

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



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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 credit 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 credit watch:

CARE Ratings may consider assigning a 'credit 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.

Credit watch indicates that there is a probability of change in ratings assigned and also indicates the likely direction of change. Credit 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 'Credit Watch' along with an indication of the expected rating trajectory i.e. "Positive", "Negative" or "Developing" implications, consequent to the resolution of the credit watch event.

Rating outlook vs credit watch

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

Outlook applies to long term ratings and usually, credit 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 'Credit Watch' vis-a-vis 'Rating Outlook'. The extent of a rating change under a 'Credit 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 Watch

The decision about assigning an outlook or 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 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 Credit Watch to Credit Ratings' issued in [May 2020](#)]

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