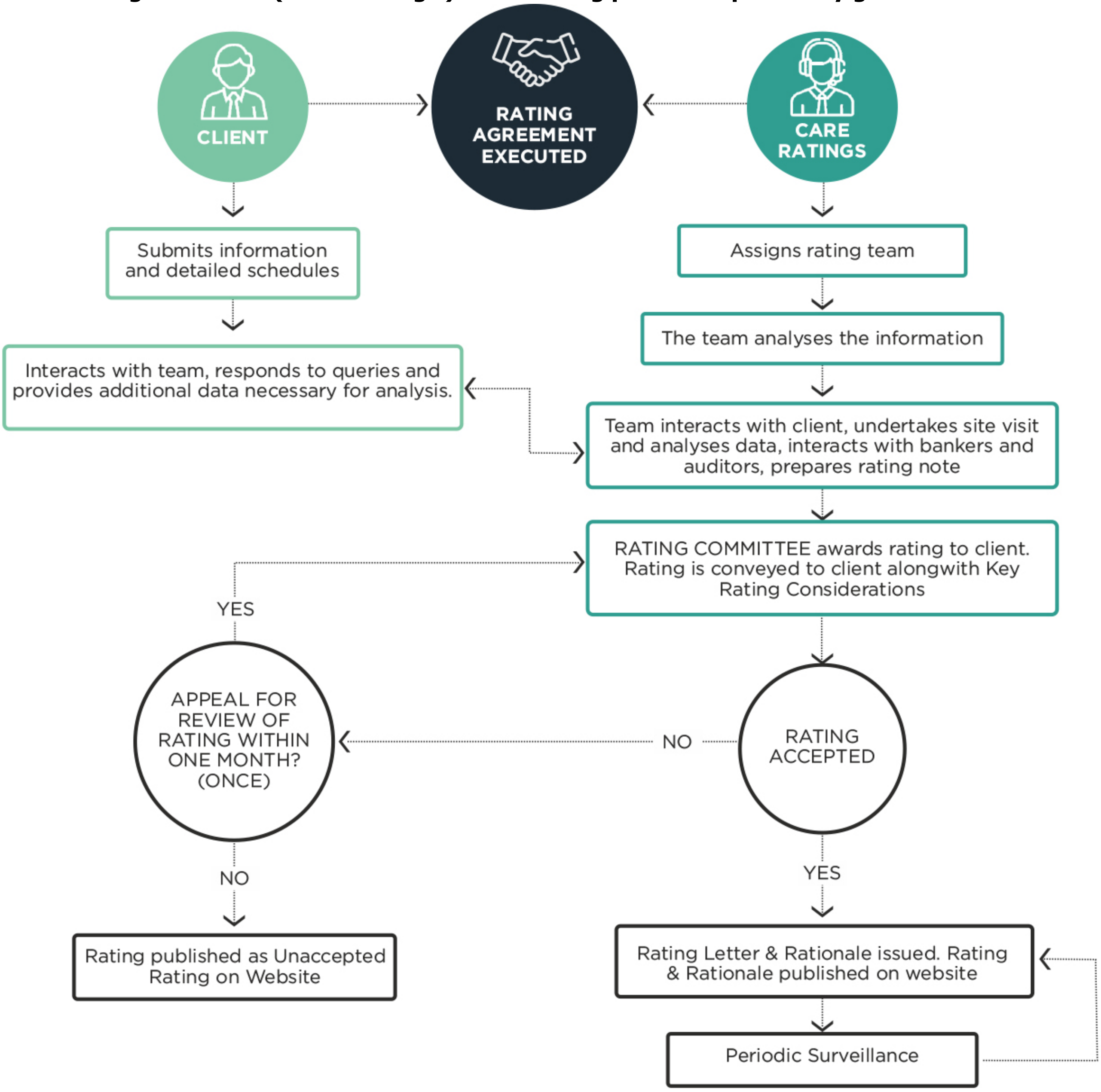
CARE Ratings' Credit Rating Process

[Issued in February 2023]

CARE Ratings Limited's (CARE Ratings') credit rating process is pictorially given below:



The rating process is initiated once a rating agreement is signed between CARE Ratings and the client/ on receipt of a formal request (or mandate) from the client. Once engaged, a rating team is formed with the expertise and skills required to evaluate the business of the client. The client is then provided with a list of information required and a broad framework for discussions.

