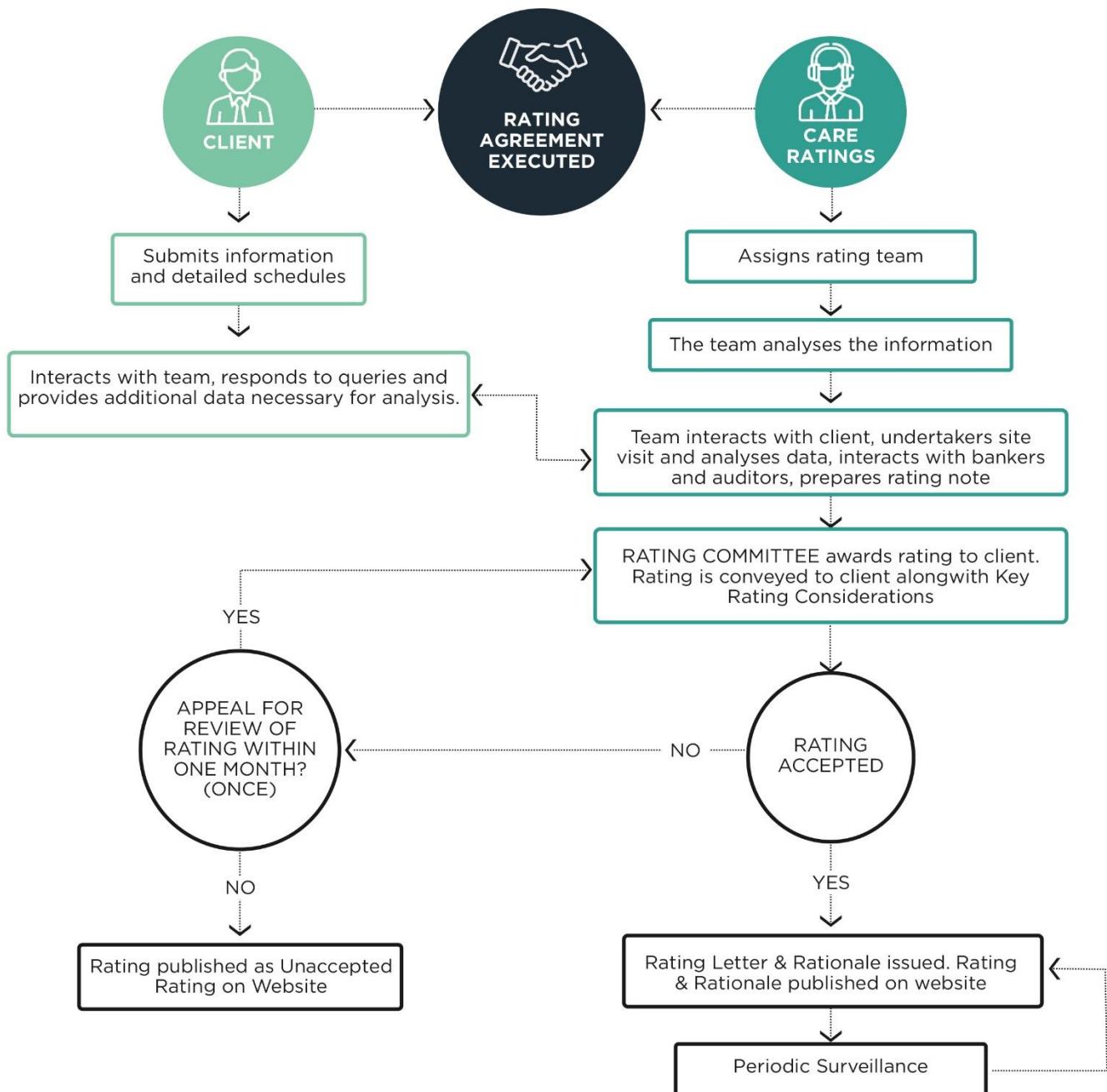


CARE Ratings Ltd. - Credit Rating Process

[Issued in June 2022]

The 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 many 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 accounts at the time of initial rating exercise for the preceding six months and at the time of subsequent reviews, for the preceding six months, provided more than six months have passed since the last rating. CARE Ratings undertakes an 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 Ratings also seeks unaudited results for the recent period to understand the current 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 the 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.

The rating and the rationale for the rating are released to the public through a Press Release on the 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.

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 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 1/3rd of members are external, independent members.

2. Policy for Unaccepted ratings

If an initial rating is not accepted within one month, the rating is categorized 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; 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 Ratings publishes details of unaccepted credit ratings assigned from January 1, 2017. 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 and additional disclosures for unaccepted provisional ratings. These disclosures are a part of the 'Regulatory disclosures'.

