to diversify income sources.

## FINANCIAL PERFORMANCE

We reviewed the Company's Audited Financials for the immediate past five (5) years of its operations (2019 - 2023). The Company maintained positive growth trend in Revenue during the period under consideration.

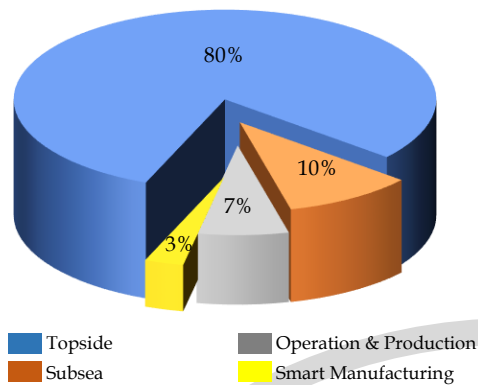


Source: RusselSmith Nigeria Limited

In the year 2023, the Company's Revenue recorded significant increase of 92%. Its business area included: Inspection, Operation, Repair, Maintenance and Additive Manufacturing of Spare Parts. Total Earnings from these activities amounted to ₦5.2b (Yr. 23).

These businesses are broadly classified into two, namely; Personal

### COMPOSITION OF GROSS EARNINGS (2023)

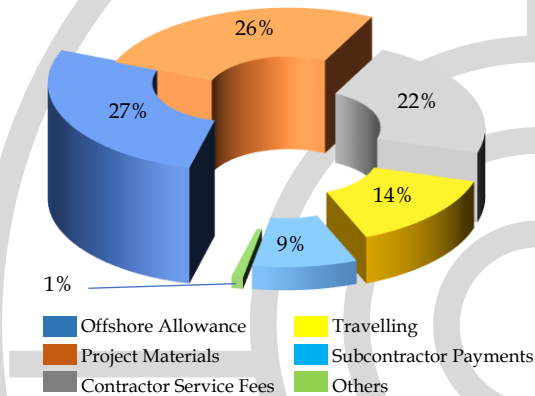


Source: RussellSmith Nigeria Limited

Services and Equipment Services. Inspection, Repair and Maintenance Income from its topside operation retained the top position in Revenue and Profit generation. This business segment contributed about 80% of the Revenue in the period.

As at 31st March, 2024 the Company recorded Total Revenue amounting to ₦1.2b. This implied a near closure of Revenue in the year 2024 with the level attained in 2023.

### COMPOSITION OF COST OF SALES (2023)



Source: RussellSmith Nigeria Limited

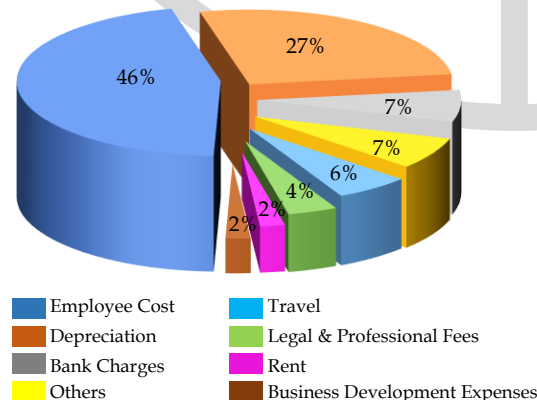
Cost of operation increased during the year by 59% to ₦1.2b. This included Contractor Service Fees, Project Materials, Offshore Allowance, Subcontractor Payments and Travelling cost amongst others.

In absolute term, Gross Profit recorded 113% increase to ₦3.5b, leading to an improvement in efficiency. Therefore, Gross Profit Margin grew from 61% (Yr. 22) to 68% (Yr. 23).

## • PROFITABILITY

The Company's operation has been impacted by inflationary pressures. Consequently, General and Administrative Expenses doubled from ₦1.1b (Yr. 22) to ₦2.2b (Yr.23).