The primary focus of the rating exercise is to assess the **future cash generation capability of the entity and its adequacy to meet debt obligations, even in adverse conditions.** The analysis attempts to determine the long-term fundamentals and the probabilities of change in these fundamentals. This requires extensive interactions with the client's management, a visit to the client's plant (in the case of manufacturing firms), and a study of various factors, including industry characteristics, the competitive position of the client, operational efficiency, management quality, funding policies and past and projected financials.

After understanding the business and level of operations, the rating team carries out business and financial risk analysis. The rating team undertakes an in-depth analysis of the client's past and projected financial statements to understand the client's business fundamentals, financial position, liquidity and flexibility and ability to service debt.

CARE Ratings also carries out a **due diligence exercise** by interacting with the client's auditors, bankers, financial institutions and other stakeholders, and also conducts a review of other secondary sources of information.

Audited financial statements given by the company along with the auditors' report form the main basis for understanding the current financial position of the company. CARE Ratings also seeks various other operational and financial information from the client in order to better understand the various aspects of businesses/ financial statements. CARE Ratings seeks bank statements for key operating accounts which commonly include Cash Credit and Term Loan. CARE Ratings undertakes an examination of instances indicating delays, analysis of bank limit utilisation patterns and any other analysis where necessary and feasible. The above analysis is used as an input to determine the debt servicing capacity of the entities.

CARE Ratings also seeks unaudited results for the recent period to understand the current performance and financial position. In the case of entities implementing projects, CARE Ratings analyses factors like the rationale for implementing the project, size of the project vis-à-vis the current scale of operations and net worth of the company and the funding pattern of the project apart from project implementation risk and post implementation risk. The team also interacts with the top management of the company to take a view of business goals and future strategies and policies of the company.

After completing the analysis, the rating team prepares a rating note based on the information received from the client as well as other information received from other reliable sources and management evaluation. CARE Ratings does not conduct an audit or investigation exercise while doing the rating exercise. The rating note is based on CARE Ratings' rating criteria as also sector-specific methodologies. For CARE Ratings' **Rating Criteria and Rating Methodologies** please click here. The rating note is subjected to a multi-tiered review mechanism to ensure that high-quality standards are met. The final rating (including rating outlook) is assigned by the Rating Committee.

CARE Ratings conveys the rating to the client over email/letter. Once the client accepts the rating, CARE Ratings issues Rating Letter, Press Release and detailed Rating Rationale to the client wherever applicable.

The rating and the rationale for the rating are released to the public through a Press Release on CARE Ratings' website, which also publishes a monthly list of outstanding ratings on its website. CARE Ratings monitors all accepted ratings over the tenure of the rated instrument unless it is withdrawn as per our laid down policy.

1. **Policy for appeal in case of Initial Rating**
   If the client does not accept the initial rating, it may appeal to CARE Ratings to review the rating within a period of one month. While representing, the client may give additional information for undertaking the review. Such representation is placed before the External Review Committee (ERC), which considers the

same and reviews the rating. The decision of the ERC is again conveyed to the client over email/ letter, who has the right to accept or not accept the rating. The ERC considering such appeals comprises members who are entirely different from the original rating committee which assigned the rating (which is under appeal), and at least one-third of the ERC members are external, independent members.

2. Policy for unaccepted ratings

If an initial rating is not accepted within one month, the rating is categorised as 'unaccepted' and is added to the list of unaccepted ratings on the website. This list is updated on the website every working day. An unaccepted rating can be converted into an accepted rating if the client so desires; subject to a review process prior to that. The unaccepted ratings remain on the website for one year after which they are removed.

