

## Criteria on assigning ‘outlook’ and ‘credit watch’ to Credit Ratings

[In supersession of “Criteria on assigning Outlook to Credit Ratings” issued on [June 21, 2017](#)]

### Rating Outlook<sup>1</sup>

CARE’s rating outlook is an opinion on the likely direction of movement of the rating in the medium term which is typically about six months to two years. A rating outlook is assigned to all credit rating assignments undertaken by CARE.

CARE Ratings factors in projections of the issuer while assigning ratings and hence, the ratings build in the *future prospects of the issuer*. While ratings factor in the known future impact of any business, industry or regulatory changes at the point of assigning the ratings, the rating outlook would indicate the *probable direction of the movement in ratings* as a result of factors, the extent of impact of which, CARE Ratings may not be fully certain of at the time of assigning/reviewing the credit rating. The illustrative (but not exhaustive) factors include expected changes in the industry dynamics, business conditions, possible changes in the strategic decisions taken and the expected impact of any of the above on the business and financial risk profile of the rated entity. The rating outlook can be ‘Positive’, ‘Stable’ or ‘Negative’.

A ‘Positive’ outlook indicates an expected upgrade in the credit ratings in the medium term on account of expected positive impact on the credit risk profile of the entity in the medium term.

A ‘Negative’ outlook would indicate an expected downgrade in the credit ratings in the medium term on account of expected negative impact on the credit risk profile of the entity in the medium term.

A ‘Stable’ outlook would indicate expected stability (or retention) of the credit ratings in the medium term on account of stable credit risk profile of the entity in the medium term.

A ‘Positive’ or ‘Negative’ outlook may not necessarily mean that a rating upgrade or downgrade will happen. For instance, a downgrade may not necessarily follow a negative outlook and on the same lines, an upgrade may not necessarily follow a positive outlook. It indicates

---

<sup>1</sup> In line with Securities and Exchange Board of India (SEBI)’s circular SEBI/HO/MIRSD/MIRSD4/CIR/P/2016/119 dated November 01, 2016, CARE commenced assigning outlook for all the credit ratings.

a reasonable likelihood of such a rating transition taking place in the medium term. However, if any unforeseen or sudden events arise which may impact the credit worthiness of the rated entity beyond expectation, the rating action taken may also be contrary to the outlook assigned. Likewise, CARE may effect a change in rating directly and this rating action need not always be preceded by a corresponding change in the outlook.

### **Applicability of outlook:**

The Rating Outlook is **applicable** to all debt ratings except 'CARE C' and 'CARE D'. Earlier in line with regulatory requirements, only CARE D ratings did not carry outlook. CARE may assign outlook to ratings in category 'CARE C' on a selective basis.

The Rating Outlooks shall **not be applicable** to:

- Short-term ratings
- Securitisation ratings
- Ratings under "Issuer Not Cooperating" category, where outlooks had not been assigned earlier
- All products other than debt ratings

### **Criteria for placing rating on Credit Watch**

CARE may consider assigning 'credit watch' to an outstanding rating in case of occurrence of events not envisaged earlier which are likely to impact credit profile of the issuer. Some examples (illustrative but not exhaustive) of such events are announcement of a merger or acquisition, or de-merger of some business or change in regulatory framework.

Rating watch indicates that there is a probability of change in ratings assigned and also indicates the likely direction of change. Credit Watch is warranted when the impact of specific events on the credit profile cannot be accurately assessed at the point when they occur, and additional information may be necessary to fully evaluate their impact on rated instruments.

Ratings under 'Credit Watch' is assigned along with "Positive", "Negative" or "Developing" implications indicating the possible direction of movement of the rating consequent to the resolution of the credit watch event.

## Assigning outlook / credit watch to credit ratings

### Rating Outlook vs Credit Watch

Outlook is typically applicable over six months to two years, whereas rating watch is resolved within shorter duration of about 90 days.

Usually, outlook is applicable to long term ratings and credit watch is applicable to both long term and short term ratings. However at times, depending on case specific circumstances, CARE Ratings may decide to place only long term ratings on watch.

The probability of change in rating is relatively higher under 'credit Watch' vis-a-vis 'rating outlook'. The extent of a rating change under a 'Credit Watch' situation may be substantial i.e. more than one notch. However, outlooks are expected to lead to rating changes of much lesser degree of mostly one notch.

### Deciding factor: outlook or watch

The decision about assigning outlook or watch is driven mainly by degree of certainty and timeframe of the event which will impact the credit profile. In case of outlook, the full impact is not ascertainable due to longer time frame, presence of multiple factors viz. business strategies or changing regulatory / industry environment. In case of watch, the event is largely announced, however its exact impact can be ascertained only after getting additional detailed information to evaluate impact on the credit profile.

**[Last reviewed on May 30, 2019. Next review due in July- September 2020]**

### CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022.

Tel: +91-22-6754 3456, Fax: +91-22- 6754 3457, E-mail: care@careratings.com

Website : [www.careratings.com](http://www.careratings.com)

#### **Disclaimer**

*CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.*

*In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.*