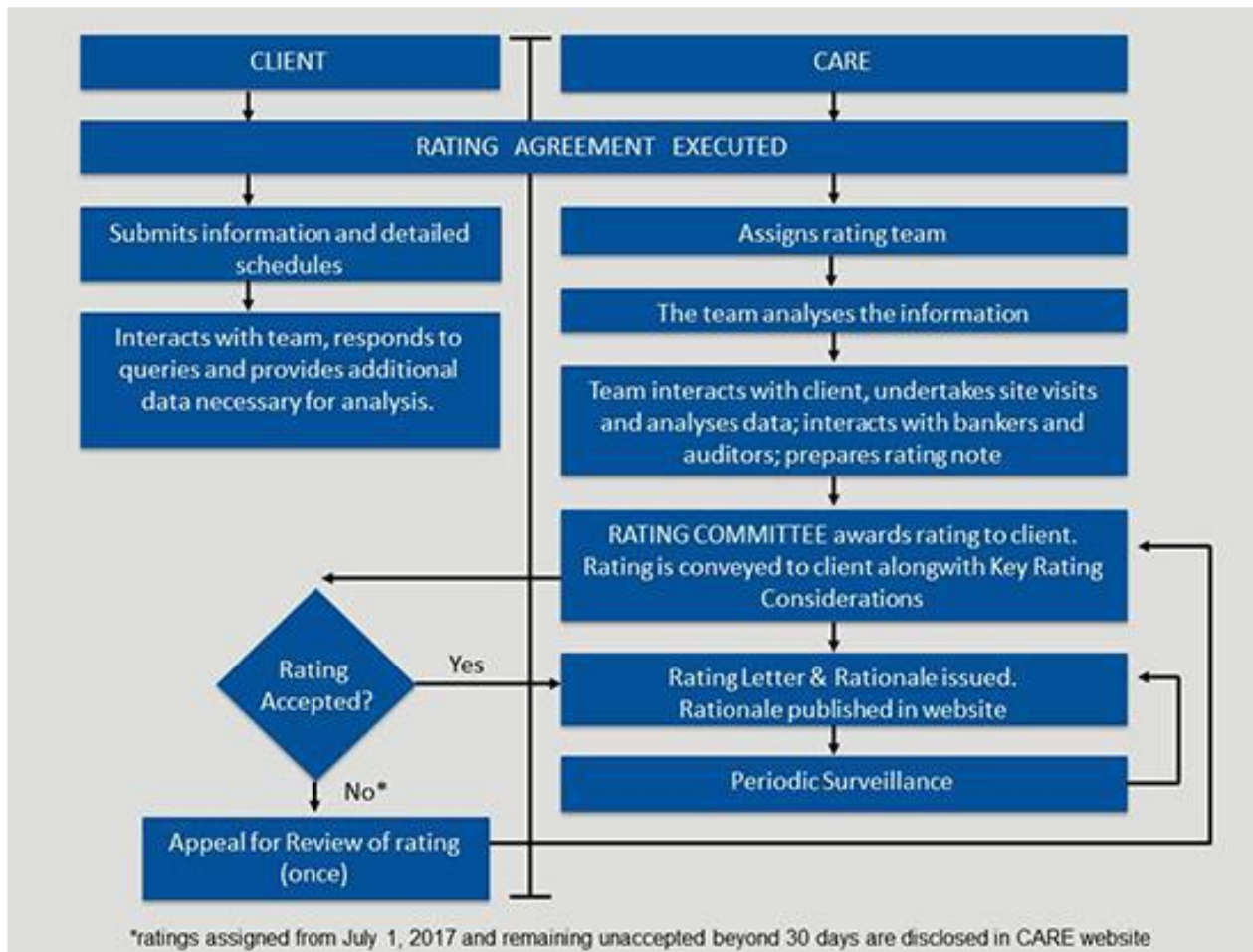


# CARE's Credit Rating Process

[In supersession of "CARE's Credit Rating Process" issued in [Feb 2020](#)]

CARE's credit rating process is pictorially given below:



The rating process is initiated once a **rating agreement** is signed between CARE 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 the broad framework for discussions.

