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Frequently Asked Questions (FAQ) on Credit Ratings

1. What is a Credit Rating?

A Credit Rating is an opinion about whether an issuer of a credit commitment, debt or debt-like security is likely to make timely repayment of its financial obligations generally or a particular financial obligation. A credit rating measures the ability and willingness of a borrower / issuer / counterparty to pay / meet its debt obligations in a timely manner. A credit rating is not a recommendation to 'buy', 'sell' or 'hold' a debt instrument / financial obligation. Credit Rating only provides an additional input to the investor and the investor is required to make his own independent and objective analysis before arriving at an investment decision. It is emphasised that a credit rating is not a recommendation to buy equity of the same firm.

2. What a Credit Rating is not?

A Credit Rating does not reflect other types of risk, such as market or liquidity risks, which may also affect the value of a security. Nor does a credit rating consider the price at which an investor purchased a security, or the price at which the security may be sold. One should not interpret a credit rating as investment advice and should not view it as a recommendation to buy, sell, or hold securities. A credit rating is not a guarantee that a financial obligation will be repaid. For example, a 'AAA' credit rating on a debt instrument does not mean the investor will always be paid with absolute certainty—instruments rated at this level sometimes default.

3. What is a Credit Rating Agency (CRA)? Who can be a CRA?

Credit Rating Agency or CRA means an entity that is in the business of issuing credit ratings. Securities and Exchange Board of India (SEBI) is the Regulator for Credit Rating Agencies and SEBI issues a certificate of Registration for a CRA to carry on the activity of Credit Rating. The Reserve Bank of India provides accreditation to SEBI registered CRAs for carrying on bank loan rating as per Basel requirements. This is termed as 'External Credit Assessment Institution (ECAI) status. Only CRAs registered with SEBI could carry out a business of credit rating and similarly who are accredited as ECAI with RBI can carry out bank loan ratings.

4. Are Credit Ratings based on Historical information or are they forward looking?

Credit Ratings are forward looking and hence there is a need to look at the potential performance of the entity as well. BWR rating philosophy includes assessing the performance of the entity based on the past and future potential performance. A credit rating is an assessment of the creditworthiness of a debt instrument or obligor, based on a credit rating agency's criteria & framework, assumptions and expectations. A credit rating may reflect a credit rating agency's subjective judgment of an issuer's business and management risk. While historical financial and operating experience and collateral performance may be factored into the analysis of an obligor, credit ratings are simply an opinion of how an obligor may behave in the future. Investors may have to do due diligence while using CRA opinions.

5. Are Credit Ratings relative?

Credit ratings generally reflect a relative ranking of credit risk. For example, an obligor or debt security with a high credit rating is assessed by the credit rating agency to have a lower likelihood of default than an issuer or debt security with a lower credit rating. A credit rating may reflect a credit rating agency's subjective judgment of an issuer's business and management. While historical financial and operating experience and collateral performance may factor into the analysis of an obligor, credit ratings are simply an opinion of how an obligor may behave in the future.

6. What is the difference between issue rating and issuer rating?

In the case of NCD or Debenture or Bond, the Rating is assigned to the issue or a security or an instrument. In the case of Bank Loan, the Rating is assigned to the facilities / type of exposure. Sometimes, the ratings are also assigned to the Issuer, when such ratings are not used for borrowings and instead it is used for internal benchmarking. However, in all cases, BWR uses standardised rating symbols.

7. What are Bank Loan Ratings?

Bank Loan Ratings are ratings issued by credit rating agencies to facilities that are availed by borrowers in the form of fund based and non-fund based facilities. Some banks offer a lower interest on higher ratings. As per the Basel II norms, banks calculate their capital requirement based on the ratings assigned by External Credit Assessment Institutions (ECAI) to these bank loans. According to the Reserve Bank of India (RBI) guidelines issued in 2007, banks have moved to the standardized methodology for credit risk capital calculation as stated in the Basel norms from March 2008. Thus, companies that have borrowed from the banks are rated by the ECAs that have been accredited by the Reserve Bank of India.

