

# **CRISIL Ratings**

## Ratings and rating scales

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## Executive summary

Credit ratings by CRISIL Ratings on debt obligations are its opinion on the likelihood of the obligation being repaid in full and on time. The ratings indicate the current opinion of CRISIL Ratings on the probability of default on the instruments. CRISIL Ratings uses a rating watch and an outlook to indicate the likelihood of change in its ratings and the probable direction of that change. The ratings are conveyed using simple alphanumeric symbols for six categories: long-term, short-term, structured finance, credit enhancements, corporate credit rating and debt mutual fund schemes.

## Scope

This article<sup>1</sup> enunciates the meaning of credit ratings and the rating scales used by CRISIL Ratings for long-term, short-term, structured obligations, credit enhancements, corporate credit rating and debt mutual fund schemes. It also outlines the CRISIL Ratings policy for placing ratings on credit watch and assigning rating outlook to provide information to investors about potential rating changes.

## Understanding ratings by CRISIL Ratings

A credit rating represents a rating agency's opinion on the likelihood of the rated debt obligation being repaid in full and on time. This opinion helps stakeholders perform a comparative assessment of investment options and facilitates the issuer's access to funds.

Rating agencies assign credit ratings using three rating scales: global, regional and national. The essential difference among these is scope: global scale ratings are assigned based on an assessment of the issuer in relation to other issuers globally, regional scale ratings are based on credit risk comparisons within a specific region, and national scale ratings are based on credit risk comparisons in a domestic context.

National scale ratings, including ratings assigned by CRISIL Ratings, provide superior credit differentiation among issuers/issues within a country by using the sovereign rating as a benchmark. On a domestic scale, ratings assigned by CRISIL Ratings are relative to the sovereign rating of the Government of India, which is assumed to have the highest rating of 'AAA'.

A credit rating by CRISIL Ratings indicates its current opinion on the probability of default on the rated instrument. In other words, the credit rating indicates the probability of the issuer not meeting interest and principal obligations on time and in accordance with the terms of the rated instrument. The probability is reflected in the form of an easily understandable alphanumeric scale, with ratings such as 'CRISIL AAA', 'CRISIL AA', 'CRISIL A', or 'CRISIL A1' and 'CRISIL A2'.

## Credit ratings are

- **Relative measures of default probability, not a guarantee against default:** A credit rating does not indicate that payment of interest and principal is completely certain. There are definitive non-zero probabilities of default for any rating category, including the highest, 'CRISIL AAA'. For instance, if the default rate for a rating agency's 'AAA' category is 0.1% for three years, it indicates that out of 1,000 'AAA' ratings that the agency has assigned, one has defaulted on paying interest or principal within three years of assigning the rating. The rating only indicates that the rated instrument is less likely to default than instruments rated lower.

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<sup>1</sup>For the previous version of this article, which was published in February 2023, please refer to the link below:  
[https://www.crisilratings.com/content/dam/crisil/criteria\\_methodology/basics-of-ratings/archive/CRISILs\\_rating\\_and\\_rating\\_scales-feb2023.pdf](https://www.crisilratings.com/content/dam/crisil/criteria_methodology/basics-of-ratings/archive/CRISILs_rating_and_rating_scales-feb2023.pdf)

- **Not a comment on the general performance of the issuer, potential price of its bonds or equity shares or suitability to the investor:** A credit rating should not be construed as an opinion on the issuer's general performance. It is neither an opinion on the likely future price of the rated bonds nor on the potential value of the issuer's equity shares. It is not a recommendation to buy, sell or hold a rated instrument nor a comment on the market price or suitability for a particular investor. Credit ratings are based on qualitative and quantitative analysis of information provided by issuers or rated entities or obtained from other sources considered reliable; they do not constitute audits of issuers or rated entities.
- **Assigned to debt instruments alone and NOT to equity instruments:** Typically, debt instruments such as non-convertible debentures, partially convertible debentures, bonds, fixed deposits, commercial papers, bank loan facilities, short-term debt and structured debentures are rated. Entities issuing these instruments can also be rated on their capacity to meet their debt obligation on time.