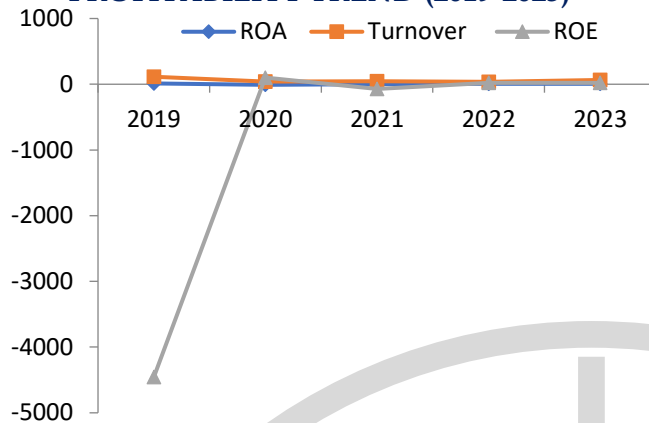
### COMPOSITION OF OPERATING EXPENSES (2023)



Source: RussellSmith Nigeria Limited

Employee costs, Depreciation, Bank charges and Travel expenses were major components, accounting for the overall increase in Administrative expenses during the year 2023. During the year under review, Employee cost surged from ₦641.9m(Yr.22) to ₦1.0b. Similarly, Depreciation rose by 340%.

### PROFITABILITY TREND (2019-2023)



Source: RusselSmith Nigeria Limited

Finance Cost comprised foreign exchange loss on Bank of Industry (BOI) loan amounting to ₦362.6m and Interest on Borrowing of ₦179.4m.

Other Income earned by the Company during the year included Foreign Exchange Gain of ₦214.9m.

Despite the surge in General, Administrative and Finance Expenses during the year, Pre-Tax Profit increased from ₦494.7m (Yr. 22) to ₦685.3m (Yr. 23). However, Net Profit Margin declined from 18% in the year 2022 to 13% in year 2023.

## CAPITALIZATION

Shareholders' Fund has consistently increased over a three-year period ending 2023.

Item	₦'000	%
Non-Current Assets	3,945,995	49
Current Assets	4,045,776	51
Total Assets	7,991,771	100

Source: RusselSmith Nigeria Limited

The Company recorded Retained Earnings of ₦132.2m as against the Loss of ₦236.9m (Yr.22). This brought about a 14% improvement in Equity to ₦2.9b (Yr.23). Issued Share Capital, Deposit for Shares and Reserves remained at ₦90m, ₦8.9m and ₦2.7b, respectively.

As at the financial year ended 31st December, 2023, the Company recorded Total Assets amounting to ₦7.9b, 11% more than the prior year's value. Current Assets comprised Cash (17%), Trade and other Receivables (77%), Inventory (1%) and Prepayments (5%). In total, Current Assets grew by 51% up to ₦4.1b, mainly on account of the significant increase in Cash and Receivables.

Non-Current Assets comprised of Property, Plants and Equipment (84%), Financial Assets (1%), Intangible Assets (1%), Investment (10%) and Deposit for PPE (4%). This amounted to ₦3.9b (Yr. 23), making up for 49% of Total Assets.

Liabilities comprising Current and Non-Current liability was ₦5.1b (Yr.23) as against ₦4.6b recorded in the year 2022. A bulk of Total Liabilities (67%) were current in nature. Current Liabilities increased by 63% to ₦3.4b (Yr. 23) due to the increase in the amount owed by the Company to its Suppliers. Other items of Current Liabilities comprised Income Tax Payable and Current Income Tax Liability. Non-Current Liabilities declined from ₦2.6b (Yr. 22) to ₦1.7b (Yr. 23) as a result of repayments of Borrowings made during the year.

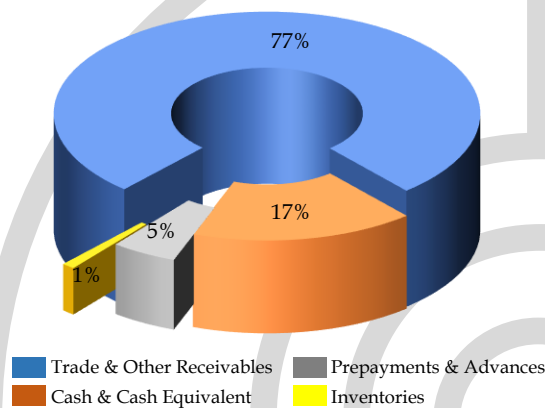
Consequently, Equity Funding grew marginally from 36% (Yr.22) to 37% (Yr. 23).

