

▶ seeking information on the creditworthiness of borrowers before sanctioning loans, it has become essential for you to maintain an impeccable track record and discipline your borrowing habits. The credit score—a dynamic number reflecting an individual's ability to repay—is assigned by agencies like the Credit Information Bureau (India) Ltd (CIBIL), Experian, High Mark and Equifax.

This score can play a crucial role in determining whether one is eligible for a loan, the extent of the loan amount sanctioned and the

interest rate on the loan.

Apart from loan defaults and late repayment, there are other seemingly innocuous factors that influence your credit score too. Even the number of times you make enquiries for seeking credit has an impact on your credit score!

It is important to note that the credit score is a dynamic number and will keep changing with time. As such, it is very important that customers get their credit score checked out first and, if there are any issues, get them cleared with the concerned lender immediately. Once you have sorted out the issue,

it will be reflected in your revised credit score. There are, however, some grey areas that you need to be careful about. For instance, if you have gone in for settlement of claims with your banker, this fact will be reflected in the credit information report under the heading 'settled' or 'written off'. In case you approach another bank for a loan in the future, that bank may be unwilling to lend, considering your history.

On the other hand, maintaining a good track record will give you more leeway while negotiating lower interest rates from banks. ■

Stock Shastra #4

Look for a company with a sustainable competitive advantage

We saw that the first criterion for finding a wonderful business is an excellent financial track record. But a company worthy of investment must be able to grow its profits consistently, despite competition and tough economic conditions. Only a company with a sustainable competitive advantage can do this. Here are a few of the competitive advantages that can help a business remain a winner in the long term:

Brand: A strong brand helps a business to command a large market share and higher prices and makes it very difficult for the competition. 'Colgate' is a name many in India have come to trust over the years.

Patent/Trade Secret: A patent gives a company the exclusive right to manufacture a particular product. A trade secret is a secret formula or process which helps a company produce a unique product...

something which its competitors cannot copy easily. The secret recipe of Tabasco sauce is one such case. Such examples abound in pharma and fast moving consumer goods companies.

Toll: Some companies have exclusive control over particular areas that gives them the right to collect a toll. These companies make money every time someone uses their products. People usually have no option but to



use these offerings. For example, Sun TV's viewership in Tamil Nadu makes it the primary vehicle for (broadcast) advertising in that state.

Switching Costs: This means a company has a product or service which you get hooked on to so bad, that changing or switching to a

competitor's product is either very difficult... or not worth it.

For instance, we are so habituated to using the Microsoft Windows operating system that we feel that switching to Linux is not worth the trouble—even though the latter is Open Source and it arguably offers certain advantages over Microsoft's offerings. For example, Linux does not require you to constantly upgrade to the 'latest upgrades' from Richmond.

Price: A company which can price its products really low and still make a profit will make it difficult for competitors.

Any firm which has an excellent financial track record will, most likely, have at least a single competitive edge.

If this organisation has sustained it for (at least) 10 years, it most likely will in the future; but *do* check before you invest.

(Condensed from the Stock Shastra series – an educational initiative of www.MoneyWorks4me.com)