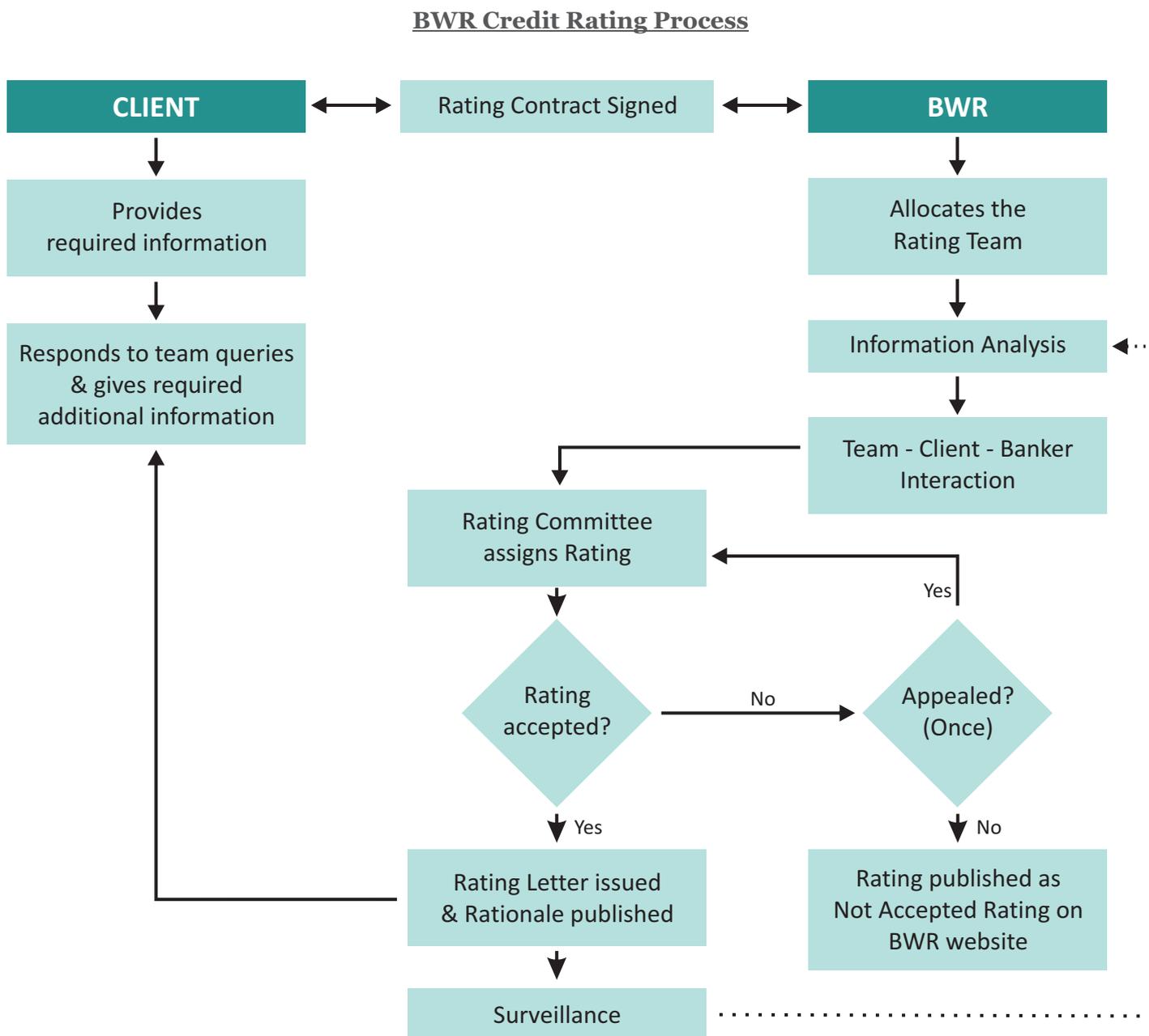
8. What does a Bank Loan Rating convey?

A Bank Loan Rating conveys the credit risk that the bank is undertaking by lending to the borrower. The probability of default (PD) refers to the risk that the bank faces in not receiving the payment in full on the due date from the borrower. Generally, the higher the rating, lower is the risk of default.

9. What is long-term credit rating vs short-term credit rating?

Short-term ratings relate to securities or bank facilities of up to 12 months' maturity and whereas long-term rating is beyond one year. They are differentiated by using separate rating symbols.

10. What is the broad rating process adopted at Brickwork Ratings?



BWR Ratings Process is broadly classified into: a) Pre-Rating b) Rating and c) Post-Rating processes.