## • ASSET UTILITY

The business of the Company is capital intensive with a Total Assets base of ₦7.9b (Yr. 23). It comprised Non-Current Assets (49%) and Current Assets (51%).

Non-Current Assets declined by 12% during the year 2023 to ₦3.9b. This can be attributed to the decrease in the book value of PPE as a result of depreciation charge. PPE declined from ₦3.8b (Yr. 22) to ₦3.3b (Yr. 23). Other components of Non-Current included Investments, Deposit for PPE as well as Financial and Intangible Assets.

### COMPOSITION OF CURRENT ASSETS



Source: RusselSmith Nigeria Limited

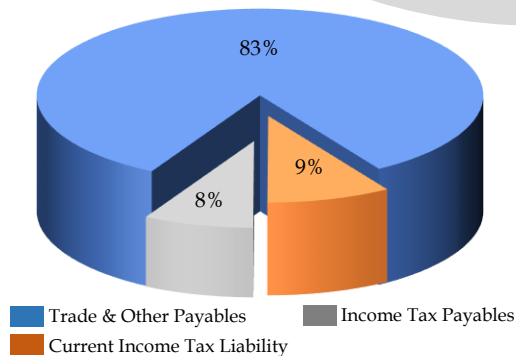
Current Assets grew from ₦2.1b (Yr.22) to ₦3.3b (Yr. 23). Major components of Current Assets included Cash, Trade Receivables, Prepayments and Inventory. Typical to the Company's operation, Inventories made up for less than 1% of the Current Assets. However, Cash and Bank Balances doubled during the year from ₦308.5m (Yr.22) to ₦697.6m (Yr. 23).

Amounts owed to the Company by its customers accounted for 77% and 39% of Current Assets and Total Assets respectively. This increased significantly from ₦2.1b (Yr. 22) to ₦3.1b (Yr. 23) and contributed largely to the increase in Current Assets during the year.

The ability of the Company to effectively utilize Assets for the purpose of generating Revenue improved significantly from 37% (Yr. 22) to 65% (Yr. 23). The efficiency of the Company at utilizing its Assets to generate Profit improved from 7% (Yr. 22) to 9% (Yr. 23).

## • LIQUIDITY

### COMPOSITION OF CURRENT LIABILITIES



Source: RusselSmith Nigeria Limited

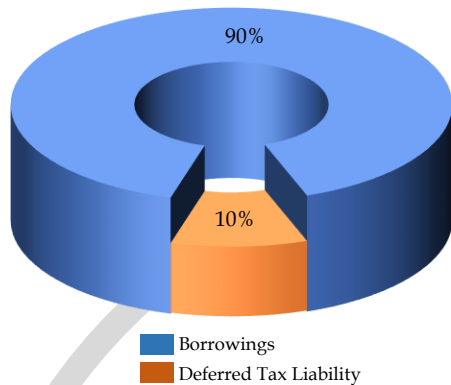
As at December, 2023 the Company's Current Assets grew from ₦2.7b (Yr. 22) to ₦4.0b (Yr. 23).

The Company has in its books, Borrowings of ₦1.1b from Bank of Industry (BOI). The Loan value increased as a result of Foreign



Exchange Loss of ~~₦~~362.6m, bringing its value up to a total of ~~₦~~1.5b. The Loan has a final maturity of 31st December, 2024. The loan made up for 29% of the Company's long-term funding.

### COMPOSITION OF NON-CURRENT LIABILITIES



Source: RusselSmith Nigeria Limited

The Company's Current Liabilities comprised Trade and Other Payables, Income Tax Payables and Current Income Tax Liabilities. On the whole, Current Liabilities increased to ~~₦~~2.1b (Yr. 23).

The Company recorded Operating Cash inflow of ~~₦~~1.3b (Yr. 23) from its operation as against ~~₦~~701.9m recorded in the year 2022. Cash Balance also increased significantly.

Thus, ability to settle short term obligations using Current Assets was more than adequate. It was 129% (Yr.22) and 120% (Yr.23).

## CORPORATE GOVERNANCE & RISK MANAGEMENT

The affairs of the Company are directed by the Board of Directors which consists of the Chairman and Chief Executive Officer (CEO).

The Company recognizes that its operation is exposed to Market, Liquidity, Credit, Operational, Reputational and Foreign Exchange Risks. The Company has in place measures to mitigate these risks.

