CRISIL
An S&P Global Company

FAQs

National Scale Rating

vs.

Global Scale Rating

February 2018

Criteria contacts

Pawan Agrawal
Chief Analytical Officer – CRISIL Ratings
Email: pawan.agrawal@crisil.com

Somasekhar Vemuri
Senior Director – Rating Criteria and Product Development
Email: somasekhar.vemuri@crisil.com

Ramesh Karunakaran
Director – Rating Criteria and Product Development
Email: Ramesh.karunakaran@crisil.com

Wazeem A
Senior Rating Analyst – Rating Criteria and Product Development
Email: Wazeem.a@crisil.com

In case of any feedback or queries, you may write to us at Criteria.feedback@crisil.com

With opening up of financial markets, Indian companies have significantly expanded their operations and also contracted 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[1].

There is room for global and national rating scales to coexist, despite the obvious differences. Global scale ratings, such as those given by S&P Global Ratings, provide a uniform benchmark to investors across the world; national scale ratings are more meaningful to domestic investors. The following FAQs highlight features of both the 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:

- Global scale foreign currency ratings (typically assigned by global rating agencies)
- Global scale local currency ratings (typically assigned by global rating agencies)
- 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 and 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 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 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.

---

[1] *For accessing previously published document on 'FAQs national scale vs global scale rating', follow https://www.crisil.com/content/dam/crisil/criteria_methodology/basics-of-ratings/archive/FAQs%20national%20scale%20vs%20global%20scale%20rating.pdf*

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 an issuer's ability to service debt obligation 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 control on transfer and convertibility of foreign exchange that may be imposed by the sovereign government.

A global scale 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 control on foreign exchange transfer and convertibility is factored into a global scale foreign currency rating.

S&P Global Ratings states: "S&P Global Ratings' issuer credit ratings make a distinction between foreign currency ratings and local currency ratings. An issuer's foreign currency rating will differ from its local currency rating when the obligor has a different capacity to meet its obligations denominated in its local currency, vs. obligations denominated in a foreign currency."[2]

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 risks) 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, and will not adequately differentiate credit risk among entities in the country. Moreover, at any time, only a few entities from any developing country are likely to have global scale ratings; national scale ratings provide a 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 transnational 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.

---

[2] *Please refer to the section on 'Local Currency and Foreign Currency Ratings' in 'S&P Global Ratings Definitions' at www.standardandpoors.com*

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 mapped using a blended approach of comparing default rates, financial ratios and common ratings. CRISIL's opinion piece, 'Mapping Global Scale Ratings onto CRISIL 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 Global Ratings on the Government of India?

CRISIL does not have an outstanding rating on the government. However, government securities are risk-free in the Indian context and hence, if rated, would carry the highest rating on CRISIL's scale; government-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 Global Ratings has a long-term rating of '**BBB-/Stable'**[3] on the Government of India, for both local and foreign currency obligations.

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

According to S&P Global Ratings, "One might ask why sovereign local-currency ratings are not all 'AAA', given sovereigns' flexibility to service their local-currency debt through their extensive powers within their own borders. Although the ability to print local currency gives sovereigns flexibility, heavy reliance on such an expansionary monetary stance may fuel very high inflation, or even hyperinflation, and lead to a breakdown of all domestic currency funding options. This may cause more serious political and economic damage than rescheduling local-currency debt.

More often than not, hyperinflation leads to the downfall of the government. This observation may deter policymakers from running the printing presses at full capacity. Sovereigns may therefore prefer to default on their local-currency obligations rather than risk the more profound economic and social dislocations caused by hyperinflation. In addition, in a distressed debt exchange, a sovereign may tender for both local- and foreign-currency government debt (as opposed to foreign-currency debt alone) to achieve greater debt relief."[4]

---

[3] *The rating is as on Nov 24, 2017. Please visit www.standardandpoors.com for the rating outstanding as on date.*

[4] *Please refer to S&P Global Ratings' article on "What's New in S&P Global Ratings' Updated Sovereign Rating Methodology?" 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 entity is not expected to default in the stress scenario likely to accompany a sovereign default. The extent by which the entity's rating can be above the sovereign rating would depend on the sensitivity of the entity's sector to country risk, and the presence of mitigating factors for transfer and convertibility risk.[5] Companies that achieve such ratings typically 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 ratings from both CRISIL and S&P Global 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 Global Ratings changes its rating on an entity that is also rated by CRISIL, will the latter follow suit?

CRISIL ratings are determined under separate criteria that are not harmonised with S&P's rating criteria. S&P Global Ratings does not issue local scale Indian ratings. Hence, rating changes by S&P Global Ratings 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.

[5] *For more details, please refer to S&P Global Rating's article on "Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions"*

About CRISIL Limited

CRISIL is an agile and innovative, global analytics company driven by its mission of making markets function better. We are India's foremost provider of ratings, data, research, analytics and solutions. A strong track record of growth, culture of innovation and global footprint sets us apart. We have delivered independent opinions, actionable insights, and efficient solutions to over 100,000 customers.

We are 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 Notice

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.

For further information, or to let us know your preferences with respect to receiving marketing materials, please visit www.crisil.com/privacy. You can view the Company's Customer Privacy at https://www.spglobal.com/privacy

Last updated: April 2016

Argentina | China | Hong Kong | **India** | Poland | Singapore | UK | USA

CRISIL Limited: CRISIL House, Central Avenue, Hiranandani Business Park, Powai, Mumbai – 400076. India

Phone: + 91 22 3342 3000 | Fax: + 91 22 3342 3001 | www.crisil.com

/company/crisil @CRISILLimited /CRISILLimited /user/CRISILLimited

CRISIL

An S&P Global Company