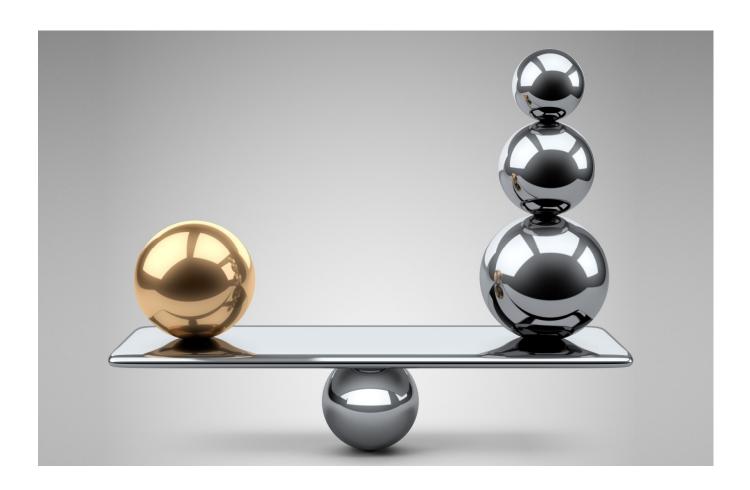


CRISIL's ratings and rating scales

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Executive summary

CRISIL's credit ratings on debt obligations represent its opinion on the likelihood of the obligations being repaid in full and on time; the ratings indicate CRISIL's current opinion on the probability of default on the instruments. CRISIL uses a rating watch and rating outlook to indicate the likelihood of change in its ratings, and the probable direction of that change. Ratings, which are conveyed using simple alphanumeric symbols, are in six categories: long-term, short-term, structured finance, corporate credit ratings, fixed deposit ratings, and financial strength ratings for insurance companies. CRISIL uses the suffix 'r' to distinguish instruments that carry non-credit risk from those that carry only credit risk.

Scope

This article enunciates the meaning of CRISIL's credit ratings, and its rating scales for long-term, short-term, fixed deposit, structured obligations, financial strength, and corporate credit ratings. It does not include credit quality ratings (CQR), small and medium enterprise (SME) ratings, or any of CRISIL's grading products. This article also outlines CRISIL's policy for placing ratings on credit watch and policy for assigning rating outlooks to provide information to investors about potential rating changes.

Understanding 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 comparatively assess investment options, and facilitates the issuer's access to funds.

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

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

A CRISIL credit rating indicates CRISIL's current opinion on the probability of default on the rated instrument. In other words, the credit rating indicates the probability of an investor in rated instruments, or a lender to a rated firm, not receiving interest and principal payments on time and in accordance with the terms of the rated instrument. This probability is reflected in the form of an easily understandable alphanumeric scale, with ratings such as 'CRISIL AAA', 'CRISIL AA', 'CRISIL A', 'CRISIL A1', 'CRISIL A2' etc.



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 example, if the default rate for a rating agency's 'AAA' category is 0.1 per cent in three years, it indicates that out of 1000 'AAA' ratings that the agency has assigned in the past, ONE has defaulted on paying interest or principal within a period of three years of assigning the rating. The rating indicates that the rated instrument is less likely to default than instruments rated lower.
- Not a comment on the issuer's general performance, or potential price of its bonds or equity shares, or suitability to the investor: A credit rating is an opinion on an issuer's ability and willingness to honour its financial obligations on the rated debt instrument on time. The rating should not be construed as an opinion on the issuer's general performance. Neither is it an opinion on the likely future price of the rated bonds, nor on the potential value of the issuer's equity shares. A CRISIL rating is not a recommendation to buy, sell or hold a rated instrument; nor is it a comment on the market price or the suitability of a rated instrument for a particular investor. CRISIL's ratings are based on qualitative and quantitative analyses of information provided by issuers or rated firms, or obtained from other sources considered reliable; they do not constitute audits of issuers or rated firms.
- Assigned to debt instruments alone and NOT to equity instruments: Typically, debt instruments such as nonconvertible debentures, partially convertible debentures, bonds, fixed deposits, commercial paper, bank loan
 facilities, short-term debt, and structured debentures, are rated. Firms issuing these instruments can also be
 rated on their capacity to service their debt obligations on time.

A credit rating indicates the issuer's ability and willingness to pay interest and principal on time. The rating agency assigns ratings on the basis of its analysis of the business and financial risks associated with the rated firm, and an evaluation of the firm's management. CRISIL's assessment of business risk includes an analysis of the industry the firm is operating in (refer to section, 'Criteria and Methodology' on the CRISIL website for detailed sector-specific criteria).