CARE Ratings publishes details of unaccepted credit ratings assigned from January 1, 2017. The details include the name of the issuer, sector, name/type of instrument, size of the issue, rating and outlook assigned, date of non-acceptance, listing status, etc., as required by the regulatory guidelines from time-to-time, as well as additional disclosures for unaccepted provisional ratings. These disclosures are a part of the 'Regulatory disclosures' on our website.

Additional details about the unaccepted ratings would be disclosed by CARE Ratings and its employees only to Government/regulatory authorities, if required by law and formally requested by the agencies or in case of misrepresentation by the rated entity. Such disclosure of ratings in exceptional circumstances is provided for in the rating mandate obtained from the rated entity.

CARE Ratings does not monitor unaccepted ratings.

3. Validity of credit ratings

Rating letters for short-term debt instruments have a validity period of two months, while those for long-term/medium-term debt instruments are valid for six months. However, once the instrument has been placed, ratings are valid for the life of the instrument, unless the rating is withdrawn. Withdrawal of the rating is suitably communicated to the public through CARE Ratings' website.

4. Policy regarding review/ surveillance of ratings

CARE Ratings regularly reviews the ratings which have been accepted by clients. The review is carried out on an ongoing basis till the maturity of the instrument. A comprehensive surveillance of accepted ratings is carried out at least once a financial year unless regulatory requirements require it to be done more frequently (Recovery ratings are required to be reviewed at least once in six months, whereas mutual fund credit quality ratings are reviewed on a monthly basis). For structured finance products, at least once in every six months, CARE Ratings discloses the performance of the rated pool, i.e., collection efficiency, delinquencies and detailed description of the underlying pools including ageing, credit enhancements, such as liquidity supports, first and second loss guarantee.

Apart from this, a review may also be triggered by a major development in the company or in the industry, which may have a significant bearing on the creditworthiness of the company.

The rating may be upgraded, downgraded, reaffirmed or placed on 'rating watch' by the Rating Committee on periodic reviews, including annual surveillance. Similarly, the Rating Outlook may or may not be changed on periodic reviews, including annual surveillance. All rating actions are at the discretion of CARE Ratings, without the concurrence of the client.

5. Policy for appeal in case of reviews/ surveillances

As a matter of courtesy, CARE Ratings provides the client with a reasonable opportunity to seek a review on the rating action taken by it at the time of the review/surveillance. The appeal process should be concluded within the stipulated PR publication period. Such representation is placed before the ERC, which considers the same and reviews the rating. However, once such a reasonable opportunity is provided by CARE Ratings, the decision in respect of the revision/ reaffirmation/ withdrawal of the rating or revision in the outlook or placing on 'rating watch' is final and is binding upon the client and is made public by CARE Ratings. The ERC considering such appeals comprises members who are entirely different from the original committee which assigned the rating (which is under appeal) and at least one-third of the ERC members are external, independent members.

6. Policy for assigning Provisional rating

When a rating is assigned pending execution of certain critical documents or steps to be taken, the rating is a 'Provisional' rating indicated by prefixing 'Provisional' before the rating symbol. On execution of the critical documents to the satisfaction of CARE Ratings, the final rating is assigned.

For more details in this regard, please refer to our Policy on Assignment of Provisional rating on CARE Ratings' website www.careratings.com

7. Criteria for placing rating on 'rating watch'

CARE Ratings may place a rating on 'Rating Watch' in case of occurrence of events not envisaged earlier which are likely to impact the credit profile of the issuer, and additional information may be necessary to fully evaluate their impact on the rated instruments. For example (illustrative but not exhaustive), the issuer may be placed on Rating Watch as a result of announcement of its merger with another entity or changes in the regulatory framework or any other unanticipated operating developments.