The overall Brickwork Process is classified into broad three categories, namely; Pre-Rating, Rating & Post-Rating Process. The BWR pre-rating process considers all activities prior to the commencement of the rating process. In the Pre-Rating process the rating contract between BWR and the entity is signed. The CRA representative explains the criticality of the information requirement for Rating and the co-operation needed during the rating process. During the Ratings Process, the Ratings team studies the information given by the client, the general information on the economy as well as industry both from the international and domestic perspective. The ratings team may have discussions with the management on their competitive strategy, marketing plans, financial projections; both short term & long term outlook, as well as hedging policies, etc. as necessary. The Rating Committee looks at the information presented by the analysts, and arrives at the reasonable rating for the instrument/issuer. In the event that the issuer disagrees with the initial rating,

and has additional information that it believes can make a material difference to its rating, it can appeal. Upon receiving valid information, the rating committee will discuss the merits of the case and may or may not decide to modify the rating. Post rating, the entity accepts the rating and the rating rationale is published as a press release. During the tenure of the instrument or the mandate period, the rating is under the process of surveillance and if there are any changes arising due to management, business, industry or financial profile of the company, the rating actions are carried out and that includes rating reaffirmation, upgrade or downgrade depending upon the development.

11. What Rating Symbols are used?

BWR Ratings (BWR) has adopted SEBI's standardized Rating Symbols and their definitions vide SEBI circular CIR/MIRSD/4/2011 dated June 15, 2011. The rating symbols are separate for long-term and short-term issues / issuers. However, in addition to adopting standardised rating symbols and definitions, Brickwork Ratings prefixes the rating symbols by “BWR” in all the ratings assigned. Wherever, standardised rating symbols are not available for certain category of ratings, BWR has developed rating symbols for that category and made available in the website for ready reference. For rating scale applicable for different type of ratings [click here](#).

Each rating symbol is an alphanumeric representation of the probability of degree of repayment risk associated with debt instruments. A typical long-term credit rating scale, as shown in the table below, has the highest rating of 'AAA' and lowest rating of 'D' (indicating default). Rating symbols are classified into investment grade and non-investment grade (i.e., “high yield” or “speculative”) ratings and they draw this distinction between the 'BBB' and 'BB' rating categories (in other words, a rating that is 'BBB-minus' or higher is investment grade and a rating that is lower than 'BBB-minus' is non-investment grade). The rating is accompanied by modifiers and outlook. The modifiers are expressed as + or -.

An illustration of Long-term Rating Symbols is given below:

Long-term debt instruments - instruments with original maturity exceeding one year

BWR AAA (BWR Triple A)	Instruments with this rating are considered to have the highest degree of safety regarding timely servicing of financial obligations. Such instruments carry lowest credit risk
BWR AA (BWR Double A)	Instruments with this rating are considered to have high degree of safety regarding timely servicing of financial obligations. Such instruments carry very low credit risk.
BWR A	Instruments with this rating are considered to have adequate degree of safety regarding timely servicing of financial obligations. Such instruments carry low credit risk.
BWR BBB (BWR Triple B)	Instruments with this rating are considered to have moderate degree of safety regarding timely servicing of financial obligations. Such instruments carry moderate credit risk.
BWR BB (BWR Double B)	Instruments with this rating are considered to have moderate risk of default regarding timely servicing of financial obligations.
BWR B	Instruments with this rating are considered to have high risk of default regarding timely servicing of financial obligations.
BWR C	Instruments with this rating are considered to have very high risk of default regarding timely servicing of financial obligations.
BWR D	Instruments with this rating are in default or are expected to be in default soon.

Modifier {"+" (plus) / "-"(minus)} can be used with the rating symbols for the categories BWR AA to BWR C to reflect the comparative standing within the category.

12. What are the Rating Symbols that Brickwork Ratings assigns to Bank Loan Ratings?

The rating symbols assigned by Brickwork Ratings are for both long-term and short-term facilities and the rating scale is the same as the scale for NCDs/bonds that have been rated by Brickwork Ratings.

Bank loans that have an original maturity greater than one year are assigned long term ratings and facilities that have original maturity lesser than one year are assigned short-term ratings. In the case of credit lines such as cash credit and overdrafts, long term ratings are assigned due to their revolving nature. The following table lists the typical facilities that are rated by Brickwork Ratings for assigning bank loan ratings.