Once a rating is assigned and accepted, CRISIL continuously monitors the credit quality of the rated instrument or firm—as reflected in periodic reaffirmations, upgrades, or downgrades—till such time as the rating is withdrawn. CRISIL's ratings may be changed, suspended, withdrawn or placed on rating watch, based on any specific event or events. Accordingly, CRISIL notifies investors of the same from time to time. An issuer rating may be withdrawn at the request of the issuer; issue-specific ratings are withdrawn only upon full redemption of the rated instrument.

For further details on CRISIL's withdrawal policy, please refer to the article titled 'CRISIL's Policy for withdrawal of ratings' which can be accessed at www.crisil.com

CRISIL's policy for assigning rating outlooks

CRISIL's rating outlooks indicate its views on the potential direction in which a rating is likely to move over a medium-term horizon (defined as **six months to two years**). SEBI released a circular titled '**Enhanced Standards for Credit Rating Agencies (CRAs)**' on *November 1, 2016* (refer circular SEBI/HO/MIRSD/MIRSD4/CIR/P/2016/119), where it has mandated all CRAs to assign a rating outlook to convey potential direction of rating



movement. However, CRISIL has been using outlooks since 2003, more than a decade prior to regulatory requirement.

While the rating conveys the most likely scenario of creditworthiness based on the expected future performance of a rated firm, possible alternate scenarios and their impact on creditworthiness drive the outlook. A rating outlook may be 'positive', 'stable' or 'negative'. A positive outlook indicates that the rating may be upgraded; a stable outlook indicates that the rating is likely to remain unchanged, while a negative outlook indicates that the rating may be lowered.

Box 1: A rating outlook may be positive, stable, or negative.

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

Issue-specific ratings are valid for the life of the instrument. Therefore, as forward-looking opinions on credit quality, CRISIL's ratings already incorporate assessment of future circumstances. CRISIL's 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. Outlooks are assigned irrespective of residual maturity of these instruments. Long-term structured finance 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 and ratings with credit enhancements featuring an escrow structure. No other structured finance instruments are assigned outlooks. While outlooks are assigned to the financial strength ratings of insurance companies, the issuer ratings (referred to as Corporate Credit Ratings) do not carry rating outlooks. CRISIL does not assign outlooks for ratings on its short term scale.

An outlook does not necessarily presage a rating change. For instance, a negative outlook does not indicate that the rating will necessarily be 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 fairly likely, unexpected events may cause a rating to change before a revision in outlook.

CRISIL's policy for placing ratings on rating watch

CRISIL may place an outstanding rating on rating watch if the issuer announces a merger or acquisition, or demerger of some business that may impact the credit profile of the rated debt instrument. Ratings may also be placed on watch if the issuer's credit profile is impacted on account of an action by regulators, or when the impact



of specific events on the credit profile cannot be accurately assessed at the point when they occur, and additional information may be necessary for CRISIL to fully ascertain the creditworthiness of the rated instrument. CRISIL may place a rating on watch, with positive, negative, or developing implications.

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 on rating watch do not carry an outlook.

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

Table 1: Rating Outlook Vs Rating Watch

	Rating Outlook	Rating Watch				
Meaning	Indicates possible direction of movement in rating over the medium term, based on CRISIL's assessment of key rating sensitivity factors	occurrence/possible occurrence of specific events.				
Types	Outlooks may be positive, stable, or negative	Rating watch listings can be positive, negative, or developing				
Time Horizon	Covers a duration of six months to two years	A rating watch is typically resolved in a short timeframe of about 90 days				
Instruments	Applicable to ratings assigned on the long-term, guaranteed long-term and fixed-deposit scales	Applicable to all instruments including short-term instruments				

CRISIL's rating scales

CRISIL assigns credit ratings under the following six categories:

- Long-term: The term 'long-term instruments' includes bonds, debentures, other debt securities, bank loans and other fund-based facilities with an original maturity of more than one year. Long-term ratings are assigned on a 20-point scale, from 'CRISIL AAA' to 'CRISIL D.'
- Short-term: The term 'short-term instruments' refers to commercial paper, short-term debentures, certificates of deposit, inter-corporate deposits, working capital borrowings, and other fund-based and non-fund based facilities with an original 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.
- Dual Ratings: CRISIL assigns dual ratings (i.e., ratings on both long-term and short-term scale) to debt
 instruments that have an original maturity of more than one year, and also have a put option exercisable within
 one year from the date of issue. The first component of the rating, i.e., the long-term rating, addresses the



likelihood of timely payment of principal and interest over the life of the instrument. On the other hand, 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. Example of dual rating: CRISIL AA+/ CRISIL A1+.

