

## Criteria update advisory

December 11, 2019

CARE Ratings Limited has updated its criteria on 'Rating of Credit Enhanced Debt'. In this criteria update, CARE Ratings has changed its analytical approach adopted for rating of debt backed by a 'Letter of Comfort (LOC)'. The relevant extract of the updated methodology is reproduced below for reference:

**“Letter of comfort (LOC) by stronger party:** Rating takes into account credit quality of LOC provider as well as the standalone credit profile of the issuer. The analysis incorporates effect of LOC on LOC provider’s credit quality and accordingly, suitable view on rating of the LOC provider is taken. LOC is more in the form of a moral rather than a legal obligation to pay the dues under LOC if situation demands. CARE evaluates the market reputation of the LOC provider, the strategic importance of the issuer to the LOC provider depicted by a common name, shared identities, business linkages etc. CARE also evaluates the content of the LOC document to decipher the intent of the LOC provider with regard to continuity of shareholding in the issuer and support for timely debt payment. Depending on the above factors, **the rating may lie somewhere between the standalone rating of the issuer and that of the LOC provider.** If the intent as spelt out in the LOC toward repayment of issuer debt is strongly worded such that it assumes the character of a guarantee, the rating moves significantly closer to the LOC provider’s rating. However, **it is normally not equated to the LOC provider’s rating as in case of 100% unconditional and irrevocable guarantee.**”

Further to this criteria update, CARE Ratings is in the process of reviewing its ratings based on credit enhancement from LOCs and some of these ratings may be revised shortly. Almost all such rating actions would result in a lower rating than that originally assigned. However, it may be noted that such movement in ratings would only be pursuant to change in analytical approach by CARE Ratings and should not be construed as deterioration in the credit profile of the LOC providers or the standalone credit profile of the individual issuers.

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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### About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return

expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

#### Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. 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. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, 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. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.