The primary focus of the rating exercise is to assess **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, visit to the client's plant (in case of manufacturing firms), and a study of many factors, including industry characteristics, competitive position of the client, operational efficiency, management quality, funding policies and past and projected financials.

## CARE's Credit Rating Process

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 its ability to service debt.

CARE 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 also seeks various other operational and financial information from the client in order to better understand the various aspects of businesses/ financial statements. CARE seeks bank statements for key operating accounts which commonly include Cash Credit and Term Loan accounts at the time of initial rating exercise for preceding six months and at the time of subsequent reviews, for the preceding six months, provided more than six months have passed since last rating. CARE undertakes examination of instances indicating delays, analysis of bank limit utilization 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 also seeks unaudited results for recent period to understand the current financial position. In case of entities implementing projects, CARE analyses factors like the rationale for implementing the project, size of the project vis-à-vis the current scale of operations and networth 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 client as well as other information received from other reliable sources and management evaluation. CARE does not conduct an audit or investigation exercise while doing the rating exercise. The rating note is based on the CARE's rating Criteria as also sector specific methodologies. For **CARE's 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. A risk profile for each company made by the rating team helps the Rating Committee in assigning the rating.

## CARE's Credit Rating Process

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

The rating and the rationale for the rating is released to the public through a Press Release on CARE's website. CARE also publishes a monthly list of outstanding ratings on its website. CARE monitors all accepted ratings over the tenure of the rated instrument.

### 1 Policy for appeal in case of Initial Rating

If the client does not accept the Initial rating, it may appeal to CARE to review the rating within a reasonable time frame. While representing, the client may give additional information to CARE for undertaking the review. Each 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 reject the rating. 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 1/3<sup>rd</sup> members are external, independent members.

### 2 Policy for Unaccepted ratings

If an initial rating is not accepted within 30 days from the date of its communication to the client, the rating is categorized as 'unaccepted' and would be added to the **list of unaccepted ratings** in the website. This list will be updated on the website every working day. An unaccepted rating can be converted into accepted rating if the client so desires; however, it may have to undergo a review process prior to that. The unaccepted ratings are on the website for one year after which they are removed.

**CARE publishes details of unaccepted credit ratings** assigned from January 1, 2017. Details include name of the issuer, name/type of instrument, size of the issue, rating and outlook assigned, date of rating. These disclosures are a part of the 'Regulatory disclosures'.

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

**CARE does not monitor unaccepted ratings.**

### 3 Validity of CARE's credit ratings

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

### 4 Policy regarding Review/ Surveillance of Ratings

CARE 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 (Securitization and Recovery ratings are required to be reviewed at least once in six months). 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 credit-worthiness of the company.

The rating may be upgraded, downgraded or reaffirmed by the Rating Committee on periodic reviews, including annual surveillance. Similarly Rating Outlook may or may not be changed on periodic reviews, including annual surveillance. A rating action is at the discretion of CARE, without concurrence of the client.

### 5 Policy for appeal in case of reviews/ surveillances

As a matter of courtesy, CARE provides the client a reasonable opportunity to seek a review on the rating action taken by it at the time of review/surveillance. Each such representation is placed before the External Review Committee (ERC) which considers the same and reviews the rating. However, once such reasonable opportunity is provided by CARE, the decision in respect of the revision/ reaffirmation/ withdrawal of the rating is final and is binding upon the client, and is made public by CARE. 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 1/3<sup>rd</sup> members are external, independent members.

### 6 Policy for assigning Provisional Rating

When a rating is assigned subject to fulfilment of certain conditions, the rating will be a 'Provisional' rating indicated by prefixing 'Provisional' before the rating symbol. On fulfilment of the said conditions to the

satisfaction of CARE, the final rating is assigned by CARE.

