

Policy on Assignment of Provisional Ratings

[Issued in July 2021]

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, the final rating is assigned by CARE. However, in case of rating of an INVIT/REIT the rating can be made provisional subject to fulfillment of certain conditions based on which the rating is assigned.

This document explains in detail the process followed by CARE while assigning provisional ratings and also further review, and finalization/ confirmation of the same. The policy is updated in line with SEBI circular number SEBI/ HO/ MIRSD/ MIRSD_CRADT/ P/ CIR/ 2021/ 554 dated April 27, 2021, and subsequent clarifications received from SEBI on the same.

When are Provisional ratings assigned?

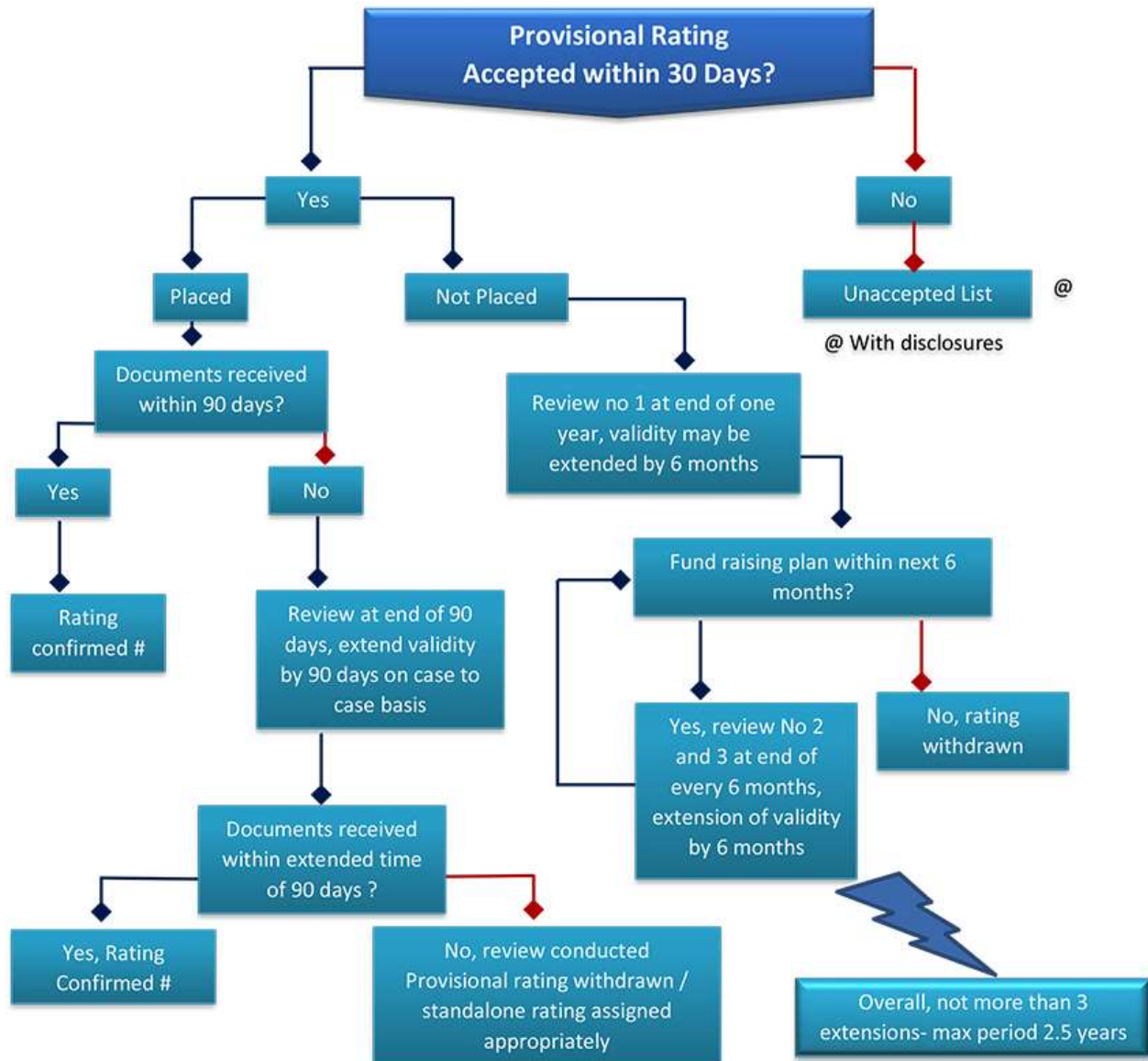
Provisional ratings shall be assigned when the ratings are contingent upon occurrence of the following steps / documents as applicable;

- a) execution of letter of comfort, corporate guarantee, or other forms of explicit third-party support;
- b) execution of documents such as debenture trust deed/ debenture trustee agreement, legal agreements/ opinions, representations and warranties, final term sheet;
- c) assignment of loan pools or finalisation of cash flow escrow arrangements;
- d) setting up of debt service reserve account;
- e) opening of escrow account;
- f) For a proposed Real Estate Investment Trust (REIT) or Infrastructure Investment Trust (InvIT), pending formation of a trust - only after receipt of SEBI Registration subject to declaration from the sponsor to this effect being submitted to the credit rating agency.

