

Rating Criteria – Fixed Deposit Ratings

Executive Summary

Brickwork Ratings (BWR) fixed deposit rating process involves a comprehensive evaluation of quantitative and qualitative factors of the issuer, floated by the Banks, deposit-taking non-banking financial companies (NBFCs) and corporates in the non-financial sector.

A fixed deposit (FD) programme provides issuers with an additional source of funding, thereby broadening their overall liability mix. Such programmes typically mobilise funds from a diversified investor base, with individual deposits differing in size and maturity. The resulting liability pool is generally well distributed across investors and repayment dates, thereby reducing the concentration of near-term maturities. Further, the rollover of a meaningful proportion of deposits at maturity limits the quantum of cash outflows and, consequently, mitigates liquidity pressure on the issuer.

Scope of the Criteria

The scope of this document is to outline the key risk parameters considered while assigning credit ratings to FD rating programmes, floated by the Banks, deposit-taking non-banking financial companies (NBFCs) and corporates in the non-financial sector. These ratings are derived from issuer's long-term credit rating. However, such ratings with contracted maturity of up to one year, are rated on long-term FDs (greater than 1 year) are rated on the 20-point long-term rating scale.

BWR has established rating criteria for Banks, NBFCs, non-finance companies, under which this document forms part of the broader sector-specific criteria applicable to various industries within the general criteria, Banks, NBFCs and non-financial sector. The detailed criteria for various companies is available on the BWR website: <https://www.brickworkratings.com/RatingsCriteria.aspx>

BWR FD rating Methodology:

Key Rating Principles/considerations while assigning FD rating:

- **Alignment with Issuer's Long-Term Rating**

The FD rating is typically mapped to the issuer's long-term credit rating on the standard 20-point long term rating scale.

- **Sector-Specific Treatment**

- The evaluation is based on four primary risk categories, namely Industry Risk, Business Risk, Financial Risk and Management Risk for non-financial sector.
- In addition, Environmental, Social and Governance (ESG) considerations are increasingly integrated into the assessment, given their growing importance in determining long-term competitiveness and stakeholder perception.
- In case of the Banks and FIs, analysis of the operating environment includes both macro and micro factors, along with the market factors, market position and financial flexibility.
- BWR adopts the CRAMEL model (Capital Adequacy, Resource Profile, Asset Quality, Management Quality, Earnings and Liquidity) for the rating process. The methodology would mainly focus on evaluating the financial strength of the entity and is carried out based on past audited financials and projection of potential asset quality issues and capital raising plans.

- **Scheduled Commercial Banks (SCBs):**

For Scheduled Commercial Banks, FD ratings may be notched up by one level over the issuer rating based on case to case basis. While rating the FDs for the SCBs, following pointers may be considered:

- Deposit insurance coverage under DICGC (Deposit Insurance and Credit Guarantee Corporation) up to prescribed limits
- Continuous regulatory supervision and prudential guidelines by the regulator providing safety cover to FDs. This is to account for banks' superior access to systemic liquidity, the regulator's oversight over banks including efforts to safeguard interests of depositors, and the presence of deposit insurance.
- The rating mapping for banks will also take into account the ownership pattern of the bank and the quality of its FD programme.
- Any other additional institutional and statutory protections
- For more details, please refer to BWR Banks and Financial Institutions criteria as follows:
- https://www.brickworkratings.com/download/Criteria-BanksFinancialInstitutions-v1.1_c.pdf

- **Non-Bank/ non-financial Issuers:**

- For non-bank entities, the FD rating will be aligned with the long-term issuer rating. Rating differentiation based on maturity profile.
- FD ratings may differ based on the maturity profile: Long-term FDs (greater than 1 year) are rated on the 20-point long-term rating scale.
- For more details, please refer to BWR general criteria as follows:
<https://www.brickworkratings.com/download/Criteria-GeneralCriteriaUpdated.pdf>

- **Non-banking financial companies (NBFCs)**

- Applicable to deposit taking NBFCs
- The analytical framework involves an in-depth assessment of the NBFC's financial strength and risk absorption capacity, as reflected in its capital structure, asset quality, liquidity buffers and earnings profile.
- BWR also evaluates the robustness of the business model, risk management practices, funding diversity, corporate governance standards and the entity's market position including franchise strength, scale of operations and competitive positioning within its key lending segments.
- Given the systemic significance of NBFCs and their sensitivity to macroeconomic conditions, BWR's analysis incorporates a broader review of the operating environment, including trends in the overall economy, developments in the financial sector and dynamics within the specific lending segments in which the NBFC operates.
- The final rating outcome reflects BWR's view on the NBFC's creditworthiness based on its financial resilience, operational capabilities and external environment. The methodology would mainly focus on evaluating the financial strength and resilience of the entity, assessed through audited financials, potential asset quality issues, capital raising plans and the entity's ability to sustain growth while maintaining liquidity and prudent risk management practices.
- BWR also analyzed RBI's direction for deposit taking NBFCs for the acceptance of public deposits.
- For more details, please refer to BWR NBFC criteria as follows:
https://www.brickworkratings.com/download/RatingCriteriaforNBFC_v1.pdf

Fixed deposit Ratings Scale:

FD programmes are rated using the SEBI-standardised 20-point long-term rating scale applicable for debt instruments. FD ratings reflect the issuer's ability to meet repayment obligations in full and on time, including both principal and interest as per the terms of the deposit programme. FDs are ranked equally with other senior debt obligations of the issuer. Consequently, the rating of the FD programme is generally aligned to the issuer's long-term credit rating, subject to sectoral and structural considerations.

Rating	Definition
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 safety regarding timely servicing of financial obligations. Such instruments carry very low credit risk.
BWR A (BWR Single 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.

Note:

- Modifier {"+" (plus) / "-" (minus)} can be used with the rating symbols for the categories BWR AA to BWR C. The modifiers reflect the comparative standing within the category.
- BWR assigns rating outlook for ratings BWR AAA to B. The rating outlook indicates the medium-term direction that the rating may possibly move in; a rating is likely to move over a period of time and may be classified as Positive, Stable or Negative.
- BWR speculative grade ratings are lower than BBB. As such, BWR BB, BWR B, BWR C or BWR D ratings are considered to have speculative characteristics. BWR's lowest rating category of BWR D is normally event specific.

For more details, please refer to BWR FD Ratings scale as follows:

<https://www.brickworkratings.com/RatingsScale.aspx>

Conclusion

FD ratings reflect the issuer's ability to meet repayment obligations in full and on time, including both principal and interest as per the terms of the deposit programme. The FD rating is typically mapped to the issuer's long-term credit rating on the standard 20-point long term rating scale. For Scheduled Commercial Banks, FD ratings may be notched up by one level over the issuer rating based on case to case basis, which is supported by continuous regulatory supervision and prudential guidelines by the regulator providing safety cover to FDs. For non-bank entities, the FD rating will be aligned with the long-term issuer rating.

This is the first criterion document, so no prior version or reference link exists.

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For more information on Brickwork Ratings, please visit www.brickworkratings.com.

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