## RISK FACTORS

### • REGULATORY RISK

This is the risk to operation arising from inability of the Company to meet Regulatory requirements. The Sector in which the Company operates (Oil and Gas Sector) is a highly regulated one and the impact of non-compliance with National & International Laws could lead to heavy penalties and above all, loss of reputation.

Therefore, the inability of the Company to comply with required regulations may affect Revenue.

## • REPUTATIONAL RISK

This is the risk that the Company may be exposed to reputational damage of its brand which may lead to loss of business.

In the course of our review, there was no negative public information or adverse press report against the Company or its Board of Directors.

## • LIQUIDITY RISK

This is the risk arising from the inability of the Company to settle its obligations as and when due.

Based on our review, the Company maintained adequate coverage for its short-term liabilities using its current assets. This was 120% in the year under review.

## • CREDIT RISK

This is the risk arising from the inability of counterparties to honour their obligations as at when due.

Based on our review, the Company is exposed to credit risk through its Financial Assets and Receivables. Receivables amounted to ₦3.1b in the year 2023, translating to 39% of its Total Assets. Therefore, inability of its trading partners to pay as at when due may affect the Company's profitability.

## • OPERATIONAL RISK

This is the risk arising from the failure of process, people and equipment which may adversely affect operation and impair revenue and profitability.

Based on our review, the Company is largely depended on its people and machinery with significant exposure to security and operational hazard. Therefore, the operation of the Company may be adversely affected if any of these risks occurred.

# CONCLUSION

The Rating is supported by Good Liquidity, Good Capitalization and Good Revenue Profile.

Consequently, we assigned a Rating of **"BBB+"**

## FINANCES

### Financial Position as at

	Dec., 2023		Dec., 2022		Dec., 2021
	N'000	Δ%	N'000	Δ%	N'000
<b>ASSETS</b>					
<b>Non-Current Assets</b>					
Property and Equipment	3,304,005	(15)	3,890,963	346	872,208
Other Financial Assets	40,007	190,410	21	17	18
Intangible Assets	45,625	(9)	50,201	174	18,315
Investment	398,666	-	398,666	64	242,686
Deposit for PPE	157,692	0	157,422	(40)	260,985
<b>Current Assets</b>					
Inventory	22,736	-	22,736	-	22,736
Trade and Other Receivables	3,134,943	51	2,082,141	(9)	2,279,738
Prepayments and Advances	190,527	(30)	271,143	-	-
Cash and cash equivalent	697,569	126	308,531	(12)	352,465
	<b>7,991,770</b>	<b>11</b>	<b>7,181,824</b>	<b>77</b>	<b>4,049,151</b>
<b>Non-Current Liabilities</b>					
Borrowings	1,510,455	(36)	2,378,160	2	2,329,729
Deferred Tax Liabilities	172,366	-	172,366	-	172,366
Deposit for Shares					8,924
<b>Current Liabilities</b>					
Trade and Other Payables	2,807,384	55	1,815,057	17	1,547,640
Income Tax Payable	258,208	-	258,208	44	179,541
Current Income Tax Liability	316,189		-		
<b>Total Liabilities</b>	<b>5,064,602</b>	<b>10</b>	<b>4,623,791</b>	<b>9</b>	<b>4,238,200</b>
<b>Net Asset</b>	<b>2,927,168</b>	<b>14</b>	<b>2,558,033</b>	<b>(1,453)</b>	<b>(189,049)</b>
<b>Share and reserves</b>					
Share capital	90,000	-	90,000	-	90,000
Retained earning	132,179	(156)	(236,956)	(15)	(278,894)
Revaluation Reserve	2,696,065		2,696,065		(154)
Deposit for Shares	8,923		8,923		
<b>Shareholders funds</b>	<b>2,927,167</b>	<b>(156)</b>	<b>2,558,032</b>	<b>(15)</b>	<b>(189,048)</b>
<b>Profit &amp; Loss Account</b>					
Total revenue	5,170,628	93	2,685,913	45	1,851,986
Profit before income tax	685,324	39	494,663	270	133,845
Profit for the year	369,135	3	358,485	251	102,244
Transfer to retained earnings	369,135	3	358,485	251	102,244

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Signed:

Name:

  
Oladele Adeoye

Designation:

Chief Rating Officer

Date:

26<sup>th</sup> June, 2024

For and on behalf of:

**DataPro Limited**

Ground Floor, Foresight House

By Marina Water Front

163/165 Broad Street, Lagos Island, Lagos.