Sl. No.	Facility	Type of Facility (Fund- Based-FB & Non-Fund Based-NFB)	Type of Rating Assigned (Short Term/Long Term)
1	Long Term Loan	FB	Long Term
2	Cash Credit/Overdraft/Other Working Capital Loans revolving in nature	FB	Long Term
3	ECBs	FB	Long Term
4	Loans against property/secured by commercial property/mortgage finance	FB	Long Term/Short Term based on original maturity
5	Short Term Working Capital Loans non-revolving in nature	FB	Short Term
6	Packing Credit	FB	Short Term
7	Bills discounted/re-discounted/Factoring/Bill Purchase	FB	Short Term
8	Bank Guarantee	NFB	Short/Long Term
9	Letter of Credit	NFB	Short/Long Term

13. What is the meaning of Outlook?

Rating Outlook indicates the direction a rating is likely to move in the medium term and is expressed as positive or stable or negative. BWR assigns rating “outlook” for ratings from 'AAA' to 'B'. The Rating outlook indicates the direction a rating is likely to move over a period of time and may be classified as Positive, Stable or Negative.

14. What are rating modifiers? What symbols are used?

Plus and minus symbols are used to indicate finer distinctions within a rating category. The minus symbol associated with ratings has no negative connotations. In fact, ratings in a higher rating category such as 'BB-' are stronger than ratings in a lower rating category such as 'B+'.

15. What are investment and speculative ratings?

An investment grade rating signifies the rating agency's belief that the rated instrument is likely to meet its payment obligations. In the Indian context, debt instruments rated 'BBB-' and above are classified as investment grade ratings. Instruments that are rated 'BB+' and below are classified as speculative grade category ratings in which case the ability to meet the payment obligations is considered to be “speculative”. Instruments rated in the speculative grade are considered to carry materially higher risk and a higher probability of default compared to instruments rated in the investment grade.

16. Who pays for the credit ratings?

The issuer company pays for the credit rating.

17. What is a rating action? Meaning of re-affirmation, upgrade and downgrade?

The entities are assigned initially a credit rating and then they are subject to continuous surveillance. There could be changes in rating due to sudden changes in the prospects for the company's performance due to changes arising from business, industry, management and financial profile of the company. When such changes occur, the CRA takes “Credit rating action” and that means to determine an upgrade or downgrade of an existing credit rating or an affirmation of an existing credit rating. Whenever the changes have a positive impact in the opinion of the BWR, an upgrade action is taken and whenever the changes could adversely impact the company, rating downgrades are initiated. When these changes have a neutral impact, the rating is reaffirmed. Credit rating agencies provide rating “outlook” and credit “watch” to formally alert investors about potential revisions to those ratings. It is not necessary that these alerts have to precede every time rating action is considered.

18. What are the common factors that are used for credit ratings?

At Brickwork Ratings, we use a common thread for rating all Issuers or Issues, Long-term or Short-term, Solicited or Unsolicited and Individual or a pool of assets. Such a common thread consists of broad factors - business risk, industry risk, management risk and financial risk. Each of these broad risk factors will have a list of parameters and these parameters may be different for different types of segments.

19. What types of facilities are rated and should the company get separate ratings for each facility from each bank that it has borrowed from?

Brickwork Ratings assigns ratings for all limits sanctioned by all banks while undertaking a bank loan rating exercise. The information collected from the borrower includes details of all banking facilities availed and as such one rating assignment should suffice to meet the requirements. In cases where the borrower avails new facilities or gets limits enhanced for existing facilities, the rating will need to be revalidated before it can be used by the borrower.

20. Are non-fund based limits also considered for Bank Loan Ratings?

Non-fund based limits such as LCs and bank guarantees are also assigned Bank Loan Ratings.

21. Can a company have the same rating for NCD and its Bank Loan?

The issue size, structure etc. will determine the ratings that are assigned to a company's NCDs. Bank Loan Ratings are specific to the facilities that are availed from different banks and should be rated separately.

22. What is the time taken by Brickwork Ratings in completing a Bank Loan Rating assignment?

Brickwork Ratings usually takes around three weeks to assign Bank Loan Ratings. The total time taken will depend on the availability of information with BWR, availability of public information, co-operation of the borrower in providing information required by Brickwork Ratings as well as in providing the time required for management discussions.

23. When does Brickwork Ratings assign a “Default” rating grade to Bank Loan Ratings?

Brickwork Ratings considers non-payment of financial obligations on the due-date as default and accordingly downgrades the rating assigned to the instrument/issuer to “BWR D”. Financial obligations refer to both principal and interest payments due.

24. How do you get the list of ratings / rating rationale of entities or instruments rated by BWR?

The ratings of entities / instruments rated by BWR are made available through press releases and also in our website. The companies that use BWR Rating for bonds or debentures also disclose in their offer document / information memorandum. Whenever changes are made to the ratings, the same are also disclosed through press releases and on our website.