A rating agency assigns ratings on the basis of its analysis of the business and financial risks associated with the rated entity and its management. The assessment of business risk includes analysis of the industry that the entity operates in (*refer to 'Criteria and Methodology' on the CRISIL Ratings website for detailed sector-specific criteria*).

Once a rating is assigned and accepted, CRISIL Ratings continuously monitors the credit quality of the rated instrument or entity—as reflected in periodic reaffirmations, upgrades, or downgrades—till such time as the rating is withdrawn. The rating may be changed, suspended, withdrawn or placed on rating watch based on one or more specific events. Accordingly, CRISIL Ratings notifies investors of the same from time to time.

## Policy for assigning rating outlook

The rating outlook indicates CRISIL Ratings view on the direction in which a rating is likely to move over the medium term (defined as **period spanning six months to two years**). CRISIL Ratings has been using outlooks since 2003 — more than a decade prior to the regulator requiring it.

While a rating conveys the most likely scenario of creditworthiness based on expected performance of a rated entity, possible alternative scenarios and their impact on creditworthiness drive the outlook. A rating outlook may be 'Positive', 'Stable' or 'Negative'. A 'Positive' outlook indicates the rating may be upgraded; a 'Stable' outlook indicates the rating is likely to remain unchanged, while a 'Negative' outlook indicates the rating may be lowered.

### Box 1: A rating outlook may be Positive, Stable or Negative

- A 'Positive' outlook indicates there is a material likelihood (at least one in three) of the rating being upgraded over the medium term
- A 'Stable' outlook indicates the rating is likely to remain unchanged
- A 'Negative' outlook indicates there is material likelihood (at least one in three) of the rating being downgraded

Issue-specific ratings are valid for the life of the instrument. Therefore, as forward-looking opinions on credit quality, the ratings incorporate assessment of future circumstances. The CRISIL Ratings rating history indicates that a majority of its ratings have remained relatively stable; a large proportion of the outlooks it has assigned are 'Stable'. 'Positive' or 'Negative' outlooks are, however, assigned when there is likelihood that circumstances could change beyond the extent that has been factored into the ratings.

Outlooks are assigned to ratings of long-term instruments and fixed deposits, barring 'CRISIL C' and 'CRISIL D' category ratings. These are assigned irrespective of the residual maturity of instruments. Long-term credit enhanced instruments exposed to the credit risks of a single counterparty or a few counterparties are also assigned outlooks. These include ratings based on full or partial guarantees from a single party. Ratings on securitisation transactions

do not carry outlooks. Outlooks can be assigned to issuer ratings (referred to as corporate credit ratings) as well. CRISIL Ratings does not assign outlooks for its short-term ratings.

An outlook does not necessarily presage a rating change. For instance, a 'Negative' outlook does not indicate that the rating will be necessarily downgraded. By the same token, a rating change is not necessarily preceded by a change in outlook. In other words, all upgrades need not be preceded by a 'Positive' outlook and all downgrades need not be preceded by a 'Negative' outlook. Though rating changes in the direction indicated by the outlook are likely, unexpected events may cause a rating to change before a revision in outlook.

## Policy for placing ratings on watch

CRISIL Ratings may place a rating on watch if the issuer announces a merger, acquisition or demerger of business, which may impact the credit risk profile of the rated debt instrument. Ratings may also be placed on watch if the credit risk profile of the issuer is impacted by a regulatory action or when the impact of specific events on the credit risk profile cannot be accurately assessed at the point when they occur and additional information may be necessary to fully ascertain the creditworthiness of the rated instrument. The rating may be placed on watch with positive, negative or developing implications ('Watch with Positive Implications', 'Watch with Negative Implications' and 'Watch with Developing Implications', respectively).

### Box 2: What does a rating on watch with positive, negative or developing implications convey?

- A rating placed on watch with positive implications indicates that the rating may be upgraded or reaffirmed
- A rating placed on watch with negative implications implies that the rating may be downgraded or reaffirmed
- A rating placed on watch with developing implications indicates that the rating may be upgraded, downgraded or reaffirmed

A listing under rating watch does not imply that a rating will necessarily change, nor is it a prerequisite for a rating change. Ratings placed on watch do not carry outlooks.

