Disclosure of Rating Transition Rates for FY 2022-23

Table 1 – Rating transition rates for all instruments (<u>excluding</u> ratings that have been withdrawn or ratings of non-cooperative issuers during the financial year)

Rating Category	AAA	AA	A	BBB	BB	B	C	D
AAA	98.75%	0.91%	0.08%	0.00%	0.08%	0.08%	0.00%	0.08%
AA	1.73%	96.90%	1.00%	0.05%	0.14%	0.05%	0.00%	0.14%
A	0.08%	4.04%	93.36%	2.39%	0.08%	0.03%	0.00%	0.03%
BBB	0.00%	0.08%	3.62%	92.09%	3.68%	0.12%	0.06%	0.35%
BB	0.00%	0.00%	0.01%	4.10%	89.91%	2.87%	0.04%	3.07%
B	0.00%	0.04%	0.04%	0.02%	10.53%	78.47%	0.29%	10.62%
C	0.00%	0.00%	0.00%	0.00%	2.63%	26.32%	42.11%	28.95%

Table 1 is from a disclosure made in April 2023.

Table 2 – Rating transition rates for dataset limited to credit ratings of listed debt securities[1] (<u>excluding</u> ratings that have been withdrawn or ratings of non-cooperative issuers during the financial year)

Rating Category	AAA	AA	A	BBB	BB	B	C	D
AAA	98.19%	1.13%	0.23%	0.00%	0.45%	0.00%	0.00%	0.00%
AA	2.32%	96.53%	0.77%	0.00%	0.00%	0.00%	0.00%	0.39%
A	0.00%	8.03%	90.51%	0.73%	0.00%	0.73%	0.00%	0.00%
BBB	0.00%	0.00%	11.11%	82.22%	4.44%	0.00%	0.00%	2.22%
BB	0.00%	0.00%	0.00%	9.09%	72.73%	0.00%	0.00%	18.18%
B	0.00%	0.00%	0.00%	0.00%	0.00%	72.73%	9.09%	18.18%
C	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	50.00%	50.00%

Table 3 – Rating transition rates for dataset limited to credit ratings of listed debt securities[1] (<u>including</u> ratings that have been withdrawn or ratings of non-cooperative issuers during the financial year)

Rating Category	AAA	AA	A	BBB	BB	B	C	D	W
AAA	90.25%	1.04%	0.21%	0.00%	0.41%	0.00%	0.00%	0.00%	8.09%
AA	2.08%	86.46%	0.69%	0.00%	0.00%	0.00%	0.00%	0.35%	10.42%
A	0.00%	6.96%	78.48%	0.63%	0.00%	0.63%	0.00%	0.00%	13.29%
BBB	0.00%	0.00%	8.62%	63.79%	5.17%	0.00%	0.00%	1.72%	20.69%
BB	0.00%	0.00%	0.00%	2.78%	38.89%	11.11%	0.00%	5.56%	41.67%
B	0.00%	0.00%	0.00%	0.00%	0.00%	50.00%	9.09%	22.73%	18.18%
C	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	40.00%	60.00%	0.00%

W – Withdrawn

Note:
1. *Due to constraints on consistent availability of the data on listing of debt securities, the computation of transition rates limited to credit ratings of securities that are listed/ proposed to be listed has been done on a best-efforts basis. For obtaining data on listed debt securities, CRISIL Ratings has relied on listing data from depositories, exchanges, and third-party databases for the entire period, and data on listed ISINs maintained by CRISIL Ratings for the past few years.*

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[1] *Includes proposed to be listed debt securities*

2. *Table 1 captures transition rates for all instruments published by CRISIL Ratings in April 2023[2] (added for comparison),while tables 2 and 3 pertain to transition rates for listed debt securities. Stability rate is a universally accepted metric used by investors and other key stakeholders alike for evaluating the performance of a credit rating agency (CRA). Stability rates represent the percentage of ratings that remain within the same category by the end of the year. Hence for ratings to be reliable, a CRA should have high stability rates especially at higher rating categories. As can be seen from the tables above, stability rates computed on a dataset limited to credit ratings of listed debt securities appear to be much lower than stability rates computed on a dataset that includes all instruments, especially at the lower rating categories; this is because the former suffer from low sample sizes. The sample size of rated listed debt securities is only a fraction of the total rated universe as is clear from the following table which captures the sample size of listed debt securities across rating categories as a proportion of the total rated universe. While listed debt securities are relatively more prevalent in higher rating categories such as AAA and AA, the sample size gets sharply and nearly secularly truncated at lower rating categories (going as low as ~1/900th) as there are scarcely any issuances in India for securities rated in lower rating categories. Further, the few ratings for listed debt securities at lower categories are mostly ratings in transition to default. Even a few rating transitions in these rating categories with insignificant sample set of listed debt securities leads to inflated transition rates (and correspondingly low, underestimated stability rates).*

Approximate sample size of listed debt securities as a proportion of total rated universe for all instruments, for each rating category	
AAA	1/3rd
AA	1/4th
A	1/30th
BBB	1/200th
BB	1/900th
B	1/500th
C	1/40th

How to read the above table? *In BB category, the sample size of listed debt securities is ~1/900th of all instruments. Hence, while the stability rate for the CRISIL Ratings' listed securities portfolio for BB category is 72.73% (table 2), the overall stability rate is 89.91% (table 1).* **Clearly, computation of transition rates solely based on listed debt securities (or any single instrument class) is not representative of the transition rates of ratings assigned to Indian corporates. Table 1 captures transition rates for all instruments and better represents the quality of a CRA's ratings.**

3. *In line with disclosure requirement, table 3 presents transition rates which are not adjusted for withdrawals – withdrawals are shown separately. Such representation tends to underestimate the stability rates. For instance, 78.48% stability rate for A category in table 3, does not factor 13.29% ratings withdrawn in that category. Hence, stability rate of 78.48% looks optically lower on a base of 100. However, it would be higher if viewed on a base of 86.71 instead of 100 (after adjusting for 13.29% of withdrawals in A category). This is reflected in table 2, which displays a stability rate of 90.51%, as it considers withdrawals in its calculation. Nevertheless, as emphasized in point number 2 earlier, Table 1, which encompasses transition rates for all instruments after accounting for withdrawals and non-cooperative issuers, better represents the quality of a CRA's ratings.*
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[2] *The disclosures for all instruments are also available on the CRISIL Ratings website at https://www.crisilratings.com/content/dam/crisil/generic-images1/our-businesses/ratings/regulatory-disclosure-highlighted-policies/regulatory-disclosures/sebi/disclosures-as-per-sebis-circular-sebi-ho-mirsd-dos3-cir-p-2018-140/average-rating-transition-rates-for-long-term-instruments.pdf.*