Crisil Ratings criteria for consolidation

(including homogenous groups)

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a company of S&P Global

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Contents

Section I.

Crisil Ratings methodology for consolidation

Executive summary

A company may tap new business opportunities within the ambit of its own operations or through a separate entity (a subsidiary, a special purpose vehicle [SPV], or an associate/group company) for legal, tax and regulatory considerations. In India, companies have increasingly diversified into new businesses and markets through complex corporate structures. Several acquisitions have been leveraged buyouts through SPVs, while some companies have expanded operations through a leveraged project finance structure. Both structures permit the use of considerable debt, without weighing down the acquirer's balance sheet.

A company may also isolate or ring-fence the cash flows of an acquired company. Companies have also resorted to cross-investments and interlocking of equity in related entities[1]. If a parent does not clearly define its obligations and liabilities, intra-group transactions may have a bearing on its financial position and therefore, its ability to service debt.

For analysing the credit risk profile of a company that has a direct or indirect controlling interest in another entity, it is necessary to consolidate the financials of both the company and the related entity for a fair representation of financial health, networth and leverage. Consolidated accounts indicate liabilities that the rated company needs to honour if a related entity is in distress, and these facts may not be captured by standalone financials.

Scope

This section[2] highlights the need to consolidate financials of the company being rated and its related entities, and outlines Crisil Ratings' methodology to consolidation. Crisil Ratings' methodology on consolidation incorporates the continuum of support from the parent to its related entities and specifies the framework for assessing the level of integration between them.

Crisil Ratings may consolidate entities without any apparent shareholding linkages, but held by common promoters, depending on the extent of their business and financial linkages. For more details, refer below to section II- '*Crisil Ratings methodology for rating entities belonging to homogenous corporate groups*'

Crisil Ratings' methodology for consolidation

Crisil Ratings also analyses the business risk profile of the group and not just the company being rated and covers each business that the group is present in, or is likely to have a presence in, during the period of analysis. The methodology for evaluating business and management risks is similar to that adopted for businesses considered as divisions of the company being rated *(refer to example in Box 1).*

Box 1: The case for consolidation

P Ltd has a subsidiary called S Ltd, which markets more than 80% of its products. Hence, S Ltd is critical to the parent's operations and it is reasonable to expect P Ltd will support S Ltd in case of financial distress. P Ltd's standalone business risk profile, which does not factor in S Ltd's marketing network, will thus not be comparable to P Ltd's competitors. Also, P Ltd's standalone financial statements will not reflect the actual sale price to end customers, or the related marketing and selling costs, and thus, present an incomplete picture. Therefore, it is necessary to consolidate the operations and financials of P Ltd and S Ltd for complete analysis of P Ltd's credit risk profile, comparable with that of its competitors.

[1] Related entities include subsidiaries, SPVs, associate companies, and companies under the same management.
[2] For the previous version of this article, please refer to the link below:
https://www.crisilratings.com/content/dam/crisil/criteria_methodology/criteria-research/archive/crisil-ratings-criteria-for-consolidation-jan2025.pdf

Pooling of interests: Crisil Ratings' method of consolidation

As per international accounting standards, there are three ways to consolidate accounts: the equity method, the pooling of interests method, and the purchase method. The choice will depend on reasons for consolidation.

Crisil Ratings adopts the pooling of interests method to assess a group's financial risk profile and its impact on the rated company. All related entities are treated as a single economic entity. Consolidation cancels out reciprocal pairs such as assets and liabilities, revenue and cost, and investment and equity accounts in the financial statements of related entities. It nullifies all intra-group transactions, deducts investments in related entities from the group's networth, and cancels borrowings within the group from advances/investments. One advantage is the pooling of interests method does not necessitate a valuation exercise or creation of goodwill *(refer to example in Box 2).*

Box 2: Consolidation by pooling of interests

P Ltd, which has a share capital of Rs 200 million, has invested Rs 80 million in the share capital of its subsidiary, S Ltd. If the share capital of S Ltd is Rs 100 million, then the share capital of P Ltd, on consolidation, will be Rs 220 million, calculated as:

	Rs million
Share capital of P Ltd (parent company)	200
Add: Share capital of S Ltd (subsidiary company)	100
Less: Investment by P Ltd in S Ltd	80
Share capital of P Ltd on consolidation	**220**

Each item of the balance sheet and income statement is consolidated in a similar manner, after adjusting for inter-company transactions.