- Structured finance ratings: CRISIL assigns ratings to long-term and short-term structured finance instruments by using a suffix 'SO'. Instruments with an original maturity of more than one year are rated on long term scale whereas instruments with an original maturity of one year or less are rated on 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.
- **Fixed Deposit (FD):** CRISIL assigns ratings to the FD programmes of corporates, banks and financial institutions with the prefix, 'F'. FD ratings are assigned on a 14-point scale, from 'FAAA' to 'FD'
- **Financial strength ratings:** CRISIL assigns financial strength ratings to insurance companies on a scale ranging from 'AAA' to 'D'.
- Corporate credit ratings: CRISIL assigns corporate credit ratings to issuers on a scale ranging from 'CCR AAA' to 'CCR D' and 'CCR SD' (indicating selective default)

(Refer to Box 3 for a detailed description of CRISIL's rating scales)

Box 3: CRISIL's rating scales

Long-Term Rating scale	Short-Term Rating scale	Structured Fina	nce Rating scale	Corporate Credit Ratings scale	Fixed Deposit Rating Scale	Financial Strength Rating scale
Symbol (Rating category)	Symbol (Rating category)	Long-Term Structured Finance Instruments (Rating category)	Short-Term Structured Finance Instruments (Rating category)	Symbol (Rating category)	Symbol (Rating category)	Symbol (Rating category)
CRISIL AAA	CRISIL A1	CRISIL AAA (SO)	CRISIL A1 (SO)	CCR AAA	FAAA	AAA
CRISIL AA	CRISIL A2	CRISIL AA (SO)	CRISIL A2 (SO)	CCR AA	FAA	AA
CRISIL A	CRISIL A3	CRISIL A (SO)	CRISIL A3 (SO)	CCR A	FA	А
CRISIL BBB	CRISIL A4	CRISIL BBB (SO)	CRISIL A4 (SO)	CCR BBB	FB	BBB
CRISIL BB	CRISIL D	CRISIL BB (SO)	CRISIL D (SO)	CCR BB	FC	ВВ
CRISIL B		CRISIL B (SO)		CCR B	FD	В
CRISIL C		CRISIL C (SO)		CCR C		С
CRISIL D		CRISIL D (SO)		CCR D		D
				CCR SD		

CRISIL may apply '+' (plus) or '-' (minus) signs to its long-term ratings from 'CRISIL AA' to 'CRISIL C', to long term ratings for structured finance instruments from 'CRISIL AA (SO)' to 'CRISIL C (SO)', corporate credit ratings from 'CCR AA' to 'CCR C', fixed deposit ratings from 'FAA' to 'FC', and financial strength ratings from 'AA' to 'C' to reflect comparative standing within each category.

CRISIL may apply '+' (plus) sign to short term ratings from 'CRISIL A1' to 'CRISIL A4' and to short term ratings for structured finance instruments from 'CRISIL Á1 (SO)' to 'CRISIL Á4 (SO)' to reflect a comparatively higher standing within a category.

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.



CRISIL's recognition of default

CRISIL's criterion for the lowest rating, 'default', is normally event-specific: any delay in the 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 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'). CRISIL will downgrade a corporate credit rating to 'CCR SD' (selective default) if the rated firm has selectively defaulted on a specific issue or class of debt, but CRISIL expects that the firm will continue to meet its obligations on other issues or classes of debt in a timely manner. In all other cases of generic default, the corporate credit rating will be revised to 'CCR D'. For further details, please refer to the article titled 'CRISIL's approach to recognising default', which can be accessed at www.crisil.com

CRISIL's ratings in the 'NM' category

CRISIL assigns a 'Not Meaningful' (NM) rating to outstanding ratings of companies, where the existing rating on the instrument has been rendered meaningless. For instance, CRISIL may revise the outstanding rating to 'NM' in the case of instruments of companies that have been referred to the Board for Industrial and Financial Reconstruction (BIFR), or have been declared sick, or in cases where the repayment obligations are under dispute in a court.

In the case of corporates referred to BIFR, the outstanding ratings are rendered meaningless because the firms cannot make payments towards meeting debt obligations till such time as revival packages are introduced by the operating agencies.

This category is applicable to five of CRISIL's credit rating scales: the long-term rating scale, the short-term rating scale, the long- and short-term rating scales for structured finance instruments, and the fixed deposit rating scale.

