

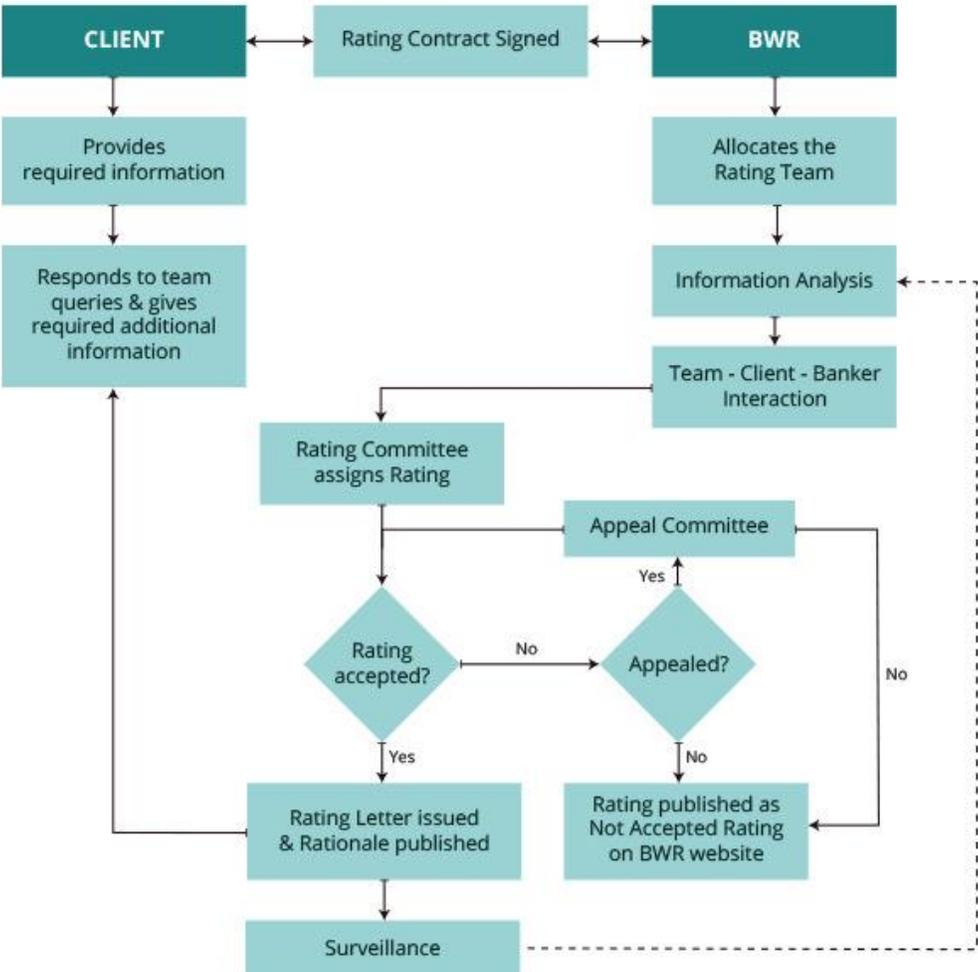
Brickwork Credit Rating Process

The Brickwork Credit Rating Process details the various steps and activities involved in assigning a credit rating, starting from the signing of the rating contract to the assignment of the rating and subsequent actions such as rating dissemination and surveillance.

Brickwork Ratings (BWR) has well-defined and updated criteria, which are publicly available. The rating committees have the sole authority to assign ratings. BWR shall disclose on its website details of all ratings assigned, irrespective of whether the rating is accepted by the issuer or not even in case of non-public issues in compliance with SEBI circular SEBI / HO / MIRSD / DOP2 / CIR / P 2018 / 76 dated May 02, 2018. Every long-term rating assigned is kept under surveillance, periodically reviewed and is withdrawn as detailed in para 5 below.

The Business development group is responsible for obtaining mandates from prospective entities, and this group will handle all business communication and finalize the commercial terms of the rating assignment. The Ratings group handles all analytical responsibilities for a rating assignment and for assessing credit risk for the relevant entity. The Ratings group will be responsible for the rating process from receipt of mandate for a rating until the time the rating is made public. They are also responsible for surveillance and review of ratings.

BWR Credit Rating Process



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

Pre-Ratings

1. Brickwork Ratings (BWR) process begins with a credit rating request from the issuer or its representative.
2. At Brickwork, we have adopted a practice to explain to the entity the scope and use of the ratings, as well as the broad assessment procedure followed. This part is normally carried out through presentations, brochures and other materials as disclosed in the website. BWR policies related to the use of ratings and possible circumstances for rating actions are also clearly communicated.
3. The issuer signs the detailed rating contract/agreement and provides initial information as well as rating fees.