### 7 Criteria for placing rating on credit watch

CARE may place a rating on 'Credit Watch' when any event or deviation from the expected trend has occurred or is expected and additional information is necessary to take rating action. For example, the issuer is placed on Credit Watch as a result of its merger with another entity or regulatory actions imposed on the industry in which it is operating or any other unanticipated operating developments.

Credit Watch highlights potential changes in ratings of instruments. At the same time, placing a rating on Credit 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 places a rating on 'Credit Watch' with "Positive", "Negative" or "Developing" implications, indicating the possible direction of movement of the rating consequent to the resolution of the credit watch event.

### 8 Policy in respect of Non-cooperation by issuer

Assigning and monitoring of 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 by CARE for monitoring the rating in a timely manner, despite adequate efforts by CARE, CARE shall categorize the issuer as 'non-cooperating'. CARE also construes non-payment of fees by the issuer for conducting the surveillance as a form of non-cooperation.

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

CARE shall disclose the aspect of non-cooperation in its PR alongwith the reasons for non-cooperation, details of follow-up done by CARE for getting the information etc. In such cases, CARE shall use the suffix "ISSUER NOT COOPERATING" with the credit rating symbol. This will be followed by an asterisk mark. The asterisk mark shall be explained and shall read as '*Issuer did not cooperate; Based on best available information*'.

## 9 Policy on Withdrawal of ratings

The ratings assigned by CARE are not a one-time exercise and they are kept under surveillance till the time the obligations under such facilities/instruments are fully extinguished. It may be noted that CARE does not withdraw its rating due to rated entity's non-cooperation in the rating process. In case required documents for withdrawal viz NOC from all lenders are not in place, CARE may decide to put ratings in Issuer Not cooperating (INC) category. Further, CARE may suitably revise the ratings based on available information before withdrawing the assigned ratings.

In light of the above, the situations under which CARE withdraws a credit rating are highlighted below:

- (a) On full redemption of the rated instrument/facility i.e. on confirmation by lender/trustee/auditor to CARE that the full maturity value of the instrument/facility has been paid-off and there is no amount outstanding on the rated instrument/facility.
- (b) On receipt of confirmation from the rated entity that rating awarded by CARE has not been used for mobilizing funds and as such no amount is outstanding against the rated instrument/facility.
- (c) On expiry of the validity period of the initial rating during which funds have not been mobilized using the rating. In such circumstances the rating stands withdrawn automatically.
- (d) On completion of restructuring of the rated instrument/facility, wherein after restructuring, the characteristics of the instrument/facility have substantially changed.
- (e) Rating on instruments (i.e. bonds, NCDs or other capital market instruments) may be withdrawn subject to the following conditions:

CARE has rated the instrument continuously for 5 years **OR** 50% of the tenure of the instrument, whichever is longer;

**AND**

CARE has received an undertaking from the Issuer that a rating is available on that instrument from another CRA accredited by SEBI

- (f) Ratings on instruments (i.e. bonds, NCDs or other capital market instruments) where there are multiple ratings (i.e. Ratings from CARE and other CRA/CRA's) and where there is no regulatory mandate for multiple ratings may be withdrawn subject to the following conditions:

CARE has rated the instrument continuously for 3 years **OR** 50% of the tenure of the instrument, whichever is longer; **AND**

## CARE's Credit Rating Process

CARE has received an undertaking from the Issuer that a rating is available on that instrument from another CRA accredited by SEBI; AND

CARE has received No-objection Certificate (NOC) from 75% of bondholders by value of the outstanding debt for withdrawal of rating;