Table 1 summarises the differences between a rating outlook and a rating watch

Table 1: Rating outlook Vs rating watch

	Rating outlook	Rating watch
<b>Meaning</b>	Indicates possible direction of movement in rating over the medium term based on assessment by CRISIL Ratings of key rating sensitivity factors	Indicates uncertainty in rating due to occurrence/possible occurrence of specific events, the impact of which cannot be evaluated without additional information
<b>Types</b>	Outlook may be positive, stable or negative	Rating watch listings can be positive, negative or developing
<b>Time horizon</b>	Covers a duration of six months to two years	A rating watch is typically resolved in about 90 days
<b>Instruments</b>	Applicable to ratings assigned on the long-term and credit enhanced long-term scales	Applicable to all instruments including short-term instruments

## Rating scales used by CRISIL Ratings

### CRISIL Ratings assigns ratings under the following six categories:

- **Long-term:** The term 'long-term instruments' indicates bonds, debentures, other debt securities, bank loans and other fund-based facilities with maturity of more than one year. Long-term ratings are assigned on a 20-point scale, from 'CRISIL AAA' to 'CRISIL D.' From June 2022, fixed deposit (FD) programmes are rated on the 20-point long-term rating scale. Prior to this, CRISIL Ratings assigned ratings to the FD programmes on a 14-point scale.
- **Short-term:** The term 'short-term instruments' indicates commercial papers, short-term debentures, certificates of deposit, intercorporate deposits, working capital borrowings and other fund- and non-fund-based facilities with maturity of one year or less. Short-term ratings are assigned on a 9-point scale, from 'CRISIL A1' to 'CRISIL A4' and 'CRISIL D', denoting default.
- CRISIL Ratings assigns **dual ratings** (ratings on both long-term and short-term scales) to debt instruments that have maturity of more than one year and a put option exercisable within one year from the date of issue. The first component of the rating, the long-term rating, addresses the likelihood of timely payment of principal and interest over the life of the instrument, while the rating on the short-term scale indicates the likelihood of timely payment on the instrument by the issuer if the put option is exercised. An example of dual rating is 'CRISIL AA+/CRISIL A1+'.
- **Structured obligation ratings (SO):** CRISIL Ratings assigns ratings to long- and short-term structured finance instruments by using the suffix SO. These ratings are assigned only to securitised or asset-backed transactions having credit enhancement/structure, which leads to the instrument being bankruptcy remote from the issuer/originator. Instruments with maturity of more than one year are rated on the long-term scale, while instruments with maturity of one year or less are rated on the short-term scale. The structured finance rating categories range from 'CRISIL AAA (SO)' to 'CRISIL D (SO)' on the long-term scale and 'CRISIL A1 (SO)' to 'CRISIL D (SO)' on the short-term rating scale.
- **Credit enhancement (CE) ratings:** CRISIL Ratings assigns the suffix CE to ratings on long- and short-term instruments that are backed by explicit credit enhancement that is external (from a third party, parent or group), but the rated instrument is not bankruptcy remote from the issuer/originator. Instruments with maturity of more than a year are rated on the long-term scale while those with maturity of a year or less are rated on the short-term scale. The CE rating categories range from 'CRISIL AAA (CE)' to 'CRISIL D (CE)' on the long-term scale and 'CRISIL A1 (CE)' to 'CRISIL D (CE)' on the short-term rating scale. The suffix is applied only if the supported rating—after factoring in the explicit credit enhancement structure—is higher than the unsupported rating, implying a credit uplift provided by the structure. The 'CE' ratings apply only to instruments and not to the companies issuing them.
- **Corporate credit ratings (CCR):** CRISIL Ratings assigns corporate credit ratings to issuers on a scale ranging from 'CRISIL AAA' to 'CRISIL D'. These ratings indicate the degree of safety of the issuer or the rated entity with regard to timely servicing of debt obligation. CRISIL Ratings also assigns these ratings to insurance companies to indicate their financial strength or ability to meet policyholder obligations.
- **Debt mutual fund scheme ratings:** CRISIL Ratings assigns ratings to debt mutual fund schemes on a scale ranging from 'CRISIL AAAmfs' to 'CRISIL C-mfs' on the long-term scale, and 'CRISIL A1+mfs' to 'CRISIL A4mfs' on the short-term scale. The long-term scale is applicable to all open and close-ended schemes with original contracted maturity of more than a year. The short-term scale is applicable only for close-ended schemes with original contracted maturity of up to a year.