Ratings

1. Credit rating criteria enable analysts to analyze and interpret information appropriately. BWR refines criteria periodically when required, taking into account changes in the market environment. BWR has developed more than thirty Rating Criteria for rating of products under various sectors, industries and services. BWR publishes such criteria on its website.
2. Brickwork's rating process ordinarily takes about 3 weeks. The rating mandate, structure of the instrument as well any information received is forwarded to the rating analyst who works under the guidance of an experienced Chairperson.
3. Brickwork analysts study the general information on the economy as well as industry both from the international and domestic perspective. For instance the effect of global financial crisis, high fluctuations in foreign exchange, commodity markets etc. may be relevant for the Export Import companies.
4. The team of analysts has discussions with the issuer's Management. The team discusses the management views on their competitive strategy, marketing plans, financial projections, short term & long term outlook, corporate governance policy as well as hedging policies, etc. The analysts shall also seek requisite information from the issuer's Banker, Debenture Trustee and if need be from the Statutory Auditor.
5. The analyst presents the case to the Rating Committee, which typically comprise of persons with significant experience in banking/capital markets/risk management and public finance etc. Brickwork also has an External Rating Committee, majority of which are independent members. Independent would mean persons not having any pecuniary relationship with BWR or any of its employees.
6. On obtaining approval of the Rating Committee, the rating to the issue / credit facility is communicated to the issuer. The rating rationale cum press release (in line with SEBI guidelines) is also sent to the issuer. Brickwork analysts answer any queries the issuer may have regarding the rationale.
7. If the issuer disagrees with the initial rating, and has additional information that it believes can make a material difference to its rating, the issuer can request for rating review. In case even after the review by the rating committee, if the disagreement exists, the issuer has recourse to an appeal process. The CP/CCP concerned should place such an appeal with the Rating Team's comments before the Appeal Committee, which will have independent member/s. Upon receiving requisite information, the Appeal Committee will look into the

request and decide the rating on merits. Decision of the Appeal Committee shall be final.

Post-Ratings

1. Initial Rating issued by BWR and the Rating rationale need acceptance of the issuer within five days of issue. Ratings which are accepted shall be published in the media as well as on BWR website. Unaccepted Ratings shall be published on the BWR website.
2. Most issuer and long-term issue ratings are typically valid for a year with certain exceptions like IPO grading, short term ratings, recovery ratings etc. Brickwork team continuously monitors the rated Companies and does surveillance for the life of the instruments and carries out a review of the rating annually in case of NCD/Bonds and Bank credit facilities- or if need be, at shorter intervals. The issuer has obligations to timely pay surveillance fee, provide information sought by BWR and immediately inform Brickwork regarding any material information-positive or adverse event- which has the potential to affect the Issuer's financial position, performance etc. As per the SEBI regulations, it is mandatory for the Issuer to submit a 'No Default Statement' (NDS) at the beginning of every month to explicitly confirm to BWR that it has not delayed on any payment of interest/principal in the previous month. The Rating arrived at after a review shall be advised to the issuer by a suitable letter and a rating rationale which will be followed by publication of the Rating. A Rating arising out of a review does not require Issuer's acceptance irrespective of whether there is a change in the rating, change in the rating outlook or a change in the amount rated.
3. If the issuer does not provide required information in time for a review of the rating, on the due date of the review in respect of NCDs and at the end of 12 months in the case of Bank Loan ratings, the ratings will be placed under Rating not Reviewed category and simultaneously a disclosure to this effect made on BWR website. BWR may also indicate Rating Not-Significant 'NS' when it is difficult to compute the probability of default of such instruments due to protection under State Regulations, courts or the bankruptcy laws.
4. If the non-cooperation of the issuer continues, a review will be undertaken based on available information and in such cases the credit rating symbol shall be accompanied by the suffix "ISSUER NOT COOPERATING" in the same font size. The suffix shall be explained below and shall read as 'Issuer did not cooperate; based on best available information'. If the issuer reverts with appropriate information and payment of fee, BWR will undertake a fresh review of the rating after following due rating process and take an appropriate rating action and comply with other procedural requirements of issuing a rating letter and publication of the Ratings. Further, even when a rating is continuing under 'Issuer Not Cooperating Category', if public information is available on any material events, BWR will take suo moto notice and initiate appropriate rating action.
5. An accepted rating shall be withdrawn on full redemption of the rated instrument/credit facility and on the issuer producing proof of redemption from the debenture Trustee in case of market related instruments or in case of bank credit facility, from the prescribed authority. On withdrawal of Rating consequent to repayment, suitable intimation will be sent to the issuer/Bank and a press release will be issued. Otherwise also, an issuer can make a written request for withdrawal of the ratings and BWR will process the request if it meets the conditions as given in BWR's withdrawal policy

Standard operating procedure for CRAs for monitoring and recognition of defaults.

