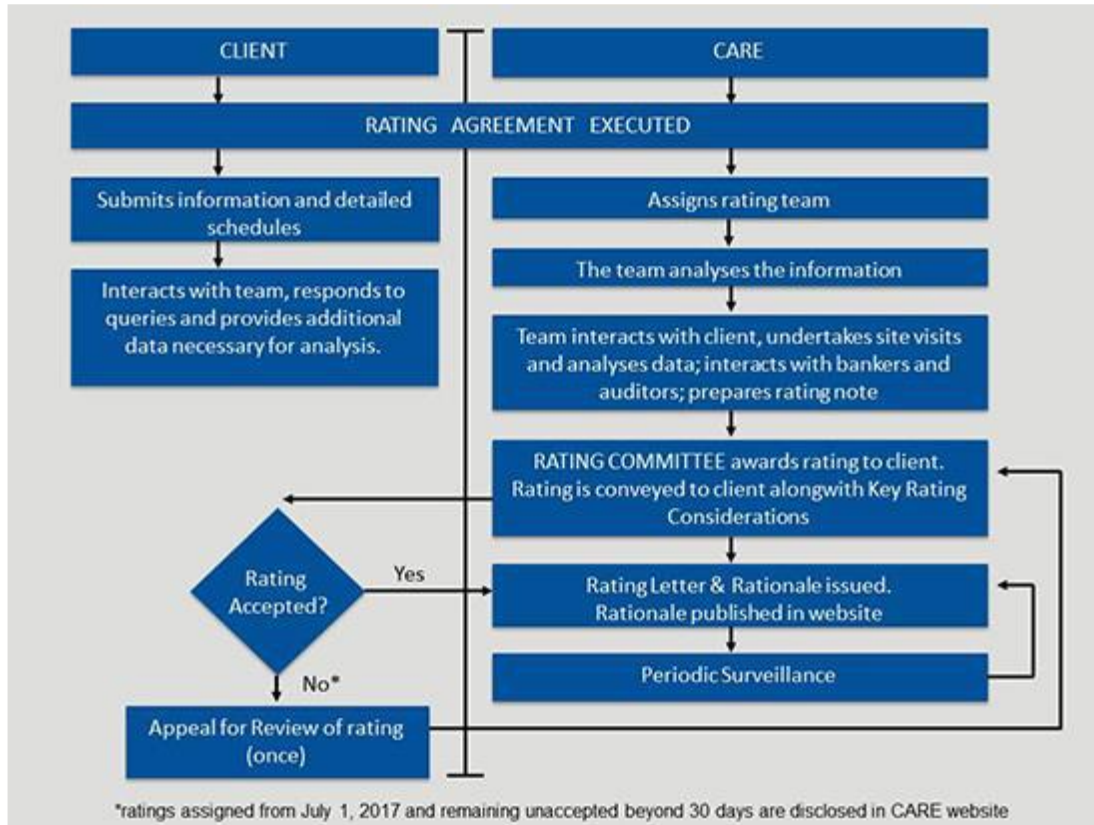


## CARE's Credit Rating Process

[In supersession of "CARE's Credit Rating Process" dated [June 15, 2018](#)]

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.

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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 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 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

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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 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.

### 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.

### 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'.

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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.**

### 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.

### 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 (securitisation 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.

### 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.

### Policy for assigning Provisional Rating

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

### 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.

### 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*'.

### 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 the rated entity and lender/trustee 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 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 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 lending bank(s).
- (g) 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).
- (h) On completion of one year of 'notice of withdrawal' in case of Issuer Ratings.
- (i) 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.
- (j) 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.)

(k) Withdrawal of rating in case of **Fixed Deposits** raised by corporates:

Sr. No.	Scenario	Procedure for Withdrawal
a)	If <b>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 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 (in case of unsecured FD) /trustee (in case of secured FD).

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

**[Last updated on May 24, 2019]**

**Disclaimer**

*CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. 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.*