Thus, we get a clear picture of the economic resources controlled by the group, its obligation, and the results achieved with the given resources.

Identifying entities for consolidation

The primary criterion for determining consolidation is the willingness or compulsion of one entity to support the other during exigencies. Crisil Ratings' methodology differs from the one prescribed by the Indian Accounting Standards (Ind AS), which came into force on April 1, 2015, as per the Companies (Indian Accounting Standards) Rules, 2015 *(refer to Box 3 for salient features of the consolidation approach under Ind AS).*

Box 3: Consolidation approach as per Ind AS

Most Indian companies with one or more subsidiaries are required to prepare and present consolidated financial statements from fiscal 2015 as per the Companies Act, 2013. Earlier, the Securities and Exchange Board of India required consolidated financial statements for listed companies. Ind AS came into effect on April 1, 2015, and listed and unlisted companies with networth in excess of Rs 5 billion, were mandated to migrate to the new standards from April 1, 2016.

Ind AS 110 establishes principles for presentation and preparation of consolidated financial statements when an entity controls other entities. Certain entities are exempted from these requirements, which differ from those exempted under the Companies Act. However, the more stringent of the two requirements apply, and most Indian companies with subsidiaries, associates, or joint ventures, have to prepare and present consolidated financial statements.

Ind AS 110 establishes control as the basis for consolidation. An investor has control when it has rights to variable returns from its involvement with the investee, and the ability to affect the returns. Consolidated financial statements, in which assets, liabilities, equity, income, expenses, and cash flows of the parent and subsidiaries are presented as those of a single economic entity, are to be prepared.

In addition, Ind AS 28 prescribes the equity method for recognising investments in associate companies (where the investor has significant influence over the investee, but cannot establish control) or joint ventures (where two or more investors have a joint control over the investee).

Crisil Ratings believes the willingness or compulsion of one entity to support another is driven by their linkages, which can take various forms. In some cases, the rated company may have no major shareholding in group companies, but transactions between them may have cash-flow implications for all. For instance, if a promoter holds three companies with each performing specific roles such as raw material sourcing, production, and marketing of the same product, consolidation is necessary to evaluate creditworthiness of any one entity in the value chain. Alternately, companies may hold substantial equity, but lack management control over other entities, and transactions may be limited to arm's length dealings. It is, therefore, critical to assess the possibility and extent of cash flow transactions between such entities.

Crisil Ratings generally consolidates all subsidiaries, with the following exceptions:

- The subsidiary does not operate in the same business or sector as the parent (for example, a manufacturing entity having a finance or insurance subsidiary, or a bank having an insurance subsidiary)
- The subsidiary is explicitly ring-fenced (typically in case of SPVs)

However, even in such cases, Crisil Ratings factors the potential impact of cash flow support to the subsidiary, into the rating of the parent. For instance, if the subsidiary and parent operate in different sectors, a capital allocation approach is used to determine their rating *(refer to Box 4 for details on capital allocation approach)*. The potential impact of support is also considered for associate companies or other investments.

Box 4: Capital allocation approach

In case of a finance subsidiary of a manufacturing parent, or an insurance subsidiary of a bank, Crisil Ratings may decide to notch up the rating of the unconsolidated subsidiary, on account of a stronger parent *(refer to 'Crisil Ratings criteria for factoring parent/group/government linkages' on www.crisilratings.com).* In such instances, Crisil Ratings internally follows the capital allocation approach to determine the rating of the parent and the unconsolidated subsidiary, based on capital allocated to the subsidiary. Under this approach, some capital, objectively assessed for the level of support envisaged, is deducted from the parent's networth, and allocated to the unconsolidated subsidiary. The capital support from the parent uplifts the subsidiary's rating. Accordingly, as this capital is no longer deemed to be available to the parent for its operations, the resultant impact is factored into its rating.