### Box 3: CRISIL Ratings rating scales

Long-term rating scale	Short-term rating scale	Structured finance rating scale		Credit enhancement rating scale		Corporate credit rating scale (CCR)	Debt mutual fund scheme rating scale	
Symbol (Rating category)	Symbol (Rating category)	Long-term SO instruments (Rating category)	Short-term SO instruments (Rating category)	Long-term CE instruments (Rating category)	Short-term CE instruments (Rating category)	Symbol <sup>2</sup> (Rating category)	Long term debt mutual fund schemes (Rating category)	Short term debt mutual fund schemes (Rating category)
CRISIL AAA	CRISIL A1	CRISIL AAA (SO)	CRISIL A1 (SO)	CRISIL AAA (CE)	CRISIL A1 (CE)	CRISIL AAA	CRISIL AAAmfs	CRISIL A1mfs
CRISIL AA	CRISIL A2	CRISIL AA (SO)	CRISIL A2 (SO)	CRISIL AA (CE)	CRISIL A2 (CE)	CRISIL AA	CRISIL AA mfs	CRISIL A2mfs
CRISIL A	CRISIL A3	CRISIL A (SO)	CRISIL A3 (SO)	CRISIL A (CE)	CRISIL A3 (CE)	CRISIL A	CRISIL A mfs	CRISIL A3mfs
CRISIL BBB	CRISIL A4	CRISIL BBB (SO)	CRISIL A4 (SO)	CRISIL BBB (CE)	CRISIL A4 (CE)	CRISIL BBB	CRISIL BBBmfs	CRISIL A4mfs
CRISIL BB	CRISIL D	CRISIL BB (SO)	CRISIL D (SO)	CRISIL BB (CE)	CRISIL D (CE)	CRISIL BB	CRISIL BBmfs	
CRISIL B		CRISIL B (SO)		CRISIL B (CE)		CRISIL B	CRISIL Bmfs	
CRISIL C		CRISIL C (SO)		CRISIL C (CE)		CRISIL C	CRISIL Cmfs	
CRISIL D		CRISIL D (SO)		CRISIL D (CE)		CRISIL D		

CRISIL Ratings may apply '+' (plus) or '-' (minus) sign to its long-term ratings from 'CRISIL AA' to 'CRISIL C', long-term ratings for structured finance instruments from 'CRISIL AA (SO)' to 'CRISIL C (SO)', long-term ratings for credit enhanced instruments from 'CRISIL AA(CE)' to 'CRISIL C(CE)', corporate credit ratings from 'CRISIL AA' to 'CRISIL C', long-term ratings for debt mutual fund schemes from 'CRISIL AA mfs' to 'CRISIL Cmfs', to reflect comparative standing within each category.

CRISIL Ratings may apply '+' (plus) sign to short-term ratings from 'CRISIL A1' to 'CRISIL A4', short-term ratings for structured finance instruments from 'CRISIL A1 (SO)' to 'CRISIL A4 (SO)', short-term ratings for credit enhanced instruments from 'CRISIL A1(CE)' to 'CRISIL A4(CE)' and short-term ratings for debt mutual fund schemes from 'CRISIL A1mfs' to 'CRISIL A4mfs' to reflect a comparatively higher standing within a category.

The plus and minus signs are used to indicate finer distinctions within a rating category. The minus symbol associated with ratings has no negative connotations whatsoever.

## The CRISIL Ratings approach to recognition of default

The CRISIL Ratings criterion for the lowest rating, default, is normally event-specific; delay in payment of interest/principal of the rated debt will result in a rating revision to 'CRISIL D' or the corresponding symbol if the rating is assigned on a different scale. CRISIL Ratings applies this definition strictly to all rated debt instruments; even a day's delay on the rated debt will result in a downgrade to the default rating ('CRISIL D'). For further details, please refer to the criteria on the CRISIL Ratings approach to recognising default, which can be accessed at [www.crisilratings.com](http://www.crisilratings.com).

