

CRISIL's rating process

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Executive summary

CRISIL's rating process¹ is designed to ensure that all ratings are based on the highest standards of independence and analytical rigour. Analysis of each credit is carried out by a multi-member rating team. The analysis is based on information obtained from the issuer, and on an understanding of the business environment in which the issuer operates. It is conducted within the framework of clearly delineated rating criteria. The analysis is then presented to a rating committee, comprising members with professional experience and expertise to meaningfully assess the credit. The rating committee approach entails credit assessment of an entity by a group of experienced professionals, thereby ensuring objectivity of the rating.

Once the ratings assigned are communicated to issuers, they are published on CRISIL's website. The client also has an option to appeal against the rating decision. The ratings that are accepted by the issuer are disseminated to CRISIL's subscriber base, media sources and uploaded on CRISIL's website in the form of a detailed rationale. Further in line with Securities and Exchange Board of India (SEBI) guidelines through a circular titled 'Enhanced standards for credit rating agencies (CRAs)' dated November 1, 2016, CRISIL has started to publish unaccepted ratings on CRISIL's website from January 2017.

For accepted ratings, after dissemination of rating rationale on CRISIL's website, CRISIL continues to review the rating on the basis of the performance of the issuer and the economic environment in which it operates. Ratings may be withdrawn on fulfilling certain conditions, which have been elaborated in CRISIL's policy on withdrawal of ratings, available on its website.

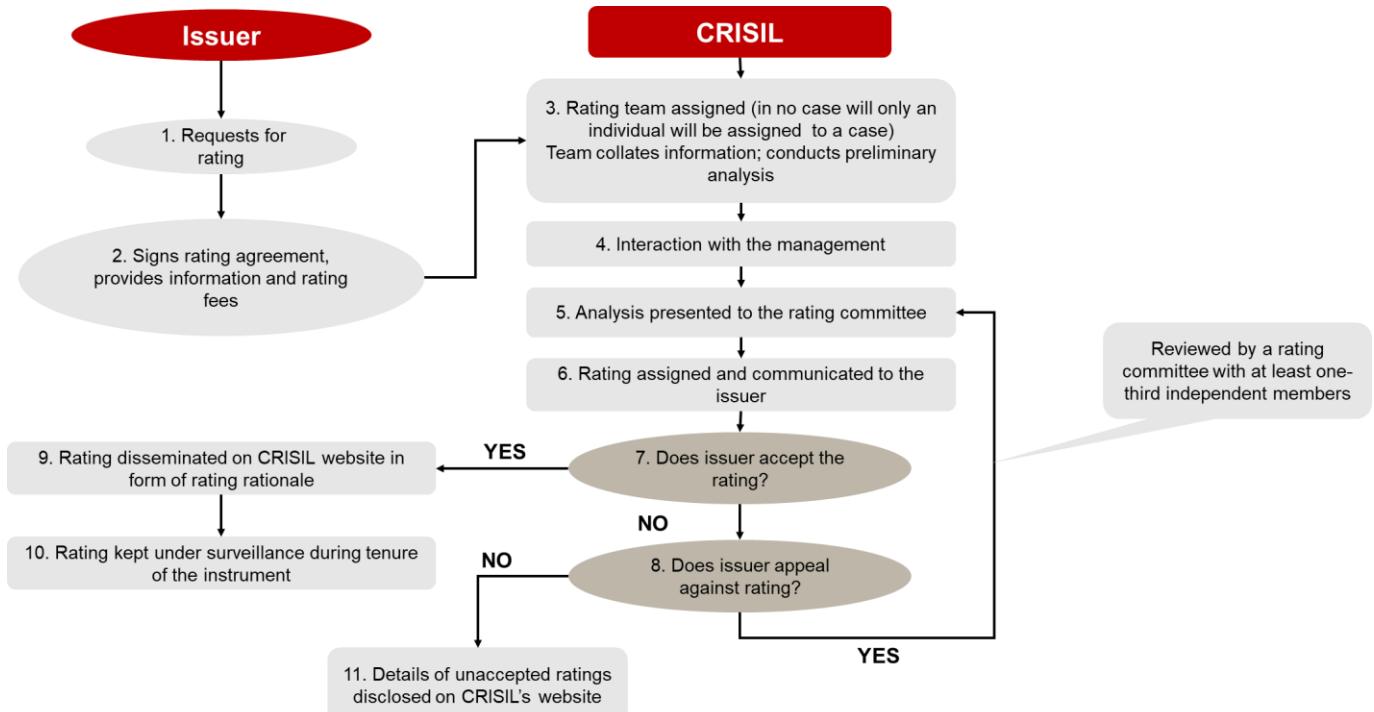
CRISIL monitors its ratings on a continuous basis. In case of non-cooperation by an issuer, CRISIL will rate the instrument on the basis of best available information. Please refer to the article, "Framework for Assessing Information Adequacy Risk" for details on how CRISIL approaches ratings with limited information. CRISIL also maintains the confidentiality of the information obtained as part of the rating exercise by enforcing appropriate process safeguards.

