

Corporate Debt Ratings

CARE Ratings undertakes credit rating of all types of debt and related obligations. These include all types of medium and long-term debt securities such as debentures, bonds, fixed deposits and convertible bonds and all types of short-term debt and deposit obligations such as commercial paper, inter-corporate deposits and certificates of deposit. CARE Ratings also provides issuer-specific ratings.

Rating Methodology

CARE undertakes rating exercise based on information provided by the company, in-house database and data from other sources that CARE considers reliable. The primary focus of the rating exercise is to assess future cash generation capability and their adequacy to meet debt obligations in adverse conditions. The analysis therefore attempts to determine the long-term fundamentals of the business & industry and the probabilities of change in these fundamentals, which could affect the creditworthiness of the borrower. The analytical framework of CARE's rating methodology is divided into two interdependent segments. The first deals with the operational characteristics and the second with the financial characteristics. Besides quantitative factors, qualitative aspects like assessment of management capabilities play a very important role in arriving at the rating of an instrument. The relative importance of qualitative and quantitative components of the analysis varies with the type of issuer. Rating determination is a matter of experienced and holistic judgment, based on the relevant quantitative and qualitative factors affecting the credit quality of the issuer.

What Ratings do not measure?

It is important to emphasize the limitations of credit ratings. They are not recommendations to invest. They do not take into account many aspects which influence an investment decision.

They do not, for example, evaluate the reasonableness of the issue price, possibilities for capital gains or take into account the liquidity in the secondary market. Ratings also do not take into account the risk of prepayment by issuer. Although these are often related to the credit risk, the rating essentially is an opinion on the relative quality of the credit risk.