

CRISIL Ratings

Assessing information adequacy risk

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Executive summary

A credit rating by CRISIL Ratings represents its opinion on the likelihood of a debt obligation being paid in full and on time. The rating indicates the current opinion of CRISIL Ratings on the probability of default on the instrument, considering public and non-public information about the firm to provide a forward-looking assessment of credit quality.

CRISIL Ratings believes that investor interest is best served if there is open and transparent information sharing and dialogue between the issuer and CRISIL Ratings. This enables CRISIL Ratings to incorporate non-public information into its rating decision and helps arrive at an independent, forward-looking assessment. CRISIL Ratings would like to emphasise that information sharing is not a one-time exercise, but an ongoing and continuous process that is critical to rating surveillance.

For issuers who do not share information or engage in interactions with CRISIL Ratings, the rating decision is based only on public information, and that too, only to the extent this information is available to CRISIL Ratings. Hence, the rating is based on past performance, lacks a forward-looking flavour and may not reflect the robustness of ratings based on full management cooperation.

CRISIL Ratings endeavours to elicit cooperation from issuers for the rating surveillance process to the best possible extent. In this context, CRISIL Ratings seeks information required for surveillance on an ongoing basis. If an issuer fails to respond to requests for information, CRISIL Ratings categorises the issuer as non-cooperative. This may mean that CRISIL Ratings lacks adequate information to rate the issuer, and in such instances, the rating will reflect this information adequacy risk.

Scope

This article details the criteria for arriving at credit ratings for issuers that do not share the necessary information and/or confirmation of timely debt servicing. The scope also covers issuers whose ratings may already be under issuer not cooperating (INC) classification, besides other issuers.

Assessment of information adequacy

As per the Securities and Exchange Board of India (SEBI) guidelines, credit rating agencies (CRAs) are required to continue to rate non-cooperative issuers on a best effort basis. To highlight the non-cooperation of issuers, SEBI regulations require that all such ratings should have the suffix 'Issuer not cooperating' (INC), with a footnote '*Issuer did not cooperate; based on best-available information'.

CRISIL Ratings believes investors, lenders and all other market participants should exercise due caution when using ratings assigned/reviewed with the INC suffix. This is because these ratings lack a forward-looking perspective as they are arrived at without any management interaction and are based on best available or limited or dated information about the firm.

In line with SEBI guidelines, CRISIL Ratings may classify a rating as INC under following scenarios:

- 1. Non-receipt of minimum information –** CRISIL Ratings believes that for market participants to have sufficient confidence in higher rated entities, ample information about credit risks should be available and incorporated into the ratings. In the absence of such information, the confidence of investors and lenders in the credit quality of such issuers wane, indicating higher credit risk. If CRISIL Ratings does not receive information necessary to carry out the rating exercise from the issuers (including non-cooperative issuers), it may mark the rating as INC.

Such ratings are unlikely to be in high safety category or above and may be downgraded to sub-investment grade in the absence of reasonable confidence regarding debt servicing ability.

This approach also applies to reviews of ratings that are already carrying an INC suffix. Such ratings shall continue to carry INC suffix in absence of receipt of information required for review and may be downgraded further depending on availability of information and reasonable confidence on debt servicing ability.

The ratings may be maintained in the investment grade category with INC status on a case-to-case basis, after analysing factors such as stability of the cash flow, ability to service debt in a timely manner and satisfactory feedback from the banker/lender.

- 2. Non-receipt of No-default Statement (NDS) for three consecutive months** – In particular, if NDS is not received for three consecutive months, the ratings shall be migrated to INC in case CRISIL Ratings is unable to validate timely debt servicing through other sources like banker interaction. The rating will be migrated to INC status within a period of 7 days of three consecutive months of non-submission of NDS. However, if CRISIL Ratings receives feedback from banker(s)/lender(s) or debenture trustee regarding timely debt servicing, then such a move may not be warranted.

The approach to INC classification for non-receipt of NDS shall not be applicable to ratings that are already classified as INC or are at D.

In line with SEBI regulations, CRISIL Ratings shall apply following approach to ratings in investment grade and carrying INC suffix:

- 1. Continued non-cooperation for six months** - The ratings on instruments of issuers that remain non-cooperative for six months shall necessarily be downgraded to non-investment grade with INC status, if already not rated in non-investment grade. As time passes, with prolonged non-cooperation, the rating may be subject to further downgrades.

Conclusion:

CRISIL Ratings periodically seeks information from issuers for the rating exercise. If an issuer fails to respond to requests for information, CRISIL Ratings categorises the issuer as non-cooperative and reviews them on the basis of best-available or limited or dated information. This means that CRISIL Ratings lacks adequate information to rate the issuer and the rating in such instances reflects the information adequacy risk. With each passing year of non-cooperation, past information will become dated and this will get reflected in the rating, while continuing under INC classification.¹

¹ For accessing the previous published document on 'Framework for Assessing Information Adequacy Risk', kindly refer to the following link: https://www.crisilratings.com/content/dam/crisil/criteria_methodology/basics-of-ratings/archive/assessing-information-adequacy-risk-feb2023.pdf

About CRISIL Limited

CRISIL is a leading, agile and innovative global analytics company driven by its mission of making markets function better.

It is India's foremost provider of ratings, data, research, analytics and solutions, with a strong track record of growth, culture of innovation and global footprint.

It has delivered independent opinions, actionable insights, and efficient solutions to over 100,000 customers.

It is majority owned by S&P Global Inc, a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

About CRISIL Ratings

CRISIL Ratings is part of CRISIL Limited ("CRISIL"). We pioneered the concept of credit rating in India in 1987. CRISIL is registered in India as a credit rating agency with the Securities and Exchange Board of India ("SEBI"). With a tradition of independence, analytical rigour and innovation, CRISIL sets the standards in the credit rating business. We rate the entire range of debt instruments, such as, bank loans, certificates of deposit, commercial paper, non-convertible / convertible / partially convertible bonds and debentures, perpetual bonds, bank hybrid capital instruments, asset-backed and mortgage-backed securities, partial guarantees and other structured debt instruments. We have rated over 24,500 large and mid-scale corporates and financial institutions. CRISIL has also instituted several innovations in India in the rating business, including rating municipal bonds, partially guaranteed instruments and microfinance institutions. We also pioneered a globally unique rating service for Micro, Small and Medium Enterprises (MSMEs) and significantly extended the accessibility to rating services to a wider market. Over 1,10,000 MSMEs have been rated by us.

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