Rating Watch also indicates the expected rating trajectory, consequent to the resolution of the 'rating watch' event. At the same time, placing a rating on Rating Watch does not always mean that a rating change is inevitable. However, in some cases, it is certain that a rating change will occur and only the magnitude of the change is unclear.

CARE Ratings places a rating on 'Rating Watch' with "Positive", "Negative" or "Developing" implications, indicating the possible direction of the movement of the rating consequent to the resolution of the rating watch event.

For more details in this regard, please refer to our Policy on Rating watch and Rating outlook on CARE Ratings' website www.careratings.com

8. Policy in respect of non-cooperation by issuer

Assigning and monitoring a rating requires adequate and timely information and cooperation from clients. In the absence of the same, it is not possible, in a reasonable manner, to arrive at the credit quality of an instrument/facility being rated. In case the issuer does not provide the information sought for monitoring the rating in a timely manner, despite adequate efforts, CARE Ratings categorises the issuer as 'noncooperating'. CARE Ratings also construes non-payment of fees by the issuer for conducting the surveillance as a form of non-cooperation.

In the case of non-cooperating clients, CARE Ratings reviews the rating of the instrument(s)/facilities on the basis of the 'best available information'. This includes any information shared by the client with CARE Ratings, any publicly available information including the report published by the debenture trustees from time to time, feedback from bankers/auditors/debenture trustees, etc.

CARE Ratings discloses the aspect of non-cooperation in its PR along with the reasons for non-cooperation, details of follow-up done by CARE Ratings for getting the information, etc. In such cases, CARE Ratings uses the suffix "ISSUER NOT COOPERATING" with the credit rating symbol, which is followed by an asterisk mark. The asterisk mark is explained and reads as 'Issuer did not cooperate; Based on best available information'.

For more details in this regard, please refer to our Policy in respect of Non-cooperation by issuers on CARE Ratings' website www.careratings.com

9. Policy on Withdrawal of ratings

The ratings assigned by CARE Ratings are not a one-time exercise and they are kept under surveillance till the time the obligations under such facilities/instruments are fully extinguished or the ratings are withdrawn, in the situations explained in detail below.

CARE Ratings withdraws a credit rating under the following situations:

i. **Full redemption:** On full redemption of the rated instrument/facility, i.e., on confirmation by the rated entity and lender/trustee that the full maturity value of the instrument/facility has been paid off and there is no amount outstanding on the rated instrument/facility.

ii. **Proposed debt rated but not placed:** On receipt of confirmation from the rated entity to CARE Ratings that the rating awarded has not been used for mobilising funds and as such no amount is outstanding against the rated instrument/facility.

iii. **Merger/Amalgamation/Liquidation:** On merger/amalgamation/liquidation of the rated entity, wherein it may no longer be useful or necessary for CARE Ratings to maintain a rating on the rated entity's obligations.

iv. Withdrawal in case of provisional ratings:
Please refer to the Policy for assigning Provisional Ratings on our website.

v. Withdrawal in case of ratings based on credit enhancement:
For ratings based on credit enhancement, if during the tenure of the instrument, the credit enhancement ceases to exist or there is a change in terms (in concurrence with the lender), CARE Ratings would review the ratings for withdrawal of the same and simultaneously assign a new rating based on the changed terms. However, the practice of withdrawal and simultaneous reassignment of the rating would not be followed if the credit enhancement fails to work as anticipated. In such cases, CARE Ratings would take an appropriate rating action.

For example, if CARE Ratings has relied on a corporate guarantee and assigned a CE rating to an issue and the corporate guarantee ceases to exist, the rating would be reviewed for withdrawal and a new standalone rating would be assigned simultaneously. On the other hand, if CARE Ratings has relied on a corporate guarantee and assigned a CE rating to an issue and there is a missed payment without the guarantee being invoked, the rating would be revised downwards in accordance with CARE Ratings' 'Policy on Default Recognition'.

