

# Criteria on Assigning 'Outlook' or 'Rating Watch' to Credit Ratings

[Issued in December 2022]

## **Background:**

CARE Ratings' rating outlook is an opinion on the likely direction of movement of the rating in the medium term which is typically about six months to two years. A rating outlook is assigned to all credit rating assignments undertaken by CARE Ratings.

## **Rating outlook:**

CARE Ratings factors in projections of the issuer while assigning ratings and hence, the ratings build on the future prospects of the issuer. Ratings factor the known future impact of any business, industry or regulatory changes at the time of assignment. Rating outlook indicates the probable direction of movement in ratings as a result of factors which, CARE Ratings may not be fully certain of at the time of assigning/ reviewing the credit rating. The illustrative (but not exhaustive) factors include expected changes in the industry dynamics, business conditions, possible changes in the strategic decisions taken and the expected impact of any of the above on the business and financial risk profile of the rated entity. The rating outlook can be 'Positive', 'Stable' or 'Negative'.

A 'Positive' outlook indicates an expected upgrade in the credit ratings in the medium term on account of the expected positive impact on the credit risk profile of the entity in the medium term.

A 'Negative' outlook would indicate an expected downgrade in the credit ratings in the medium term on account of the expected negative impact on the credit risk profile of the entity in the medium term.

A 'Stable' outlook would indicate the expected stability (or retention) of the credit ratings in the medium term on account of the stable credit risk profile of the entity in the medium term.

A 'Positive' or 'Negative' outlook may not necessarily mean that a rating upgrade or downgrade will happen. For instance, a downgrade may not necessarily follow a negative outlook and on the same lines, an upgrade may not necessarily follow a positive outlook. It indicates a reasonable likelihood of such a rating transition taking place in the medium term. However, if any unforeseen or sudden events arise which may impact the creditworthiness of the rated entity beyond expectation, the rating action taken may also be contrary to the outlook assigned. Likewise, CARE Ratings may affect a change in rating directly and this rating action need not always be preceded by a change in the outlook.

## **Applicability of outlook:**

The Rating Outlook applies to all debt ratings except 'CARE C' and 'CARE D' ratings. However, CARE Ratings may assign outlook to ratings in the category 'CARE C' on a selective basis.

The 'Rating Outlooks' shall not apply to:

- Short-term ratings
- Securitisation ratings
- Ratings on Rating Watch
- Ratings under the 'Issuer Not Cooperating' category, where outlooks had not been assigned earlier
- Credit quality ratings of mutual fund schemes, provided a review of the fund's holdings are carried out every month
- All products other than debt ratings

### **Criteria for placing rating on 'Rating Watch':**

CARE Ratings may consider assigning a 'Rating Watch' to an outstanding rating in case of occurrence of events not envisaged earlier which are likely to impact the credit profile of the issuer. Some examples (Illustrative but not exhaustive) of such events are the announcement of a merger or acquisition or de-merger of some business or change in the regulatory framework.

'Rating Watch' indicates that there is a probability of change in ratings assigned and also indicates the likely direction of change. 'Rating Watch' is warranted when the impact of specific events on the credit profile cannot be accurately assessed at the point when they occur, and additional information may be necessary to fully evaluate their impact on rated instruments.

In such cases ratings are placed under 'Rating Watch' along with an indication of the expected rating trajectory i.e. 'Positive', 'Negative' or 'Developing' implications, consequent to the resolution of the 'Rating Watch' event.

### **Rating outlook vs Rating Watch**

'Outlook' indicating the likely rating trajectory may typically stay over six months to two years before the rating movement, whereas 'Rating Watch' is expected to be resolved within a shorter duration.

'Outlook' applies to long term ratings and usually, 'Rating Watch' applies to both long term and short-term ratings. However, at times, depending on case-specific circumstances, CARE Ratings may decide to place only long/short term ratings on watch.

The probability of change in rating is relatively higher under 'Rating Watch' vis-a-vis 'Rating Outlook'. The extent of a rating change under a 'Rating Watch' situation may be substantial i.e. more than one notch. However, outlooks are expected to lead to rating changes of a much lesser degree.

### **Deciding factor: 'Outlook' or 'Rating Watch'**

The decision about assigning an 'Outlook' or 'Rating watch' is driven mainly by the degree of certainty and timeframe of the event which will impact the credit profile. In the case of 'Outlook', it is expected to take a longer time frame for the full impact on credit profile to be ascertained, as the impact is generally due to the presence of multiple factors viz. business strategies or changing regulatory / industry environment etc. In case of the 'Rating Watch', the event has already been announced, however, its exact impact on a credit profile can be ascertained in a relatively shorter timeframe and only after getting additional detailed information to evaluate the same.

**[For the previous version please refer to 'Criteria on assigning Outlook or Rating Watch to Credit Ratings' issued in [May 2022](#)]**

## 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:

CareEdge is a knowledge-based analytical group that aims to provide superior insights based on technology, data analytics and detailed research. CARE Ratings Ltd, the parent company in the group, is one of the leading credit rating agencies in India. Established in 1993, it has a credible track record of rating companies across multiple sectors and has played a pivotal role in developing the corporate debt market in India. The wholly-owned subsidiaries of CARE Ratings are (I) CARE Advisory, Research & Training Ltd, which offers customised advisory services, credible business research and analytical services (II) CARE Risk Solutions Private Ltd, which 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