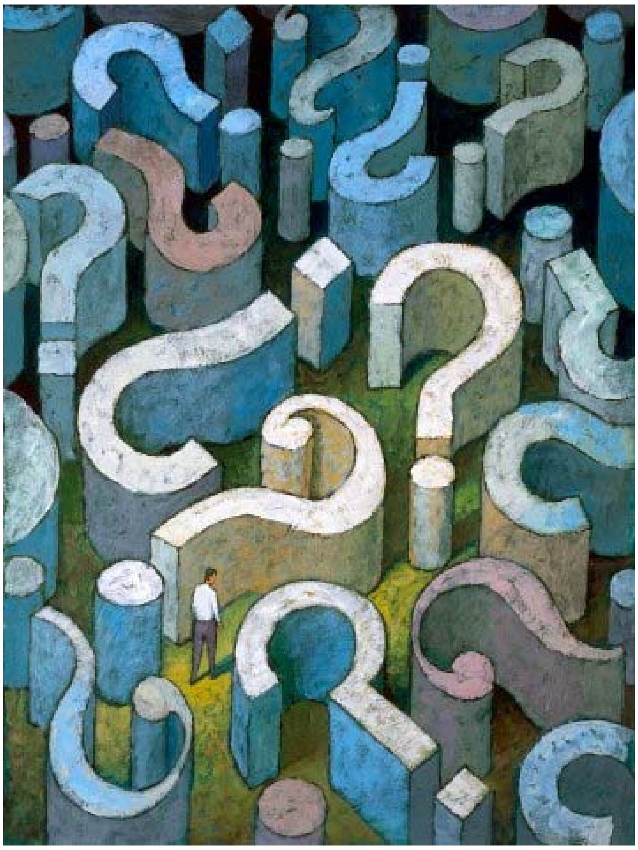
The Most Reliable Opinion on Risk



FAQs
National Scale Rating
vs.
Global Scale Rating

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With the opening up of the financial markets, Indian companies have significantly expanded their realm of operations, and several Indian companies have raised debt from outside the country. Investors in global markets use global scale credit ratings to compare investment opportunities; these Indian companies have therefore sought such global scale ratings in addition to their existing national scale ratings.

There is room for global and national rating scales to coexist, despite the obvious differences between the ratings. Global scale ratings, such as those by Standard & Poor's (S&P), provide a uniform benchmark to investors across the world; national scale ratings are more meaningful to domestic investors. The following FAQs highlight the features of both scales, and point out the differences in their use.

What are the various rating scales, and how do they differ from each other?

Investors commonly use three rating scales:

- o Global scale foreign currency ratings (typically assigned by global rating agencies)
- o Global scale local currency ratings (typically assigned by global rating agencies)
- o National scale ratings (assigned by both global and national rating agencies)

All credit ratings are relative assessments of credit risk on a debt issue/ issuer within a given frame of reference. A global scale credit rating assesses creditworthiness relative to all other debt issues/issuers across the world. It is used primarily by global investors who have the option to invest in any country.A credit rating assigned on a national scale, on the other hand, assesses relative creditworthiness within a country. It is used primarily by domestic investors.

Can a national scale rating be compared with a global scale rating?

A national scale rating cannot be compared directly with a global scale rating, or even with the national scale rating of another country. This is because the best credit within a country may not be of a similar quality to the best credit globally; the frame of reference would therefore differ, as would the ratings.

Moreover, in a national scale rating, risk factors that are common to all entities in the country cease to be differentiating elements. For instance, local elements such as political risk or fiscal situation of the sovereign are country-specific, and are likely to uniformly affect all entities within that country. Although these factors are considered for the credit analysis, they will not play a significant role in differentiating between credit profiles in that country. On the other hand, such factors may be significant risk elements in global scale ratings, as they can vary widely across countries.

What is a global scale local currency rating? How does it differ from a global scale foreign currency rating?

A global scale local currency rating assesses the issuer's ability to service debt obligations in the currency of the country in which it is domiciled. Although this rating is relative to all other debt issues/issuers in the world, it addresses only the ability to generate requisite cash in the local currency. The rating does not factor in the risk of any controls on transfer and convertibility of foreign exchange that may be imposed by the sovereign government.

A foreign currency rating, on the other hand, assesses the ability to service debt obligations in globally-accepted hard currencies such as the US dollar, British pound or euro. This rating is also relative to all other debt issues/issuers in the world. Moreover, any risk of controls on foreign exchange transfer and convertibility is factored into a global scale foreign currency rating.

For an issuer, will the global scale foreign currency rating be higher or lower than its global scale local currency rating?