Apart from the above, CARE Ratings would withdraw ratings of specific instrument/facility as mentioned below:

Capital market instrument ratings (i.e. bonds, NCDs, or other capital market securities/instruments):

a) Withdrawal in case of single ratings outstanding on rated security/instrument: CARE Ratings can withdraw the rating, subject to: -

- CARE Ratings has rated the security/instrument continuously for 5 years OR 50% of the tenure of the security/instrument, whichever is longer; **AND**
- CARE Ratings has received an undertaking from the Issuer that a rating is available on that security/instrument from another Credit Rating Agency (CRA) registered with SEBI; **AND**
- CARE Ratings has received an undertaking from the other CRA that a new rating has been assigned to such security/instrument.

b) Withdrawal in case of multiple ratings outstanding on rated security/instrument: In case of multiple ratings on a security/instrument (where there is no regulatory mandate for multiple ratings), CARE Ratings can withdraw a rating earlier than stipulated provided: -

- CARE Ratings has rated the security/instrument continuously for 3 years OR 50% of the tenure of the security/instrument, whichever is longer; **AND**
- CARE Ratings has received No-objection Certificates (NOCs) from 75% of bondholders by value of the outstanding debt for withdrawal of rating; **AND**
- CARE Ratings has received an undertaking from the Issuer that a rating is available on that security/instrument from another CRA accredited by Securities & Exchange Board of India (SEBI); **AND**
- CARE Ratings has received an undertaking from the other CRA(s) that a rating is available on such security/instrument.

Bank facilities:

- The ratings of all types of bank loans/facilities can be withdrawn at the request of the issuer, subject to the receipt of No Objection Certificates (NOCs) from all the lending banks. NOCs from the banks should be on Bank's official letterhead, duly signed and stamped and specifically mentioning that the NOCs are being issued for such withdrawal of rating of the facility being availed from the bank.
- Pursuant to the guidance note issued by RBI on April 22, 2022 and FAQs dated July 26, 2022, bank facility Credit Enhanced (CE) ratings can be withdrawn if the issuer seeks an option to withdraw the rating in consideration of the proposed change in rating in adherence to the guidance note, based on request for withdrawal from the issuer. In such cases, CARE Ratings shall issue a press release communicating the reason for withdrawal and the standalone rating of issuer (without factoring explicit support) as per CARE Ratings' assessment.

Perpetual debt securities/instruments that are listed or proposed to be listed on a recognised stock exchange:

The ratings of perpetual debt securities like AT1 bonds, that are listed or proposed to be listed on a recognised stock exchange, can be withdrawn subject to the following conditions:

- CARE Ratings has rated such securities/instruments continuously for 5 years; **AND**
- CARE Ratings has received an undertaking from the Issuer that a rating is available on such

securities/instruments; **AND**

- CARE Ratings has received an undertaking from the other CRA(s) that a rating is available on such securities/instruments.

Open-ended Mutual Fund schemes: The ratings of Open-ended Mutual Fund schemes being perpetual in nature and having no specified maturity can be withdrawn upon receipt of the request for withdrawal from the asset management company (AMC). The ratings would be placed on 'Notice of Withdrawal' for 30 days before being withdrawn at the end of such notice period for withdrawal.

Issuer ratings: Issuer ratings can be withdrawn upon the receipt of the request for withdrawal from the rated entity.

Commercial papers and certificate of deposits: CARE Ratings withdraws the outstanding ratings for money market instruments, such as commercial papers, certificates of deposit etc., upon the receipt of the request for withdrawal from the issuer if the instrument is not placed or there are no obligations outstanding against the rated instruments. In this regard, CARE Ratings relies on confirmation from the issuers and also takes confirmation from issuing and paying agents or auditors or other sources to satisfy itself that the rated obligations have been repaid fully and there is no outstanding against the same.

Security receipts: The ratings of security receipts can be withdrawn at the request of the issuer, subject to receipt of NOCs from all the investors and undertaking from the trustee that a rating is available on that SR from another CRA. NOCs from the investors should be duly signed and stamped and specifically mention that the NOCs are being issued for such withdrawal of rating of the security receipts.