CARE would assign provisional rating when the documents that are 'central' / 'critical' to the rating are pending execution e.g. letter of comfort, corporate guarantee, or such other forms of explicit third-party support or cash flow cover pool mechanisms like in securitization transactions, covered bonds or in case of REITS/INVITS.

Validity period for Provisional ratings:

The following chart explains the process flow:



If documents are not in conformity with those stipulated at initial rating provisional rating reviewed appropriately at the time of confirmation

On review of the case at the end of the stipulated period, the Rating Committee shall consider the following aspects and decide in its analytical judgement whether extension of time period can be given and the rating may be maintained as ‘provisional’ :-

- If funds are not raised, then the status of fund-raising plan with respect to the rated instrument/facility and likelihood of funds being raised in the next six months;
- If funds have been raised, then the likely timeframe within which the said documentation would be made available; a maximum time-limit to provide documents for placed instruments would be 180 days from date of issuance. Post this time-limit, in the absence of documents the rating would be appropriately reviewed by the Rating committee for withdrawal of the same. Simultaneously a fresh

Policy on Assignment of Provisional Ratings

rating would be assigned, wherever applicable, based on the documentation on record and both the withdrawal and the fresh rating would be communicated by a single press release.

In case of material changes in the terms of the transaction:

- If funds have been raised and there are material changes in the terms of the transaction after assignment of initial provisional rating, then the initial provisional rating would be withdrawn and simultaneously a fresh rating would be assigned to the transaction depending on the revised terms of the transaction and both the withdrawal and the fresh rating would be communicated by a single press release.
- If funds have not been raised and there are material changes in the terms of the transaction after assignment of initial provisional rating, then the initial provisional rating would be withdrawn. Also, on request of client, a fresh provisional rating can be assigned based on the revised terms of the transaction.

Validity period in case of issuer ratings for REITs/ InvITs:

Provisional Issuer ratings can be assigned for REITs/ InvITs which are not linked to placement of a specific debt instrument. In such cases, the validity period shall be computed from completion of fund raising and issuance of units by the REIT / InvIT. The validity period shall comprise 90 days, along with an extension of upto 90 days granted on a case-to-case basis by the rating committee, similar to cases involving issuance of debt instruments.

In case the issuer has raised only a part of the rated debt instrument or the pending actions/ documentation is completed for only a part of the rated amount, the rating for such part-amount can be converted to final and will be subject to the validity period mentioned for placed instruments in the above diagram.

Disclosures

All communications for 'Provisional' rating explicitly mention the conditions and steps/documents pending, which form the basis for assigning a provisional rating. Communications include provisional communication, rating letter(s), Press Releases and Rating Rationales, wherever applicable. The press release / rationale shall disclose rating that would be assigned in absence of the pending steps/ documentation considered while assigning provisional rating. In cases where the absence of said steps/ documentation would not result in any rating being assigned (for instance, in case of provisional rating for REIT/ InvIT, Pass Through Certificates), the same shall be specified in the press release.

In case of provisional ratings for proposed REIT or InvIT, the following disclosures are also required in the Press release, wherever applicable:

- i. the broad details of the assets that are proposed to be held by the REIT/ InvIT, the proposed capital structure, etc.

Policy on Assignment of Provisional Ratings

- ii. The rating rationale should disclose that CARE has taken an undertaking from the sponsor stating that the key assumptions (relating to the assets, capital structure, etc.) are in consonance with the details filed by the sponsor with SEBI.
- iii. In case of change in provisional rating due to change in aforesaid key assumptions, the press release shall state that the rating by CARE is based on a declaration from the issuer that similar changes have been made in the filing with SEBI.

The press release, made consequent to confirmation of all provisional ratings i.e. conversion to final rating, must mention about details of execution of appropriate documentation on the basis of which the rating has been confirmed.

Unaccepted provisional ratings:

In case the provisional rating assigned is not accepted by the issuer (or sponsor, in case of REITs/InvITs), then in the "unaccepted ratings" , the following supplementary disclosures are provided while publishing such ratings on website

- a) The steps / documentation pending which provisional rating was assigned to be disclosed. For instance, in case of REITs/ InvITs, such disclosure shall contain the broad details of the assets to be held under the Trust, the proposed capital structure, etc.
- b) rating that would be assigned in absence of the said steps/ documentation wherever applicable.

[For previous version please refer 'CARE's Policy on Assignment of Provisional Ratings' issued in [September 2020](#)]

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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.