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 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, 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 CareEdge's 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 (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 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 review/surveillance. The appeal process should be concluded within the stipulated PR publication period. Such representation is placed before the External Review Committee (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 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 1/3rd of 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 www.careedge.in

7. Criteria for placing rating on credit watch

CARE Ratings 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 Ratings 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.

For more details in this regard, please refer to our Policy on Rating watch and Rating outlook on www.careedge.in

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 categorizes the issuer as 'non-cooperating'. 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. This will be 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 www.careedge.in

9. Policy on Withdrawal of ratings

The ratings assigned by CARE Ratings Ltd. (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:

- **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.
- **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.
- **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.
- **Withdrawal in case of provisional ratings:**
Please refer to the Policy for assigning Provisional Ratings on our website.
- **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 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, there are instrument-specific factors that CARE Ratings would apply to withdraw ratings for the specific instrument/facility:

- **Capital market instrument ratings (i.e. bonds, NCDs, or other capital market instruments):**
 - a) Rating on capital market instruments (i.e. bonds, NCDs, or other capital market instruments), whether listed or unlisted, may be withdrawn subject to the following conditions:
 - CARE Ratings has rated the instrument continuously for 5 years OR 50% of the tenure of the instrument, whichever is longer; **AND**
 - CARE Ratings has received an undertaking from the Issuer that a rating is available on that instrument from another CRA accredited by SEBI
 - b) Ratings on capital market instruments (i.e., bonds, NCDs, or other capital market instruments), whether listed or unlisted, where the issuer is classified as 'Issuer Not Cooperating (INC) and where there are multiple ratings (i.e. Ratings from CARE Ratings and other CRA/CRAs) without any regulatory mandate for multiple ratings may be withdrawn subject to the following conditions:
 - CARE Ratings has rated the instrument continuously for 3 years OR 50% of the tenure of the instrument, whichever is longer; **AND**
 - CARE Ratings has received an undertaking from the Issuer that a rating is available on that instrument from another CRA accredited by SEBI; **AND**
 - CARE Ratings has received No-objection Certificate (NOC) from 75% of bondholders by the value of the outstanding debt for withdrawal of rating;
- **Bank facilities:** Ratings of all types of bank loans/facilities can be withdrawn at the request of the issuer, subject to 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.
- **Open-ended Mutual Fund schemes:** 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 withdrawing the same.
- **Issuer Ratings:** Issuer Ratings can be withdrawn upon receipt of the request for withdrawal from the issuer. The ratings would be placed on 'Notice of Withdrawal' for three months before withdrawing the same.
- **Security Receipts:** 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 mentioning that the NOCs are being issued for such withdrawal of rating of the security receipts.

- **Fixed Deposits:** Withdrawal of 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	<p>CARE Ratings 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 (in case of unsecured FD) /trustee (in case of secured FD).</p> <p>In case the company has set aside an amount for repayment (equivalent to principal and interest) in an escrow account and informed the depositors 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.</p> <p>CARE Ratings withdraws the rating if it is in the D category continuously for three years.</p>

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

Further, in situations where the withdrawals would be based on NOCs, CARE Ratings shall review the ratings and reaffirm or suitably revise the ratings based on available information before withdrawing the assigned ratings.

The withdrawal of ratings under different situations mentioned above is subject to 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 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 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, the 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 one 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:** 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 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. For more details with regard to curing period, please refer our Policy on curing period on www.careedge.in

[For previous version, please to refer 'CARE Ratings Credit Rating Process' issued in [Sep 2021](#)]

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About:

CareEdge (earlier known as CARE Group) is a knowledge-based analytical group that aims to provide superior insights based on technology, data analytics capability and detailed research methods. CareEdge Ratings is one of the leading credit rating agencies in India. It has an impressive track record of rating companies for almost three decades and has played a pivotal role in developing the corporate debt market in India. CareEdge provides near real time research on all domestic and global economic developments. The wholly owned subsidiaries include CareEdge Advisory & Research arm focused on providing advisory and consultancy services and CareEdge Risk solutions a platform that provides risk management solutions

Disclaimer:

The ratings issued by CARE Ratings Limited 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. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings Limited has based its ratings/outlooks based on information obtained from reliable and credible sources. CARE Ratings does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings Limited have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings Ltd. or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE Ratings Limited is, inter-alia, based on the capital deployed by the partners/proprietor and the current financial strength of the firm. The rating/outlook may undergo a 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 Ratings Limited is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE Ratings.

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.