Fixed deposits: Withdrawal of the rating in case of fixed deposits raised by corporates:

Sr. No.	Scenario	Procedure for Withdrawal
a)	**If no funds have been mobilised** by the corporate using CARE Ratings' FD rating and as such no amount is outstanding against the rated FD	CARE Ratings withdraws the rating after receiving the confirmation from the company to this effect
b)	If the funds mobilised by the corporate using CARE Ratings' FD rating have been **repaid** by the company	CARE Ratings withdraws the rating after receiving the withdrawal request from the company AND a certificate from the auditor that all investors have been paid off (in case of unsecured FD)/ a certificate from the trustee that all investors have been paid off (in case of secured FD)
c)	If the funds have been mobilised by the corporate using CARE Ratings' FD rating but have **not been repaid** by the corporate	CARE Ratings withdraws the rating after receiving the withdrawal request from the company and the auditor's certificate certifying the list of investors and the amount due to them AND NOC* from all the investors (in case of unsecured FD) /trustee (in case of secured FD). In case the company has set aside an amount for repayment (equivalent to principal and interest) in an escrow account and informed the depositors

Sr. No.	Scenario	Procedure for Withdrawal
		accordingly to accept the withdrawal of deposits, CARE Ratings shall, at the request of the company and also on furnishing of auditors' certificate about the adequacy of the deposit amount in an escrow account, withdraw the rating. CARE Ratings withdraws the rating if it is rated 'CARE D' continuously for three years.

*Note: The NOC should specifically mention that the investor has no objection to the withdrawal of the rating

While withdrawing any credit rating, CARE Ratings shall also review the rating and reaffirm or suitably revise the rating based on available information before withdrawing the outstanding rating, except where there are no outstanding obligations under the security/facility rated, or the company whose security/instrument/facility is rated is wound up or merged or amalgamated with another company.

The withdrawal of ratings under different situations mentioned above is subject to the clearance of fees payable by the client to CARE Ratings.

10. Standard operating procedure for monitoring and recognition of defaults

In order to standardise the operating process for monitoring and recognition of defaults, SEBI's Circular "Guidelines for Enhanced Disclosures by Credit Rating Agencies (CRAs)" dated June 13, 2019, has required that "CRAs, in consultation with SEBI, shall frame a uniform Standard Operating Procedure (SOP) in respect of tracking and timely recognition of default, which shall be disclosed on the website of each CRA.".

SEBI in its Circular dated June 30, 2017, on "Monitoring and Review of Ratings by Credit Rating Agencies (CRAs)", had also noted that "CRAs have to be proactive in early detection of defaults/ delays in making payments." SEBI had further stated, "As responsible institutions, CRAs are expected to proactively track all the important changes relating to the client companies in order to yield timely and accurate ratings. It is reiterated that CRAs are required to ensure prompt and accurate rating action".

In line with these regulatory guidelines, all CRAs have put together this SOP for tracking and timely recognition of default. Recognition of defaults in a timely and consistent manner helps achieve the following objectives:

1. Present accurate performance statistics like default rates.
2. Help investors and other stakeholders compare the performance of CRAs using objective metrics and consistent default monitoring/recognition practices.

Following practices shall be consistently adopted by all CRAs towards ensuring consistency and uniformity in tracking and recognition of defaults.

i. **Communication with bankers:** Every CRA shall write to the bankers to take feedback at the time of the initial rating and at periodic intervals (at least once every quarter) to ascertain timeliness in debt servicing. In cases where bankers do not respond in writing, the discussions shall be documented (through email/ letter to the banker).

ii. **No default statement** (NDS) to be sought on a monthly basis from the Issuer in line with the SEBI regulations.

iii. **Tracking confirmation from debenture trustee** on timely debt servicing on specific ISINs rated by the CRA in line with SEBI regulations. For securities, the withdrawn rating shall be included in the computation of default rates till the completion of the 3-year cohort or the maturity of the instrument, whichever is earlier. Accordingly, the CRAs shall continue to track the confirmation received from the debenture trustees on the status of debt servicing on securities even after rating withdrawal, wherever applicable.