A global scale foreign currency rating is usually lower than a global scale local currency rating for the same issuer. S&P states: "Country risk considerations are a standard part of Standard & Poor's analysis for credit ratings on any issuer or issue. Currency of repayment is a key factor in this analysis. An obligor's capacity to repay foreign currency obligations may be lower than its capacity to repay obligations in its local currency due to the sovereign government's own relatively lower capacity to repay external versus domestic debt. These sovereign risk considerations are incorporated in the debt ratings assigned to specific issues."[1]

Why do domestic investors use national scale ratings, when global scale ratings are available?

National scale ratings, including CRISIL ratings, provide superior credit differentiation among issuers/issues within a country. This is especially true if the sovereign rating of that country is in the low investment or speculative grades. At these sovereign rating levels, 'country risk' elements (such as political and economic risk) tend to dominate global scale ratings. Thus, the global scale ratings of entities in the country will, generally, be clustered in a few categories around the sovereign rating,

[1] Please refer to the section on 'Local Currency and Foreign Currency Risks' in S&P's Rating Definitions at www.standardandpoors.com

and will not adequately differentiate credit risk among entities in the country. Moreover, at any time, only a handful of entities from any developing country are likely to have global scale ratings; national scale ratings provide a much wider coverage of entities in local markets, allowing better peer comparisons. These factors make national scale ratings more meaningful for domestic investors.

Which investors use global scale foreign currency ratings and global scale local currency ratings? Why?

Global scale ratings benchmark credits across countries; national scale ratings do not. Global investors can look at global scale ratings for both foreign currency and local currency.

Global scale foreign currency ratings are most relevant for trans-national investors, who seek to obtain global relative rankings of all debt issues and issuers, regardless of the currencies in which the obligations are denominated.

Global scale local currency ratings are relevant for investors who have substantial operations or liabilities in the country where the issuer is domiciled, but still need a rating that takes global relativities into account.

Can CRISIL ratings be compared with S&P ratings?

CRISIL ratings cannot be directly compared with S&P ratings. CRISIL ratings are national scale ratings, while S&P ratings are global scale ratings.

The two rating scales may be loosely mapped using default rates that have been reliably calculated using observations made over a period of time. CRISIL's opinion piece, *'Translating Global Scale Ratings onto CRISIL's Scale'*, discusses the methodology used for such mapping. However, this comparison will yield only approximate parity; it would be incorrect to extend this to an exact mapping of ratings on the two scales.

What are the ratings of CRISIL and S&P on the Government of India (GoI)?

CRISIL does not have an outstanding rating on GoI. However, GoI securities are risk-free in the Indian context and hence, if rated, would carry the highest rating on CRISIL's scale; GoI-guaranteed instruments also carry the highest rating on the CRISIL scale. This is because of the government's ability to raise taxes and print money to meet all its Indian rupee-denominated obligations.

S&P has a long term rating of '**BBB-/Stable**'[2] on GoI, for both local and foreign currency obligations.

Why does S&P not rate all sovereigns 'AAA' for their local currency obligations?

According to S&P, "the reason all sovereign local currency ratings are not 'AAA' is that while the ability to print local currency gives the sovereign, and the sovereign alone, tremendous flexibility, the consequences of monetizing the debt can be more unpalatable than the consequences of rescheduling local currency debt. In such instances, sovereigns may opt to reschedule their local currency obligations." [3]

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[2] The rating is as on March 31, 2007. Please visit www.standardandpoors.com for the rating outstanding as on date.

[3] Please refer to S&P's article on "Sovereign Foreign and Local Currency Rating Differentials" at www.standardandpoors.com

When can a company obtain a global scale rating higher than the rating on its sovereign?

A global scale rating on an issuer will be higher than the sovereign rating only if the country risk elements are substantially mitigated. Companies that achieve such ratings include those that have considerable foreign currency earnings or earning prospects, and those that are not entirely dependent on the domestic economy for cash flow generation.

If an Indian company obtains both CRISIL and S&P ratings, which of the two should an investor use?

The answer to this depends on the investor's investment objectives. A global investor investing across countries should use the S&P rating, which provides an assessment of the relative creditworthiness of the rated entity in relation to all other debt issues/issuers in the world. However, an investor investing predominantly in India will find the CRISIL rating more useful, as it provides the investor with a finer gradation of the entity's creditworthiness in relation to other Indian issues/issuers.

If S&P changes its rating on an entity that is rated by both S&P and CRISIL, will CRISIL follow suit?

CRISIL ratings are determined under separate criteria that are not harmonised with S&P's rating criteria. S&P does not issue local scale Indian ratings. Hence, rating changes by S&P and CRISIL are independent of each other. However, in some instances, the primary factors that drive credit quality may be similar for S&P and CRISIL ratings. This can result in changes in a similar direction in both ratings, but not necessarily of the same magnitude.

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