Evaluation of inter-linkages between rated entity and any related entity

Crisil Ratings' approach to evaluate linkages or perceived relationships between the company being rated, and its related entity, focuses on the extent and likelihood of support offered by the parent, to gauge the underlying economic risks. This analysis involves the following steps:

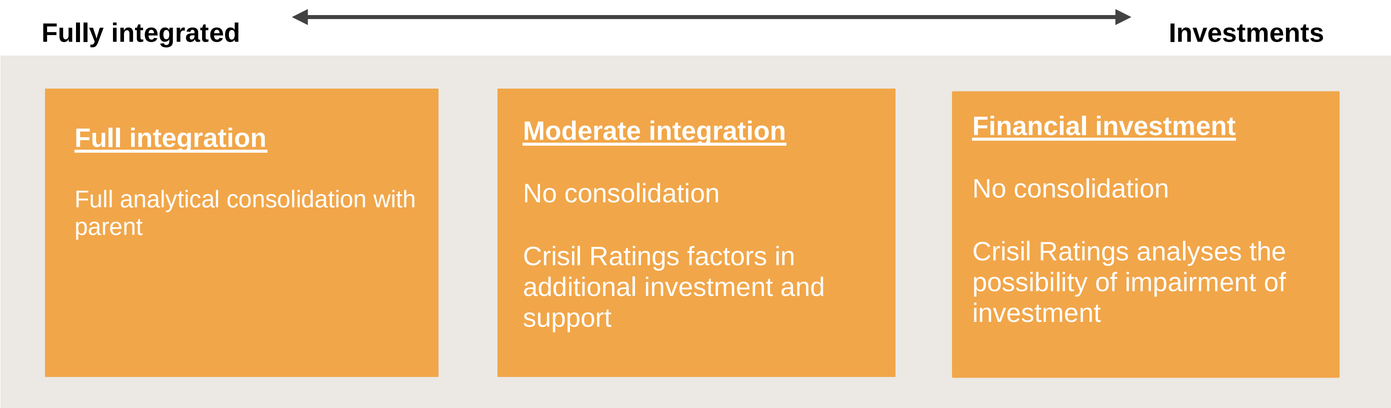
Step 1: Crisil Ratings evaluates the extent of linkages between the parent and related entities, based on the economic importance of the related entity to the parent, the extent to which cash flow of one entity can be used by another, the stated posture of the management, extent of shareholding of one entity in the other, and the presence of a shared name *(refer to Box 5 for the detailed framework for this assessment).*

Box 5: Crisil Ratings' framework for assessing level of integration

- **Economic importance of the related entity to the parent:** This is the strongest factor affecting the linkage between parent and related entities. Crisil Ratings evaluates the extent of economic incentive based on various factors including the parent's exposure to the related entity with respect to its own networth, strategic importance of the related entity and the expected financial returns.
- **Extent of cash flow fungibility:** Movement of cash across entities indicates strong likelihood of support from the parent to related entities. Cash flows across entities may include inter-corporate deposits, advances and loans, and equity infusions. Such groups generally have common treasury operations. However, the presence of a common treasury does not necessarily imply free cash flows within the group.
- **Documentary support:** Documentary support (such as guarantees, letters of comfort, or letters of awareness), provided by the parent to lenders of related entities, provides an insight into level of integration.
- **Management's stated posture:** Crisil Ratings evaluates the parent's stated posture on support (or otherwise) to a related entity, and its track record during exigencies. It is important to think ahead, to assess how the parent may act under potential stress scenarios.
- **Extent of ownership:** Large holdings by the promoter or group companies, reflect a high level of commitment to the related entity. Crisil Ratings assesses current and prospective shareholding patterns.
- **Shared name:** A common group logo or name, and other forms of association with the group, are manifestations of strong integration.

Step 2: Based on its assessment of the level of integration, Crisil Ratings categorises related entities into three classes (*see Chart 1*): fully integrated, moderately integrated, or held as a financial investment by the parent.

Chart 1: Classification of related entities



Step 3: Based on the classification, Crisil Ratings adopts the appropriate analytical treatment to factor in the potential impact of parent support.

- **Fully integrated with the parent:** Business and financial risk profiles of the parent incorporate those of fully integrated entities. Operations of these entities are critical to the parent, and there is significant economic incentive to support them, when needed.

  While SPVs, on account of their limited recourse structure, are usually not fully integrated with the parent, there might be exceptional instances where the extent of linkages between the parent and SPV are strong enough to warrant full integration. In such scenarios, the pooling of interest method may not be appropriate for consolidating an SPV with the parent – as the visibility of cash flows of SPV might be much longer tenured than that of parent. Consider an SPV in a business that's distinct from the parent's (for example, an SPV that's a toll road project with the parent being an EPC company). In such a case, the quantum and stability of cash flows of the parent and SPV are not comparable. Crisil Ratings may use the combined financial risk profile of the parent and the SPVs, to arrive at the rating of consolidated entity.

