

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

This document explains in detail the process followed by CARE Ratings while assigning provisional ratings and further review, and finalisation/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?

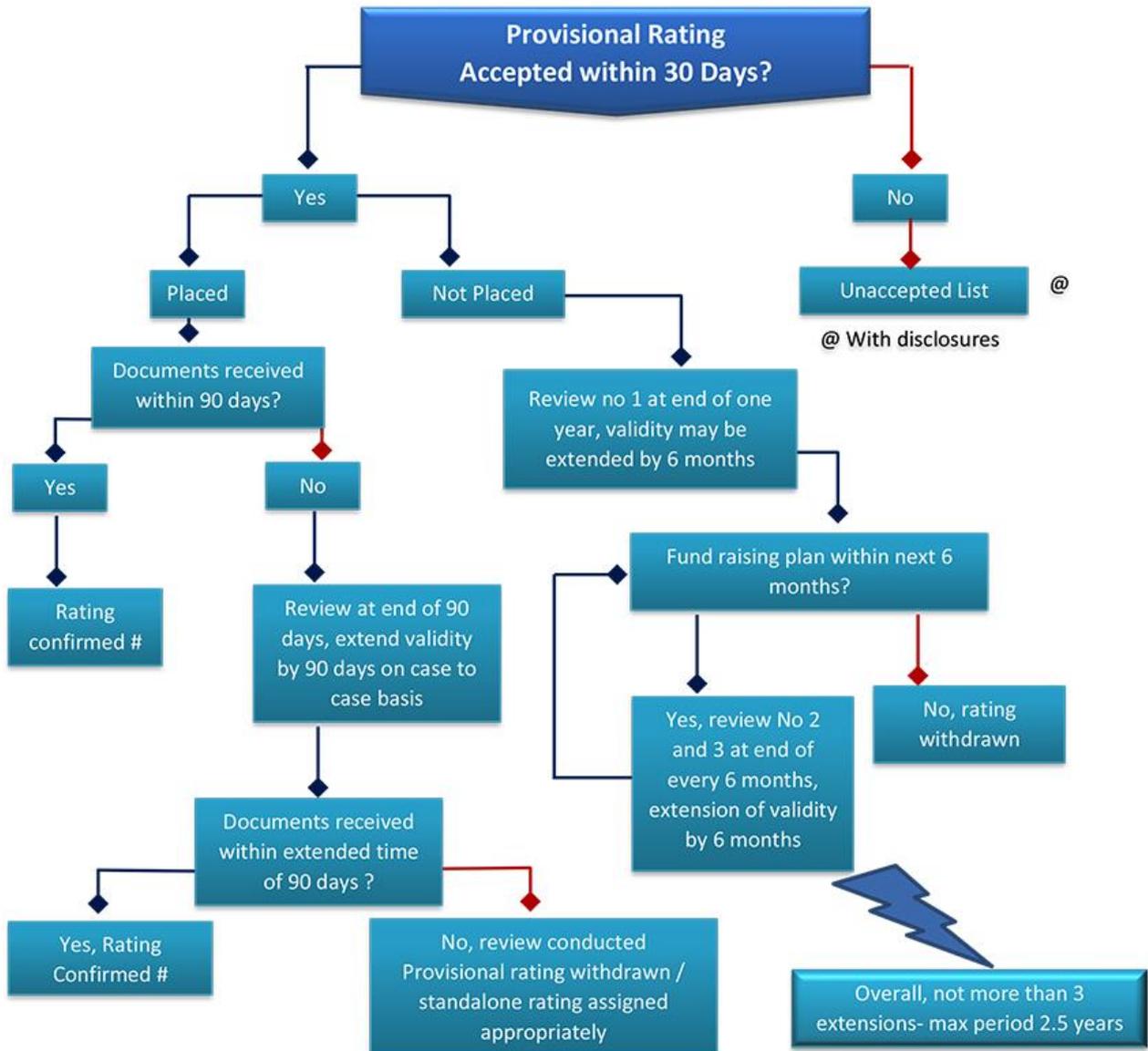
Provisional ratings shall be assigned when the ratings are contingent upon the occurrence of the following steps/documents as applicable:

- a. Execution of the 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, and 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 an escrow account.
- f. For a proposed Real Estate Investment Trust (REIT) or Infrastructure Investment Trust (InvIT), pending formation of the trust - only after receipt of SEBI Registration subject to a declaration from the sponsor to this effect being submitted to the credit rating agency.

CARE Ratings would assign a 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.

The 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 the extension of the time period can be given and the rating may be maintained as 'provisional':

- If funds are not raised, then the status of the fund-raising plan concerning the rated instrument/facility and the 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 the 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 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 the assignment of the 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 the assignment of the initial provisional rating, then the initial provisional rating would be withdrawn. Also, at the request of the 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 the placement of a specific debt instrument. In such cases, the validity period shall be computed from the completion of fundraising and issuance of units by the REIT / InvIT. The validity period shall comprise 90 days, along with an extension of up to 90 days granted on a case-to-case basis by the rating committee, similar to cases involving the 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 a '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 the rating that would be assigned in absence of the pending steps/ documentation considered while assigning a provisional rating. In cases where the absence of said steps/ documentation would not result in any rating being assigned (for instance, in the case of provisional rating for REIT/ InvIT, Pass-Through Certificates), the same shall be specified in the press release.

In the 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.
- ii. The rating rationale should disclose that CARE Ratings has taken an undertaking from the sponsor stating that the key assumptions (relating to the assets, capital structure, etc.) align 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 Ratings 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 the final rating, must mention details of the execution of appropriate documentation based on which the rating has been confirmed.

Unaccepted Provisional Ratings:

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

- a) The steps/documentation pending which provisional rating was to be disclosed. For instance, in the 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 Policy on 'Assignment of Provisional Ratings' issued in [September 2020](#)]

CARE Ratings Limited

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Phone : +91 - 22 - 6754 3456 | CIN: L67190MH1993PLC071691

Connect :     

Locations: Ahmedabad | Andheri-Mumbai | Bengaluru | Chennai | Coimbatore | Hyderabad | Kolkata | New Delhi | Pune

About:

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Disclaimer:

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