

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

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Background:

CARE Ratings Limited's (CARE Ratings') rating 'Outlook' is an opinion on the likely direction of movement of the rating over the medium-term which is typically about six months to two years whereas a 'Rating Watch' indicates likely direction of movement of the rating over a shorter period pursuant to an event whose credit implications are not completely clear or ascertainable.

Rating Outlook:

The ratings are built on the future prospects of the issuer and factor the known future aspects of any business, industry or regulatory changes at the time of assigning / reviewing the ratings. Rating outlook indicates the probable direction of movement in the ratings as a result of factors which CARE Ratings may not be fully certain of at the time of assigning / reviewing the 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 over the medium-term on account of expected positive impact on the credit risk profile of the entity over the medium-term.

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

A 'Stable' outlook indicates an expected stability (or retention) in the credit ratings over the medium-term on account of stable credit risk profile of the entity over 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 a rating transition taking place over 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 rating change 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 long-term ratings at an instrument level, 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 placing a rating on 'Rating Watch' 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 announcement of a merger or an acquisition or a de-merger of an entity or a change in the regulatory framework governing an entity.

'Rating Watch' indicates that there is a probability of a rating change and it 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 time when they occur, and additional information may be necessary to fully evaluate their impact on the rated instruments.

In such cases, the ratings are placed on '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.

Similar to rating outlook, 'Rating Watch' may not necessarily mean that a rating upgrade or downgrade will happen. Likewise, CARE Ratings may affect a rating change directly and this rating action need not always be preceded by a 'Rating Watch'.

Rating Outlook vs Rating Watch:

An outlook indicating the likely rating trajectory may typically stay for over six months to two years before the rating movement, whereas a 'Rating Watch' is expected to be resolved within a shorter duration and is event-based.

An outlook applies to long-term ratings. However, a 'Rating Watch' applies to both long-term and short-term ratings at an instrument level, irrespective of the rating category. Nevertheless, at times, depending on case-specific circumstances, CARE Ratings may decide to place only long-term or short-term ratings on 'Rating Watch'.

The probability of a rating change is relatively higher under a 'Rating Watch' vis-à-vis a rating outlook. Also, the extent of a rating change under a 'Rating Watch' situation may be severe / 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 of assigning an 'Outlook' or a '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 an outlook, it is expected to take a longer time-frame to ascertain the full impact on the credit profile, as the impact is generally due to the presence of multiple factors viz., business strategies or changing regulatory / industry environment etc. In case of a 'Rating Watch', the event has already occurred. However, its exact impact on the credit profile can be ascertained in a relatively shorter timeframe and only after getting additional information to evaluate the same.

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

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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.

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