- **Moderately integrated with the parent:** Crisil Ratings estimates the extent of additional investment or support that may be required in exigencies, which is factored into the analysis of the parent. Crisil Ratings also tests the value of the parent's investments for impairment, and adjusts the parent's networth, if required. No consolidation is done in such cases, even though the related entity may legally be a subsidiary. For instance, consider a construction company that has invested 15% of its networth in an SPV, with limited recourse executing a toll road project. The SPV may legally be a subsidiary, but considering the limited recourse that its lenders have to the parent, Crisil Ratings will not consolidate the financials of the SPV, while analysing the parent. Extent of additional investment or support required from the parent, if the SPV is in distress, will be factored into the analysis of the parent.

- **Held as a financial investment by parent:** Crisil Ratings treats a related entity as a financial investment if:
  - It is of little strategic importance to the parent
  - It offers minimal economic incentive for the parent to provide support
  - It features adequate ring-fencing, and is insulated from the parent's stated posture of non-support

In such cases, the parent's credit risk profile is assessed independently without factoring in debt of the related entity. However, the value, volatility and liquidity of the parent's investment are analysed in a manner similar to any other equity investment. This includes testing the investment for any impairment in value.

Crisil Ratings may also follow proportionate consolidation methodology in case of joint ventures (JVs) which are expected to receive minimal support from a JV sponsor. Proportionate consolidation reflects the entitlement of the sponsor to the cash flows, assets and liabilities of the joint venture.

Conclusion

Crisil Ratings considers the impact of related entities on the business and financial risk profiles of an entity being rated. All subsidiaries of the rated entity are generally consolidated through the pooling of interests method for a fair representation of the entity's operations and liabilities. If a subsidiary operates in a sector different from that of the parent, or is explicitly ring-fenced, Crisil Ratings may not consolidate the business and financial risk profiles. However, even in such cases, Crisil Ratings may factor the potential support that the parent may extend to the subsidiary depending on the extent of linkages. Such support may also be factored in case of associate or group companies of the rated entity.

Section II.

Crisil Ratings methodology for entities belonging to homogenous corporate groups

Executive summary

In India, there are several family-owned groups that operate in a particular sector (such as textiles, jewellery, trading, and real estate) through different entities. Though these may not have apparent shareholding linkages, they often have common ownership and strong business, financial and managerial relationships. For instance, a promoter family may operate a jewellery business through different, fully owned entities with common procurement and branding strategies, and a centralized treasury. Crisil Ratings defines such groups as 'homogenous' where several entities represent the promoter family's interest in a particular sector.

Entities in such groups are not listed and unlikely to have a sizeable minority shareholding. They can have seamless cash flow, and there is a high likelihood of corporate guarantees or cross-collateral agreements between them. The promoters of such entities and their families are actively involved in managing operations and capital allocation decisions. Therefore, the credit risk profile of a homogenous group is driven by the collective strength and integrated operations of its constituent entities.

Crisil Ratings combines the business and financial risk profiles of all entities to arrive at the group rating, after considering the significant business, financial and managerial linkages. The ratings of individual entities are either equated to the combined group rating or may be differentiated by up to three notches. The differentiation will be based on the contribution of an entity to the group's cash flow, its exhibited and forecasted growth, its criticality to the group and its financial risk profile relative to the group.

The methodology for homogenous group is typically applicable for entities under a common individual promoter without any identifiable parent. The methodology help in both arriving at consolidation and rating the individual entities.

Similar consolidation methodology is followed for rating of REITs/InvITs, wherein cashflows of the SPVs and the trust are consolidated to arrive at the rating for consolidated group[3]. In most cases, the SPV rating is equated to the rating of this consolidated group. However, in a few cases, depending on the relative cash flow subordination/prioritization within the group, SPV rating might be differentiated from the rating of the trust.

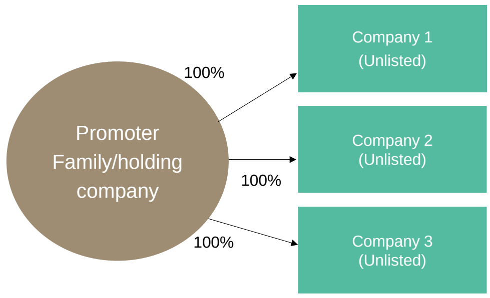
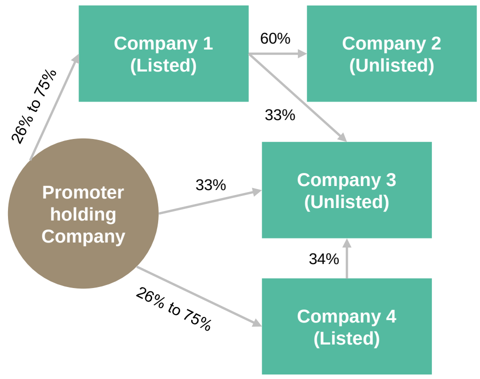
The homogenous group methodology may also be used while rating a group of infrastructure SPVs which are bundled together with presence of common promoters, fungibility of cash flows amongst SPVs and an intent to offer need- based support to each other.