¹ For accessing previous: https://www.crisil.com/content/dam/crisil/criteria_methodology/basics-of-ratings/archive/CRISIL%20Ratings%20research%20rating%20process%202013.pdf

Stages in the process for a credit rating assignment

The following flowchart explains the rating process for a credit rating instrument. The details of the entire process are explained in the succeeding section:

CRISIL's rating process



Surveillance process for a rated client differs from the above mentioned process in following aspects-

- Once rated, performance of the issuer is regularly monitored and the rating is kept under surveillance. Therefore, surveillance process starts from step 3 onwards.
- Post the review of a rating, the same is disseminated on CRISIL website. Therefore step 6 generally is followed by step 9, unless the client appeals, in which case step 8 follows step 6. Steps 7 and 11 are not applicable in this case.

Preliminary analysis

The rating process starts with a rating request from the issuer. Thereafter, the rating agreement is signed and the fees are collected from the issuer. All interactions with regard to rating fees are carried out by CRISIL's business development team and there is no involvement of CRISIL's analytical team in the process. When this process is completed, an analytical team is assigned the responsibility of analysing the issuer's credit risk profile. This rating team (comprising at least two analysts) then collates preliminary information from the issuer to understand its business, management, and financial risk profiles.

Management interaction

CRISIL strongly believes that investor interest is best served if there is an open dialogue between the issuer and CRISIL. This enables CRISIL to incorporate non-public information into its rating decision and also helps it arrive at forward-looking ratings.

Management interactions can be carried out telephonically or at any of CRISIL's or issuer's offices. Discussions during management interactions are wide-ranging, covering competitive position, strategy, financial policy, historical performance, and near and long-term financial and business prospects. In these discussions, CRISIL's rating teams focus on the issuer's business risk profile and strategies, in addition to reviewing financial data. CRISIL's ratings are not based solely on financial projections made by the issuer or the management's outlook. Instead, they serve as a valuable input in CRISIL's assessment of the issuer's profile as they shed light on the management's assumptions, strategy, and contingency plans.

Rating committee and assignment of ratings

After the interaction with the issuer's management, CRISIL's analysts prepare a report detailing their assessment of business risk, financial risk, and management risks associated with the issuer. The report is based on rating methodologies and criteria that are clearly spelt out, published, and consistently applied. The report is then presented to the rating committee. This is the only aspect of the process in which the issuer does not directly participate. The rating committee comprises experienced professionals who bring with them extensive experience in credit assessment. The rating committee assigns a rating after thorough discussion on the report prepared by the analysts.

The Rating Committee Meeting (RCM) process ensures objectivity of the rating, as the decision results from the collective thinking of a group of experienced professionals. The RCM process also ensures high quality and consistency of analysis because the reports and discussions are focused on key rating factors that are relevant to the issuer. If CRISIL and the issuer have any common directors, such directors do not participate in the RCM or rating process. A disclosure to this effect is also made with the announcement of the rating.

Communicating the rating to the issuer

On finalisation of a rating at the RCM, the rating decision is communicated to the issuer. Thereafter, a document (rating rationale) highlighting the key reasons for assigning the rating is shared with the issuer. This is to assist the issuer in understanding the key analytical factors that have been assessed for arriving at the rating decision.

If the issuer decides to accept the rating, it can do so by sending a letter of acceptance to CRISIL. If, on the other hand, the issuer disagrees with the rating decision, it can appeal for a fresh look at the rating assigned. In such a case, the issuer needs to submit additional facts, data or new information to the ratings team, to be presented to the rating committee. Such information must be material to the appeal, and should ideally address areas that have been highlighted as factors constraining the rating in the rating rationale. Pursuant to SEBI circular titled 'Amendment to SEBI (Credit Rating Agencies) Regulations, 1999 and modification to SEBI Circular dated May 30, 2018' dated September 19, 2018, an appeal is considered by a rating committee majority of whose members are different from the one which assigned the rating, and comprises atleast one-third independent members. The rating committee then discusses the information submitted. It may or may not change the rating, depending on the facts of the case. If the

rating is not changed and issuer continues to disagree with the rating, then the issuer has an option of not accepting the rating. In line with SEBI guidelines, the unaccepted ratings are disclosed on CRISIL's website.

