



Ratings, Interest Coverage Ratios and Default Spread

What is this? This is a table that relates the interest coverage ratio of a firm to a "synthetic" rating and a default spread that goes with that rating. The link between interest coverage ratios and ratings was developed by looking at all rated companies in the United States. The default spreads are obtained from traded bonds. Adding that number to a riskfree rate should yield the pre-tax cost of borrowing for a firm.

Date of Analysis: Data used is as of January 2019.

For non-financial service firms only

For developed market firms with market cap > \$5 billion			
If interest coverage ratio is			
>	≤ to	Rating is	Spread is
-100000	0.199999	D2/D	19.38%
0.2	0.649999	C2/C	14.54%
0.65	0.799999	Ca2/CC	11.08%
0.8	1.249999	Caa/CCC	9.00%
1.25	1.499999	B3/B-	6.60%
1.5	1.749999	B2/B	5.40%
1.75	1.999999	B1/B+	4.50%
2	2.249999	Ba2/BB	3.60%
2.25	2.49999	Ba1/BB+	3.00%
2.5	2.999999	Baa2/BBB	2.00%
3	4.249999	A3/A-	1.56%
4.25	5.499999	A2/A	1.38%
5.5	6.499999	A1/A+	1.25%
6.5	8.499999	Aa2/AA	1.00%
8.50	100000	Aaa/AAA	0.75%

For all emerging market firms and developed market firms with market cap < \$5 billion			
If interest coverage ratio is			
greater than	≤ to	Rating is	Spread is
-100000	0.499999	D2/D	19.38%
0.5	0.799999	C2/C	14.54%
0.8	1.249999	Ca2/CC	11.08%
1.25	1.499999	Caa/CCC	9.00%
1.5	1.999999	B3/B-	6.60%
2	2.499999	B2/B	5.40%
2.5	2.999999	B1/B+	4.50%

3	3.499999	Ba2/BB	3.60%
3.5	3.999999	Ba1/BB+	3.00%
4	4.499999	Baa2/BBB	2.00%
4.5	5.999999	A3/A-	1.56%
6	7.499999	A2/A	1.38%
7.5	9.499999	A1/A+	1.25%
9.5	12.499999	Aa2/AA	1.00%
12.5	100000	Aaa/AAA	0.75%