CRISIL's ratings for structured obligations

CRISIL may use an "SO" suffix in parenthesis to the ratings, to indicate that the credit rating on the instrument is enhanced over and above the issuer rating by means of a structure or mechanism. This credit enhancement that supports the payment of interest and principal on the instrument may be internal or external. Structured obligation ratings apply only to instruments, and not to the companies issuing them.

Typical structures include (but are not restricted to):

- Full guarantee by a bank, corporate or government on bank loans or bonds
- Partial guarantee
- Structured finance: Asset-backed securities, such as collateralized debt obligations, auto loan securitization, and mortgage backed securities, and trade receivables.
- Future flow structures that result in a credit enhancement over the issuer rating (The mere presence of an escrow, which is a common structure for infrastructure or real estate projects, may not result in an SO rating)
- Covered bonds
- · Pledge of shares by holding companies
- Commercial mortgage backed securities



Capital protection oriented fund

CRISIL's rating for instruments carrying non-credit risk

CRISIL's long-term rating scale addresses credit risk, representing the likelihood of debt obligations not being serviced on time. CRISIL also rates debt instruments such as equity linked debentures, which carry non-credit risks (such as market risks). For instance, the returns to an investor in an equity linked debenture may be based on the market price of the stocks on the date of redemption. CRISIL does not attempt to estimate variables such as future stock prices, and therefore does not factor such risk into the rating it assigns. In order to disclose the presence of non-credit risks to investors, CRISIL suffixes such ratings with the symbol 'r'. This denotes that the rating does not address the variability of returns which may arise on account of non-credit risks.

In the case of principal protected market linked debentures, CRISIL 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, indices.

Validity of ratings

CRISIL's ratings are under continuous surveillance over the life of the rated facility. In principle, all ratings assigned by CRISIL 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 profile or financial profile of the issuer, or the prospects for the industry in which the issuer operates. Therefore, CRISIL does not mention a fixed validity date in its rating communications, including rating letters, rating rationales and credit rating reports. Any change in rating is published by CRISIL on its website on a real time basis. The CRISIL website contains the latest information on all its outstanding ratings.

Withdrawal of ratings

CRISIL's policy for withdrawal of ratings stipulates that ratings on securities/facilities that have scheduled repayment dates (such as bonds, or term loans), may be withdrawn only on redemption/maturity of the rated facilities. The ratings may also be withdrawn if obligations on these instruments are pre-paid by the borrower, with the lender's consent, before maturity. In such instances, CRISIL relies on independent confirmation from the banks or auditors or any other independent sources on whether the obligations have been repaid in full.

Ratings on bank loan facilities can also be withdrawn by CRISIL after receiving request for withdrawal from the client/borrower along with No Objection Certificate (NOC) from all the lending bank(s) and on clearance of fees due (if any) to CRISIL.

Corporate credit rating, which is the credit rating of the issuer rather than an instrument, can be withdrawn upon the written request of the issuer.

For fixed deposit (FD) instruments, withdrawal of rating may take place in any of the following four ways:

Ratings



- Redemption of instrument as per original terms
- Prepayment of all outstanding FD obligations directly to the investors or through an escrow account with independent certification of the same
- The issuer gives request for withdrawal and confirms non-usage of rating for raising fresh FDs. The rating is placed on notice of withdrawal for a period of 3 years, after which the rating is withdrawn
- Rated entity is in default category (rating of 'CRISIL D') for more than three years, the rating is placed on notice of withdrawal for a period of 90 days, after which the rating is withdrawn

CRISIL's withdrawal policy is in line with the recent SEBI circular titled 'Enhanced Standards for Credit Rating Agencies (CRAs)' that is applicable for all Credit Rating Agencies.

For further details on CRISIL's withdrawal policy, please refer to the article titled 'CRISIL's Policy for withdrawal of ratings' which can be accessed at www.crisil.com

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For accessing the previous published document on 'CRISIL's ratings and rating scales', kindly refer to the following link: https://www.crisil.com/Ratings/Brochureware/RR_ASSES/CRISIL-Ratings-research-und-CRISIL-ratings-rating-scales_2013-24052017.pdf

About CRISIL Limited

CRISIL is a global analytical company providing ratings, research, and risk and policy advisory services. We are India's leading ratings agency. We are also the foremost provider of high-end research to the world's largest banks and leading corporations.

CRISIL 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 95,000 MSMEs have been rated by us.

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CRISIL respects your privacy. We use your contact information, such as your name, address, and email id, to fulfil your request and service your account and to provide you with additional information from CRISIL and other parts of S&P Global Inc. and its subsidiaries (collectively, the "Company") you may find of interest.

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