Scope

This section[4] explains the methodology followed for homogenous family groups in the non-financial sector under common promoters with no clearly identifiable shareholding linkages between entities. When there is a clearly identifiable parent-subsidiary relationship, Crisil Ratings applies its 'Methodology for notching up standalone ratings of companies based on Parent Support[5]. In case of a group of companies under common promoters but no clearly identifiable parent, Crisil Ratings may apply either its 'Methodology for entities belonging to homogenous groups' or its 'Methodology for notching up standalone ratings of companies based on group support'[6]. This will be based on the characteristics of the group as outlined in Table 1.

[3] *Refers to the trust and the SPVs*
[4] *For the previous version of this article, please refer to the link below:*
https://www.crisilratings.com/content/dam/crisil/criteria_methodology/criteria-research/archive/criteria-for-rating-entities-belonging-to-homogenous-corporate-groups-sep2022.pdf
[5] *Please refer to the Crisil Ratings website: Section II of Crisil Ratings criteria for factoring parent/group/government linkages*
[6] *Please refer to the Crisil Ratings website: Section III of Crisil Ratings criteria for factoring parent/group/government linkages*

Table 1: Characteristics of groups to decide applicable methodology

<table>
<tr><th rowspan="2">Parameter</th><th colspan="2">Characteristics for application of methodology</th></tr>
<tr><th>Homogenous group</th><th>Notch-up based on group support</th></tr>
<tr><td rowspan="2">Shareholding pattern</td><td>
</td><td>
</td></tr>
<tr><td>All entities held 100% by the promoter family
Unlisted entities with minimal external shareholding</td><td>Promoter shareholding varies from 26 -100 % in different entities
Presence of listed entities/external shareholding in unlisted entities</td></tr>
<tr><td>Board composition</td><td>Promoters and their families will have high levels of representation and commonality in all the boards</td><td>While the promoters will be present on each board, there will be outside members with differences in overall composition</td></tr>
<tr><td>Management</td><td>Active involvement of promoters, in managing operations of individual entities
Capital allocation, funding decisions taken centrally by the promoters</td><td>Professional management for each entity
Capital allocation, funding decisions taken by the individual managements with guidance from the promoters</td></tr>
<tr><td>Business lines</td><td>Entities in similar or related business lines; however, there may be instances where promoters may diversify into new sectors
Separate entities to avail of tax benefits, handle stakeholder demands, or segregate roles and responsibilities within promoter family</td><td>Entities in unrelated business lines with each business insulated from the others</td></tr>
<tr><td>Operational linkages</td><td>Significant operational synergies such as common manufacturing locations, common procurement/ marketing, intercompany sales, and others</td><td>Limited or no operational linkages
Inter-company transactions, if any, happen at arm’s length</td></tr>
<tr><td>Financial linkages</td><td>All entities typically share a common treasury</td><td>Finances of entities are managed independently</td></tr>
</table>

Parameter	Characteristics for application of methodology	
	Homogenous group	Notch-up based on group support
	• Cash flows easily fungible among entities as they are all held by the same promoter family • Corporate guarantees and collateral sharing are common between entities	• Presence of external/minority shareholders restricts flow of funds between entities • Collateral sharing is unlikely; however, in some cases there can be guarantees extended between entities depending on management philosophy
Group credit risk profile	• Although there could be differences in the level of cash flow contribution, business risk profile and credit strength are derived from the collective strength of all the entities	• Few strong listed entities contribute significantly to the group's cash flow and credit risk profile
Promoters' stance	• With high level of business linkages and fungible cash flow between entities, credit support between them is ongoing and continuous	• Need-based distress support between the entities based on business viability
Lenders' Perspective	• Banks are typically common across entities • Banks view all entities as part of the same group with minimal interest rate differentials • Banks draw comfort from overall support provided to the entities by the group	• Entities raise resources from multiple sources • Lenders view each entity separately, but draw comfort from the group