- (g) Ratings of all types of bank loans/facilities can be withdrawn at the request of the issuer, subject to receipt of No Objection Certificate (NOC) from the all the lending bank(s).
- (h) Ratings of Open ended Mutual Fund schemes being perpetual in nature and having no specified maturity can be withdrawn after placing them on 'Notice of Withdrawal' for 30 days and upon receipt of request for withdrawal from the Asset Management Company (AMC). Ratings of fixed maturity mutual fund schemes are withdrawn upon maturity of the rated schemes and confirmation about full redemption by the AMC.
- (i) On completion of three months 'notice of withdrawal' in case of Issuer Ratings.
- (j) On merger / amalgamation / bankruptcy / liquidation of the rated entity, where in it may no longer be useful or necessary for CARE to maintain a rating on the rated entity's obligations.
- (k) In case of one time rating exercise with a pre-specified validity period of rating(s), the rating(s) may be withdrawn at the end of the validity period. (Typically such assignments are undertaken at the behest of government bodies/departments like Municipal corporations etc.)
- (l) Withdrawal of rating in case of **Fixed Deposits** raised by corporates:

Sr. No.	Scenario	Procedure for Withdrawal
a)	<b>If no funds have been mobilized</b> by the corporate using CARE's FD rating and as such no amount is outstanding against the rated FD.	CARE withdraws the rating after receiving the confirmation from the company to this effect
b)	If the funds mobilized by the corporate using CARE's FD rating have been <b>repaid</b> by the company	CARE withdraws the rating after receiving the withdrawal request from the company AND 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 mobilized by the corporate using CARE's FD rating but have <b>not been fully repaid</b> by the corporate	CARE withdraws the rating after receiving the withdrawal request from the company, Auditor certificate certifying the list of investors and the amount due to them AND NOC* from all the investors

Sr. No.	Scenario	Procedure for Withdrawal
		<p>(in case of unsecured FD) /trustee (in case of secured FD).</p> <p>In case the company has set aside amount for repayment (equivalent to principal and interest) in an escrow account, and informed the depositors accordingly to accept withdrawal of deposits, CARE shall, at the request of the company and also on furnishing of auditors' certificate about adequacy of deposit amount in escrow account, withdraw the rating.</p> <p>CARE withdraws the rating if it is in D category continuously for three years.</p>

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

**(m) Withdrawal in case of ratings based on a pre-defined structure**

CARE Ratings assigns some ratings taking credit comfort from a pre-defined payment structure by way of an external credit enhancement e.g.: DSRA guarantee, etc. or by way of internal bankruptcy remote credit enhancement e.g.: structure backed by gilt securities, etc. These ratings would carry a suffix 'CE' or 'SO' and the structure is spelled out clearly in the press release and rating rationale. If during the tenure of the instrument, it comes to CARE's notice that the structure based on which the rating was assigned is not adhered to, CARE Ratings would review the ratings in the Rating committee for withdrawal of the same and would simultaneously assign a standalone rating to the issue, disregarding the credit enhancement envisaged from the structure.

**(n) Withdrawal in case of provisional ratings:**

If the documents which are necessary prior to confirmation of the the rating are not received within the stipulated timelines or if the documents are materially different from the draft documents, the rating will be reviewed in the Rating Committee for appropriate rating action (including withdrawal of the rating).

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



## 10 Standard operating procedure for monitoring and recognition of defaults

In order to standardize 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 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 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 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 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, where 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, press release shall be published within 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 1 day post the due date, the CRA shall immediately follow up with the Issuer for confirmation of 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 shall be suitably modified** to incorporate 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 recognized 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 on curing period and the SOP on curing period mentioned below.
- 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 ratings may not have been downgraded 'D', but issuer has been included in the default study due to default on unrated debt.
- x. **Curing period post defaults:**
  - a. 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.
  - b. However, for ratings on subordinated or hybrid bonds, since a default on such instruments may not necessarily imply a default by the issuer for senior instruments, curing period should apply at instrument level. In case of default on subordinated or hybrid instruments, ratings on senior

- instruments may not be upgraded during the curing period for subordinated and hybrid instruments.
- c. 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.

[Reviewed in March 2020]

### **CARE Ratings Limited**

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

#### ***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.