Tel: 234-1-4605395, 4605396

Cell: 0805-530-3677

Email: [info@datapronigeria.net](mailto:info@datapronigeria.net), dataprong@gmail.com

Website: [www.datapronigeria.net](http://www.datapronigeria.net)

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## USER GUIDE

*DataPro's* credit rating is an opinion of an issuer's/issues overall creditworthiness and its capacity to meet its financial commitment.

Our *short-term* ratings have a time horizon of less than 12 months in line with industry standards reflecting risk characteristics. The ratings place greater emphasis on the liquidity to meet financial commitment in a timely manner.

The long-term risk indicator is divided into 8 bands ranging from AAA through DD. Each band could be modified by + or -. With + representing slightly less risk than -. Such suffixes are not added to the 'AAA' long -term rating category and to categories below 'CCC'. Or to short-term rating older than A1+.

### LONG-TERM RATING

#### Investment Grade

Indicator	Meaning	Explanation
AAA	Lowest Risk.	( <i>Superior</i> ) Assigned to companies which have superior financial strength, operating performances and profile when compared to the standards established by <i>DataPro Limited</i> . These companies, in our opinion, have a Excellent ability to meet their ongoing obligations.
AA	Lower Risk	( <i>Excellent</i> ) Assigned to companies which have excellent financial strength, operating performance and profile when compared to the standards established by <i>DataPro Limited</i> . These companies, in our opinion, have a very strong ability to meet their ongoing obligations.
A	Low Risk	( <i>Very Good</i> ) Assigned to companies which have very good financial strength, operating performance And profile when compared to the standards established by <i>DataPro Limited</i> . These companies, in our opinion, have a strong ability to meet their ongoing obligation.
BBB	Slight Risk	( <i>Fair</i> ) Assigned to companies which have fair financial strength, operating performance and profile when compared to the standards established by <i>DataPro Limited</i> . These companies, in our opinion, have an ability to meet their



current obligations, but their financial strength is vulnerable to adverse changes in economic conditions.

## Non-Investment Grade

### Indicator Meaning Explanation

BB	Moderate Risk	<i>(Marginal)</i> Assigned to companies which have, marginal financial strength, operating performance and profile when compared to the standards established by <i>DataPro Limited</i> . These companies, in our opinion have an ability to meet their current obligation, but their financial strength is vulnerable to adverse changes in economic conditions.
B	High Risk	<i>(Weak)</i> Assigned to companies which have, weak financial strength, operating performance and profile when compared to the standard established by <i>DataPro Limited</i> . These companies, in our opinion have an ability to meet their current obligation, but their financial strength is vulnerable to adverse changes in economic conditions.
CCC	Higher Risk	<i>(Poor)</i> Assigned to companies, which have poor financial strength, operating performance and profile when compared to the standards established <i>DataPro Limited</i> . These companies, in our opinion may not have an ability to meet their current obligation and their financial strength is extremely vulnerable to adverse changes in economic conditions.
DD	Highest Risk	<i>(Very Poor)</i> Assigned to companies, which have very poor financial strength, operating performance and profile when compared to the standards established by <i>DataPro Limited</i> . These companies, in our opinion may not have an ability to meet their current obligation and their financial strength is extremely vulnerable to adverse changes in economic conditions.

## SHORT-TERM RATING

Indicator	Meaning	Explanation
A1+	Highest credit quality	Indicates the strongest capacity for timely payment of financial commitments. May have an added “+” to denote any exceptionally strong credit feature.
A1	Good credit quality	A satisfactory capacity for timely payment of financial commitments, but the margin of safety is not as great as in the case of the higher ratings.
A2	Fair credit quality	The capacity for timely payment of financial commitments is adequate. However, near term adverse changes could result in reduction to non-investment grade.
B	Speculative	Minimal capacity for timely payment of financial commitments, plus vulnerability to near term adverse changes in financial and economic conditions.
C	High default risk	Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon a sustained, favorable business and economic environment. Indicates an entity that has defaulted on all its financial obligations.