In order to standardize the operating process for monitoring and recognition of defaults, SEBI's Circular "Guidelines for Enhanced Disclosures by Credit Rating Agencies (CRAs)" dated June 13, 2019 has required that "CRAs, in consultation with SEBI, shall frame a uniform Standard Operating Procedure (SOP) in respect of tracking and timely recognition of default, which shall be disclosed on the website of each CRA."

SEBI in its Circular dated June 30, 2017 on "Monitoring and Review of Ratings by Credit Rating Agencies (CRAs)", had also noted that "CRAs have to be proactive in early detection of defaults/ delays in making payments." SEBI had further stated, "As responsible institutions, CRAs are expected to proactively track all important changes relating to the client companies in order to yield timely and accurate ratings. It is reiterated that CRAs are required to ensure prompt and accurate rating action".

In line with these regulatory guidelines, we have put together an SOP for tracking and timely recognition of default. Recognition of defaults in a timely and consistent manner helps achieve the following objectives:

1. Present accurate performance statistics like default rates
2. Help investors and other stakeholders compare performance of CRAs using objective metrics and consistent default monitoring / recognition practices

Following practices shall be consistently adopted by BWR towards ensuring consistency and uniformity in tracking and recognition of defaults.

1. **Communication with bankers:** Every CRA shall write to the bankers to take feedback at the time of initial rating and at periodic intervals (at least once every quarter) to ascertain timeliness in debt servicing. In cases where bankers do not respond in writing, the discussions shall be documented (through email/ letter to the banker).
2. **No default statement (NDS)** to be sought on a monthly basis from the Issuer in line with SEBI regulations.
3. Tracking confirmation from debenture trustee on timely debt servicing on specific ISINs rated by the CRA in line with SEBI regulations. For securities, the withdrawn rating shall be included in the computation of default rates till the completion of the 3-year cohort or the maturity of the instrument, whichever is earlier. Accordingly, the CRAs shall continue to track the confirmation received from the debenture trustees on the status of debt servicing on securities even after rating withdrawal, where applicable.
4. **Monitoring of Exchange website:** The CRA shall also monitor the Exchange website for disclosures made by issuers with listed securities (either debt or equity) in respect of timely debt servicing.
5. **Publishing of press release in case of payment default:** In case of confirmation of any delay in servicing of the debt obligation, press release shall be published within timelines as prescribed under regulations.
6. **Disclosure in case of non-confirmation of timely debt servicing:** In case no confirmation regarding servicing of debt obligation on the listed security is received by the CRA from the Debenture Trustee within 1 day post the due date, the CRA shall immediately follow up with the Issuer for confirmation of payment. In case no response is received from the Issuer

within 2 days of such communication, the CRA shall publish a Press Release as per SEBI prescribed format on its website and send to all stock exchanges where the security is listed.

7. **Rating agreements shall be suitably modified** to incorporate Issuers responsibility to provide consent to the CRA to obtain details of the existing and/ or future borrowing of the issuer, its repayment and any delay or default in servicing of such borrowing, either from the lender or any other statutory/ non - statutory organisation maintaining any such information. Such right to access to information shall be made clear to the said external parties while seeking information.
8. **Factoring in past defaults:** In rare circumstances, if a CRA becomes aware of the delays that have occurred in the past and have not been recognized by way of a 'D' rating, the delay shall be recognised by downgrading the rating to 'D'. The rating can be simultaneously upgraded to a non-D rating, in line with the SEBI guidelines on curing period and the SOP on curing period mentioned below.
9. **Default on instruments not rated by CRA:**
In case an issuer defaults on an unrated instrument which has same seniority as the rated instrument by the CRA,
 - 9.1. The CRA shall recognise the default in its default statistics from the rating level of the rated instrument. The rating of the rated instrument which has not defaulted may be appropriately reviewed by the CRA
 - 9.2. For the sake of ample clarity, it is highlighted that a default on an unrated instrument may not mean and shall not be construed as a default for computation of default statistics, if the rated instrument is credit enhanced or there is a structure around the cash flows.
 - 9.3. The CRA in its default studies shall also give out a list of all companies where ratings may not have been downgraded 'D', but issuer has been included in the default study due to default on unrated debt.

10. Curing period post defaults

- 10.1. The curing period principle for default category ratings should apply to fresh rating assignment as well as surveillance assignments and usually at an issuer level. For the sake of ample clarity, if a CRA is rating and issuer afresh, a non-default rating would not be assigned if the curing period post an earlier default on any instrument of similar seniority has not lapsed.
- 10.2. However, for ratings on subordinated or hybrid bonds, since a default on such instruments may not necessarily imply a default by the issuer for senior instruments, curing period should apply at instrument level. In case of default on subordinated or hybrid instruments, ratings on senior instruments may not be upgraded during the curing period for subordinated and hybrid instruments.
- 10.3. If rated instruments is credit enhanced or there is a structure around the cash flows, the curing period will apply at instrument level, as default by issuer on other instruments may not imply or lead to default on such an instrument.