



Credit Rating of Debt Instruments

CARE Ratings undertakes credit rating of all types of debt instruments. These include all medium and long-term debt securities such as debentures, bonds (including convertible bonds) and fixed deposits, as well as short-term debt and deposit obligations like commercial paper, inter-corporate deposits and certificates of deposit.

Rating Methodology

CARE undertakes rating exercise based on information provided by the entity, in-house database and data from other sources that CARE considers reliable. CARE undertakes only solicited ratings.

The primary focus of the rating exercise is to assess future cash generation capability and their adequacy to meet debt obligations in the future. The analysis therefore attempts to determine the fundamentals of the business 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 for 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 judgement, based on the relevant quantitative and qualitative factors affecting the credit quality of the issuer.

Manufacturing entities

CARE's rating process for manufacturing entities begins with the evaluation of the economy/industry in which the entity operates, followed by the assessment of the business risk factors specific to the entity. This is followed by an assessment of the financial and project-related risk factors as well as the quality of management. Assessing liquidity and financial flexibility of the issuer gains more prominence while arriving at short term ratings apart from the basic fundamental credit analysis of an issuer.

Banks, NBFCs and Financial Institutions

For arriving at the rating of Banks, NBFCs and Financial Institutions CARE evaluates the economy/industry in which the institution operates, followed by the assessment of the business fundamentals of the institution using the 'CRAMELS' model which stands for:

- C→capital adequacy
- R→Resource raising ability
- A→Asset quality
- M→Management quality
- E→Earnings quality
- L→Liquidity
- S→Systems

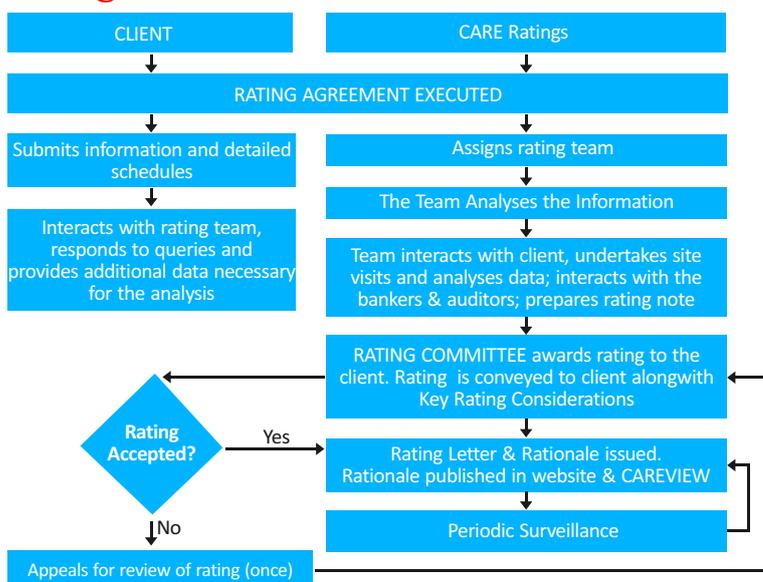
The detailed rating methodologies are available on CARE Ratings' website www.careratings.com

CARE has also developed rating methodologies specific to various sectors. These methodologies attempt to point out factors, over and above those mentioned in the broad methodology, which are considered while analyzing companies belonging to a particular sector.

The detailed rating methodologies for various sectors are available on CARE's website www.careratings.com.



Rating Process



CARE's rating symbols and definitions for debt instruments

A. Long /Medium Term Debt Instruments (FD/SO/CPS/RPS)

Symbols	Rating Definition
CARE AAA	Instruments with this rating are considered to have the highest degree of safety regarding timely servicing of financial obligations. Such instruments carry lowest credit risk.
CARE AA	Instruments with this rating are considered to have high degree of safety regarding timely servicing of financial obligations. Such instruments carry very low credit risk.
CARE A	Instruments with this rating are considered to have adequate degree of safety regarding timely servicing of financial obligations. Such instruments carry low credit risk.
CARE BBB	Instruments with this rating are considered to have moderate degree of safety regarding timely servicing of financial obligations. Such instruments carry moderate credit risk.
CARE BB	Instruments with this rating are considered to have moderate risk of default regarding timely servicing of financial obligations.
CARE B	Instruments with this rating are considered to have high risk of default regarding timely servicing of financial obligations.
CARE C	Instruments with this rating are considered to have very high risk of default regarding timely servicing of financial obligations.
CARE D	Instruments with this rating are in default or are expected to be in default soon

Modifiers {"+" (plus) / "-" (minus)} can be used with the rating symbols for the categories CARE AA to CARE C. The modifiers reflect the comparative standing within the category.

Note:

FD	Fixed Deposit
SO	Structured Obligations
CPS	Convertible Preference Shares
RPS	Redeemable Preference Shares

B. Short Term Debt Instruments (SO/CPS/RPS)

Symbols	Rating Definition
CARE A1	Instruments with this rating are considered to have very strong degree of safety regarding timely payment of financial obligations. Such instruments carry lowest credit risk.
CARE A2	Instruments with this rating are considered to have strong degree of safety regarding timely payment of financial obligations. Such instruments carry low credit risk.
CARE A3	Instruments with this rating are considered to have moderate degree of safety regarding timely payment of financial obligations. Such instruments carry higher credit risk as compared to instruments rated in the two higher categories.
CARE A4	Instruments with this rating are considered to have minimal degree of safety regarding timely payment of financial obligations. Such instruments carry very high credit risk and are susceptible to default.
CARE D	Instruments with this rating are in default or expected to be in default on maturity.

Modifier {"+" (plus)} can be used with the rating symbols for the categories CARE A1 to CARE A4. The modifier reflects the comparative standing within the category.

About CARE Ratings

Credit Analysis and Research Limited (CARE Ratings) commenced operations in April 1993 and in more than two decades, it has established itself as the second-largest credit rating agency in India in terms of rating income.

CARE Ratings provides ratings in the financial sector, infrastructure sector, corporates, public finance and MSME space. Under its umbrella of grading services, CARE Ratings carries out grading of IPOs, assesses financial strength of shipyards, grades various courses of Educational institutions and provides grading services to Energy service companies (ESCO), Renewable energy service companies (RESCO), Real estate projects and Maritime training institutes. CARE Ratings also provides equity grading for listed entities. CARE Ratings also does valuation of equity, debt instruments and market linked debentures (also with embedded complex options).

CARE Ratings is committed towards maintaining high standards of professional quality and integrity. To address any conflict of interest, CARE Ratings has always had an external rating committee since its inception comprising a majority of independent members. Ratings are finally decided by this expert committee.

CARE Ratings has recently partnered with four other domestic credit rating agencies in Brazil, Malaysia, Portugal and South Africa, to form an international credit rating agency called ARC Ratings.

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