A. Credit quality of a homogenous group

All entities operate in similar businesses and perform specific functions, including:

- Geographic diversification by entering into new markets
- Extending product portfolio to related business lines
- Backward integration by supplying critical raw material
- Forward integration by entering into retailing or distribution

All entities are typically unlisted and fully owned by the same promoters who exert a high degree of control over their operations. Cashflows are fungible between entities, and decisions pertaining to capital allocation and debt funding are taken centrally by the promoters. Considering the significant business, financial, and managerial linkages between entities, Crisil Ratings assesses the credit quality of a homogenous group as if all the entities were part of a single company. The group rating is arrived at by combining the business and financial risk profiles of all entities as highlighted in Table 2.

Table 2: Consider a homogenous group with three entities: A, B, and C. The group manufactures its products through entity A; and sells them to customers in two regions, via entities B and C:

Business risk	• The group's market position is driven by combined sales through B and C • Operating efficiency is based on vertically integrated operations of A, B, and C
Financial risk	• Based on consolidated financials of all entities, after adjusting for inter-company sales, equity holdings, and loans and advances • Projections based on aggregate capital expenditure, debt-raising plans
Management risk	• Based on assessment of the promoter's risk appetite, competence, and integrity

B. Identifying homogenous group companies

Crisil Ratings combines only those entities within a homogenous group where significant business and financial synergies can be established. The entities have to meet the following preconditions for being included in the group:

- **Fully held by common promoters:** The entities must be unlisted and held by the same promoters with marginal shareholding of external investors. This allows the promoters to exercise a high degree of control over operations and provides them the flexibility to allocate surplus cash flow of one entity to fund or support the operations of another, thereby lending financial stability to overall operations of the group.
- **Business linkages between entities:** The entities must be engaged in similar or related business lines, with operational linkages such as common manufacturing locations, common procurement/marketing functions, and vertically integrated operations. The entities must contribute to the group's business risk profile, either by strengthening its market position through geographic expansion, new product lines or diversification of customer base, or via improved operational efficiency, through supply of components and job-work for other group entities, among others. If the promoters control other entities, operating in an unrelated business segment, these entities may not be combined under the homogenous group.
- **Financial linkages between entities:** A common management team must exert control over the treasury operations of individual entities, thus ensuring a seamless flow of funds between them. Crisil Ratings usually obtains an undertaking from the promoters to this effect. The entities may also provide financial assistance to each other through corporate guarantees, loans and advances, and cross-company equity holdings.

Crisil Ratings' approach if the preconditions are not met:

Even within a homogenous group, certain entities may not satisfy all the preconditions for being included in the group. Such entities would be assigned ratings, based on the group notch-up framework[7] to factor in group support, if applicable. Typical examples of entities not combined into a homogenous group and the reasons for this, are given in Table 3.

Table 3: Entities not combined into a homogenous group

Characteristic	Reasons for not combining
Substantial external shareholding	• Restrictions on accessing cash flow • Potential conflicts regarding extent of fund support
Limited business linkages with other entities	• Not contributing to the business risk profile of the group • Typically, low scale and limited debt • Shell companies with no operations (for example, entity formed to hold assets such as land)
Independent management	• Limited fungible cash flow with other entities • Intent of insulating cash flow
Entities operating in a different business line*	• Not contributing to the business risk profile of other entities • Extent of support will depend on business viability

** In case a group operates in two or more business lines, the entities in one business line may be combined as a sub-group if they satisfy all the preconditions for combination. The benefits of being associated with one common promoter group will be factored into the rating of the sub-group through the group notch-up framework.*

In addition to the preconditions stated, Crisil Ratings performs the following checks to ensure that the business and financial linkages will continue in the medium-to-long term:

- **Presence of family factions:** Second- or third-generation homogenous family groups may be subject to family splits. These are typically followed by severing of linkages, between different entities. This will impact the collective business strength of the group, and thus, weaken the credit risk profiles of individual entities. Hence, Crisil Ratings, in its assessment of homogenous family groups, factors in the risks of family separation in the future.

  For instance, Crisil Ratings considers the risks of family separation to be high in the following scenario:

  – Shareholding and board composition of one set of entities is concentrated with one family faction, and

  – Roles and responsibilities of family members are segregated not based on functions (such as procurement, marketing, and finance), but on companies.