## Ratings for structured obligations

CRISIL Ratings uses the suffix SO in parenthesis for ratings of securitised or asset-backed transactions having credit enhancement/structure that leads to the instrument being bankruptcy remote from the issuer/originator. Structured obligation ratings apply only to instruments and not to the companies issuing them.

Typical instruments/facilities for which 'SO' ratings are assigned include:

- Asset-backed securitisation (ABS)
- Mortgage-backed securitisation (MBS)
- Collateralised debt obligation (CDO)
- Covered bonds where primary recourse is to pool loans housed in a trust, with secondary recourse to issuer
- Capital protection-oriented fund

<sup>2</sup> Following SEBI guidelines in July 2021 and October 2022, previous CCR rating scale has been migrated to 20-point standardised SEBI scale.

## **Typical capital market instruments/facilities for which the 'CE' ratings are assigned include (but are not restricted to):**

- Guaranteed bond; shortfall undertaking backed bond or other such third-party credit enhancement
- Debt backed by pledge of shares or other assets
- Commercial mortgage-backed securities (CMBS)
- Partially guaranteed bond
- Standby letter of credit (SBLC)-backed securities
- Covered bonds with primary recourse to issuer
- Guaranteed pooled bond issuance (PBI), not through a trust
- Obligor/co-obligor structures or cross-default guarantee structures
- Debt backed by payment waterfall, escrow or debt service reserve account (DSRA), but with full guarantee or DSRA replenishment guarantee from a third party
- Debt backed by letter of comfort

## **Typical bank loan/facilities for which 'CE' ratings are assigned include (but are not restricted to):**

- Guaranteed bank loan facilities complying with the 12-point framework
- Loans backed by letter of credit, shortfall undertakings issued by central/state governments, provided these are legally enforceable, irrevocable and unconditional
- SBLC-backed facilities
- Guaranteed pooled loans issuance (PLI), not through a trust
- Debt backed by payment waterfall, escrow or DSRA, but with full guarantee or DSRA replenishment guarantee from a third party

## **Rating for instruments carrying non-credit risk**

The CRISIL Ratings long-term rating scale addresses credit risk, representing the likelihood of debt not being serviced on time. CRISIL Ratings also rates debt instruments such as equity-linked debentures, which carry non-credit risks (such as market risks). It does not attempt to estimate variables such as future stock prices or commodity prices, and therefore, does not factor such risks into the ratings it assigns. In the case of principal-protected market-linked debentures, CRISIL Ratings prefixes such ratings with the symbol 'PP-MLD'. The terms of such instruments indicate that while the issuer promises to pay back the face value/principal on the instrument, the coupon rate on these instruments is not fixed and is linked to one or more external variables such as commodity prices, equity share prices and indices.

## **Validity of ratings**

The ratings by CRISIL Ratings are under continuous surveillance over the life of the rated facility. In principle, all ratings assigned by CRISIL Ratings address the credit risk associated with the rated facility till such time as the entire facility is redeemed in full. Ratings are subject to change at any point in time based on changes in the business or financial risk profile of the issuer or the prospects for the industry in which the issuer operates. Therefore, CRISIL



Ratings does not mention a fixed validity date in its rating communication, including rating letters, rating rationales and credit rating reports. Any change in rating is published by CRISIL Ratings on its website on real-time basis. The CRISIL Ratings website contains latest information on all its outstanding ratings.

## **Withdrawal of ratings**

Debt instruments or facilities rated by CRISIL Ratings are under continuous surveillance over the life of the instrument. Certain conditions have to be met for withdrawal of the ratings. For details on the CRISIL Ratings withdrawal policy, please refer to the article, [Policy for withdrawal of ratings](#), which can be accessed at [www.crisilratings.com](http://www.crisilratings.com). The CRISIL Ratings withdrawal policy is in line with the Securities and Exchange Board of India (SEBI) guidelines applicable for all credit rating agencies.

## **About CRISIL Ratings Limited** (A subsidiary of CRISIL Limited, an 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 [www.crisilratings.com](http://www.crisilratings.com).

## **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 through businesses that operate from India, the US, the UK, Argentina, Poland, China, Hong Kong and Singapore.

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.

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