Publication of accepted ratings

The accepted ratings are disseminated to CRISIL's subscriber base, and to local and international media. Rating information is also updated online on www.crisil.com, the CRISIL website, in the form of a rating rationale, which provides information about the company, rated instrument, assigned rating and outlook, rationale for assigning the rating, applicable criteria, etc.

Also, CRISIL, in compliance with **International Organization of Securities Commission (IOSCO)** code of conduct, publishes a more detailed credit rating report (CRR) on its dedicated website, www.crisilratings.com. The publication of the CRR ensures transparency in CRISIL's rating methodologies and assumptions and also enables investors to understand how CRISIL arrives at a rating. In addition, CRISIL publishes credit insights derived from its rated universe through periodic publications called Ratings Roundup (published semi-annually) and Default Study (published annually).

Timeframe

From the initial management meeting to the assignment of rating, the rating process can take up to four weeks, but CRISIL sometimes arrives at rating decisions in shorter timeframes to meet urgent requirements.

Surveillance

All CRISIL ratings are under continuous surveillance. After a rating has been assigned, CRISIL continues to monitor² the performance of the issuer and the economic environment in which it operates. The surveillance process ensures that the analysts are updated on current developments, review sensitive areas, and learn about changes in issuer's plans.

CRISIL's analysts maintain periodic contact with the issuer and ensure that financial and other information are shared with CRISIL regularly. Moreover, CRISIL endeavours to interact with issuer's management at least once a year. These interactions essentially focus on developments over the period since the last interaction, and the outlook for the coming year.

² As per Reserve Bank of India (RBI) guidelines (please refer to RBI Master Circular DBOD No.BP.BC. 11 /21.06.001/2010–11/section 6.2.4 dated July 1, 2011- Prudential guidelines on Capital Adequacy and Market Discipline- New Capital Adequacy Framework) rating agencies should review each bank loan credit at least once in 15 months.

Withdrawal of ratings

Debt instruments rated by CRISIL are under continuous surveillance over the life of the instrument. Certain conditions have to be met for withdrawal of the ratings. For 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 withdrawal policy is in line with the SEBI circular titled 'Enhanced Standards for Credit Rating Agencies (CRAs)', that is applicable for all Credit Rating Agencies.

Non-cooperation by issuers

CRISIL monitors its ratings on a continuous basis. However, in rare cases, the monitoring of rated entity might become difficult because of the entity's non-cooperation. In case the rated entity does not share information with CRISIL on regular basis, or does not provide access to its management or discuss quarterly/annual results or does not pay fee for conducting surveillance, that entity can be classified as non-cooperative. CRISIL rates the non-cooperative issuer on the basis of best available information till the lifetime of the instrument. However the aspects of non-cooperation are highlighted in the press release disseminated on CRISIL's website. In such cases, the rating symbol will be accompanied by 'Issuer did not cooperate; based on best available information'. This is in accordance with the SEBI guidelines.

Confidentiality

A substantial portion of the information shared by the company is highly sensitive, and is provided by the issuer only for the purpose of arriving at the rating. Such information is kept strictly confidential by the ratings group and not shared with other divisions or group companies of CRISIL. CRISIL doesn't disseminate confidential information about entities it rates. However, in accordance with SEBI guidelines, CRISIL has started to disclose unaccepted ratings on its website from January 2017.

All CRISIL employees are required to sign a confidentiality agreement. CRISIL does not disclose issuer-specific confidential information that it has obtained for the purpose of credit rating to anyone (other than to market regulators or law enforcement authorities, if required). For further details on CRISIL's confidentiality policy, please refer to the section under highlighted policies on the website.³

³ <https://crisil.com/content/dam/crisil/generic-images1/our-businesses/ratings/regulatory-disclosure-highlighted-policies/highlighted-policies/Confidentiality-Policy.pdf>

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.

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.

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 1,10,000 MSMEs have been rated by us.

CRISIL Privacy

CRISIL respects your privacy. We may 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. For further information on CRISIL's privacy policy please visit www.crisil.com/privacy.