  Crisil Ratings exercises caution if it believes that there is high probability of a family split. Entities belonging to different factions will be combined only if the promoters have strongly articulated against any such split in the medium term, and there are significant business and financial linkages that necessitate consensus between the factions.

- **Common bankers:** Homogenous group entities typically transact with common bankers, who draw comfort from established relationships with the group, and maintain minimal interest-rate differentials between entities. There

[7] *As per Crisil Ratings' "Methodology for notching up standalone ratings of companies based on group support".*

may even be instances where the bankers could be different, but Crisil Ratings may still choose to combine, based on business and financial linkages between the entities. However, the entities will be included in the group, only if there are no explicit restrictions in the loan sanction terms on movement of funds between entities.

C. Ratings of individual group entities

The credit risk profile of a homogenous group is driven by the integrated operations of its entities enabling the group to achieve market competencies though economies of scale, pricing power of an established brand, and sharing of common promoter/managerial expertise. Hence, the credit risk profile of each entity is centrally linked to the credit risk profile of the group. However, the ratings of all the entities may not be equated to that of the group credit rating. Crisil Ratings may choose to differentiate the ratings of individual entities by up to three notches lower than that of the group. This will depend on their contribution to the group's cash flow, criticality of operations, growth prospects, and relative financial risk profile and project risk, if any.

Entities with significant contribution to the group: If an entity contributes substantially to the group, its business risk profile has a material effect on the group's credit risk profile. Hence, credit risk profiles of such entities are equated to that of the group.

Entities with low contribution to the group: In case an entity's contribution is low, Crisil Ratings may lower the rating of that particular entity by up to two notches, to indicate its weaker business risk profile relative to that of the group. The entity's contribution is considered low if its earnings before interest, tax, depreciation, and amortization (EBITDA) is less than 10% of the group's EBITDA, and it significantly deviates from other group entities. The extent of notchdown is restricted to two notches as Crisil Ratings believes the group has high moral obligations to extend business, financial, and managerial support.

For entities with a low contribution to the group, Crisil Ratings looks at the following conditions to decide the extent of notch-down from the group rating:

If the entity's EBITDA is not growing in line with that of the group and it has a weak financial risk profile compared with that of the group's benchmarks, then the rating will be lowered by up to two notches.

However, if the entity displays either a healthy financial risk profile or its EBITDA continues to grow in line or better than that of the group, the notch-down may be restricted to one notch. If both these conditions are met, Crisil Ratings may choose to equate its rating to that of the group.

Furthermore, there may be instances where a smaller entity may perform crucial functions such as supply of critical components to the group's operations. Crisil Ratings may choose to equate the ratings of these entities to that of the group based on its assessment of criticality.

Project entities yet to commence operations: A project entity is combined into the group only if business linkages are expected to be established with the group, once operations commence. The rating of a project entity may be lowered from the group rating by up to three notches, based on the assessment of project risks relative to the group's credit risk profile. Presence of financial linkages with the group, in the form of fund infusions and corporate guarantees, are also considered while deciding the extent of notch-down.

D. Conclusion

Crisil Ratings terms groups of entities operating in similar business lines, fully held by common promoters with centralized decision-making, as homogenous groups. Entities in such groups operate as if they were divisions of a single company. While assessing the credit quality of these entities, Crisil Ratings first arrives at the group rating by combining the business and financial risk profiles of all constituent entities. The ratings of individual entities included in the group are either equated to or notched down from the group rating, depending on the entity's contribution to the group's business and other linkages with the group.

About Crisil Ratings Limited (A subsidiary of Crisil Limited, a company of S&P Global Company)

Crisil Ratings pioneered the concept of credit rating in India in 1987. With a tradition of independence, analytical rigour and innovation, we set 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 35,000 large and mid-scale corporates and financial institutions. We have also instituted several innovations in India in the rating business, including rating municipal bonds, partially guaranteed instruments and infrastructure investment trusts (InvITs). Crisil Ratings Limited ("Crisil Ratings") is a wholly-owned subsidiary of Crisil Limited ("Crisil"). Crisil Ratings Limited is registered in India as a credit rating agency with the Securities and Exchange Board of India ("SEBI").

For more information, visit CrisilRatings.com.

About Crisil

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Large and highly respected firms partner with us for the most reliable opinions on risk in India, and for uncovering powerful insights and turning risks into opportunities globally. We are integral to multiplying their opportunities and success.

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