iv. **Monitoring of Exchange website:** The CRA shall also monitor the Exchange website for disclosures made by issuers with listed securities (either debt or equity) in respect of timely debt servicing.

v. **Publishing of press release in case of payment default:** In case of confirmation of any delay in servicing of the debt obligation, the press release shall be published within the timelines as prescribed under regulations.

vi. **Disclosure in case of non-confirmation of timely debt servicing:** In case no confirmation regarding servicing of debt obligation on the listed security is received by the CRA from the Debenture Trustee within one day post the due date, the CRA shall immediately follow-up with the Issuer for confirmation of the payment. In case no response is received from the Issuer within 2 days of such communication, the CRA shall publish a Press Release as per SEBI-prescribed format on its website and send to all stock exchanges where the security is listed.

vii. **Rating agreements:** Rating agreements shall be suitably modified to incorporate the Issuers' responsibility to provide consent to the CRA to obtain details of the existing and/ or future borrowing of the issuer, its repayment and any delay or default in servicing of such borrowing, either from the lender or any other statutory/ non-statutory organisation maintaining any such information. Such right to access to information shall be made clear to the said external parties while seeking information.

viii. **Factoring in past defaults:** In rare circumstances, if a CRA becomes aware of the delays that have occurred in the past and have not been recognised by way of a 'D' rating, the delay shall be recognised by downgrading the rating to 'D'. The rating can be simultaneously upgraded to a non-D rating, in line with the SEBI guidelines and CARE Ratings' policy on curing period available on CARE Ratings' website www.careratings.com

ix. **Default on instruments not rated by CRA:**

In case an issuer defaults on an unrated instrument which has same seniority as the rated instrument by the CRA,

a) The CRA shall recognise the default in its default statistics from the rating level of the rated instrument. The rating of the rated instrument which has not defaulted may be appropriately reviewed by the CRA.

b) For the sake of ample clarity, it is highlighted that a default on an unrated instrument may not mean and shall not be construed as a default for computation of default statistics, if the rated instrument is credit enhanced or there is a structure around the cash flows.

c) The CRA in its default studies shall also give out a list of all companies where the ratings may not have been downgraded 'D', but the issuer has been included in the default study due to default on unrated debt.

x. **Curing period post defaults:**

The curing period principle for default category ratings should apply to fresh rating assignment as well as surveillance assignments and usually at an issuer level. For the sake of ample clarity, if a CRA is rating an issuer afresh, a non-default rating would not be assigned if the curing period post an earlier default on any instrument of similar seniority has not lapsed.

However, for ratings on subordinated or hybrid bonds, curing period should apply at instrument level since a default on such instruments may not necessarily imply a default by the issuer for senior instruments. In case of default on subordinated or hybrid instruments, the ratings on senior instruments may not be upgraded during the curing period for subordinated and hybrid instruments.

If rated instruments is credit enhanced or there is a structure around the cash flows, the curing period will apply at instrument level, as default by issuer on other instruments may not imply or lead to default on such instrument. For more details with regard to curing period, please refer our Policy on curing period on CARE Ratings' website www.careratings.com

[For previous version, please to refer 'CARE Ratings Credit Rating Process' issued in October 2022]

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About:

CareEdge is a knowledge-based analytical group that aims to provide superior insights based on technology, data analytics and detailed research. CARE Ratings Ltd, the parent company in the group, is one of the leading credit rating agencies in India. Established in 1993, it has a credible track record of rating companies across multiple sectors and has played a pivotal role in developing the corporate debt market in India. The wholly-owned subsidiaries of CARE Ratings are (I) CARE Advisory, Research & Training Ltd, which offers customised advisory services, credible business research and analytical services (II) CARE Risk Solutions Private Ltd, which provides risk management solutions.