The criteria document identifies and briefly addresses some of the specific factors considered by Brickwork Ratings in analysing a Credit Rating. Credit rating criteria enable analysts to analyse and interpret information on a consistent approach. Ratings are subjective credit opinions based on various qualitative and quantitative factors.

Distinguishing Companies by Business Classification:
At BWR, we have broadly classified the debt issuer segments as: a) Manufacturing Sector b) Financial Sector c) Infrastructure Sector and d) Government & Local bodies. Within each of the segments, there could be further classifications. For e.g.: Financial Sector may include Banks, Insurance companies, Mutual Funds, NBFCs', Micro-Finance Institutions and so on.
Distinguishing Issuer & Issue
Brickwork Ratings assigns two types of credit ratings: one to issuers and the other to specific debt issues or other financial obligations. The first type is called a 'Brickwork's Counterparty Credit Rating'. It is a current opinion of an issuer's overall capacity to pay its financial obligations—that is, its fundamental creditworthiness. This opinion focuses on the issuer's ability and willingness to meet its financial commitments on a timely basis. It does not reflect any priority or preference among obligations. "Default Rating" and "Issuer Credit Rating" are additional ways of referring to this type of rating. Credit Ratings are also assigned to specific issues. In fact, the vast majority of credit ratings pertain to specific debt issues. The junior debt may be rated below the counterparty credit rating, while well-secured debt can be rated above.

Distinguishing Long-term & Short-term Ratings
Long-term ratings are forward-looking opinions over a longer period, designed to remain stable over the course of normal business cycles. They range from 'BWR AAA' for the highest quality obligations to 'BWR D' for the lowest. Ratings from 'BWR AA' to 'BWR C' may be modified by the addition of a plus or minus sign to distinguish relative credit standing within the major rating categories.

Short-term ratings evaluate the likelihood of a borrower's timely repayment of obligations considered short-term in relevant markets. This definition covers any obligation with an original maturity of one year or less, such as commercial paper. They range from 'BWR A1' for the highest quality obligations to 'BWR A4' for the lowest and the details could be seen in Rating Scale. Brickwork uses modifiers for A1 to A4.

Distinguishing Solicited Vs Unsolicited Ratings
The major distinction between an unsolicited and a solicited rating is that the latter is requested and therefore paid for by the rated firm while the former is neither of the two. Consequently, unsolicited ratings are based on publicly available information only and also based on the internal research on industry and peer group.

The credit rating symbol for an unsolicited rating is accompanied by the word UNSOLICITED in bold letters to differentiate from the solicited ratings.

Common Thread across all Ratings
At Brickwork Ratings, a common thread for rating all Issuers or Issues, Long-term or Short-term, Solicited or Unsolicited and Individual or a pool of assets 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.

In this document, the broad risk factors are discussed and the discussion on parameter is included in the segment-wise criteria.

A: Business Risk
Each credit rating analysis begins with an assessment of the company's environment. To determine the degree of operating risk the factors assessed include the prospects for growth, stability or decline and the pattern of business cycles, technological change, labour unrest, or the impact of government intervention. Industries that have long lead times in building production capacity or that require fixed plants of a specialised nature face heightened risk. The implications of increasing competition are obviously crucial.
B: Industry Risk
The purpose of industry analysis is to understand the conditions in which a business operates and the changes - cyclical, competitive, and technological - that it is likely to experience. Most industries exhibit some degree of cyclical volatility and some industries are exposed to seasonal variances, too. Such volatility affects the operating performance and financial condition of a company. Technological change and new competitors or substitute products can also affect performance.

C: Management Risk
The importance of management competency and integrity cannot be overstated. The ability of the commercial entity’s managers to guide it, exploit opportunities, develop and execute plans and react to market changes is extremely important to its financial wellbeing. The unexpected loss of one or two key employees can be detrimental to a company, particularly a small or mid-size firm. BWR considers the company’s corporate governance while assessing management risk.

D: Financial Risk
The balance sheet, income statement, sources and uses of funds/cash flow statement, and financial projections provide essential information about the company’s initial and ongoing repayment capacity. Quantitative analysis of revenues, profit margins, income and cash flow, leverage, liquidity, capitalization are other factors that may affect borrower performance. Financial risk is portrayed largely through quantitative means, particularly by using financial ratios.

Analysis of Projections
While current and historical information is necessary to establish a company’s condition and financial track record, projections estimate expected performance.

Parent/Group support
A rating of a subsidiary, or an affiliate that is controlled by a dominant shareholder, involves an examination of its parent company’s credit quality, which could enhance or detract from the subsidiary or affiliate’s stand-alone rating.

It may be noted that ratings are generally assigned based on best available information and the professional judgment of Brickwork Ratings regarding certain expectations and assumptions about entity-specific factors and the business environment that impact the entity’s performance. Hence, in addition to applying the General rating criteria stated above, changes in business and economic environments and their impact on the rated entity would also be considered, on a case to case basis, while assigning the ratings.

The Criteria will be generally reviewed once in three years, and as and when necessary. All the revised Criteria are disclosed on the BWR website with the hyperlink to Original Criteria (before revision)

Valid upto 28 September 2021

Disclaimer:
It must be clearly understood that a Rating opinion is based on various factors/aspects which includes application of certain Rating criteria. The particular criteria applied depends on a number of factors, inter alia, sector/Industry, historical performance, cyclical trends, prevailing economic condition, group support etc. Rating opinions factor many assumptions and the application of any particular criteria or a set of criteria may be full or partial depending upon peculiarity of each case. Application of any Rating criteria should not therefore be considered as rendering finality or completeness to a Rating assessment. A reference to criteria needs to be perceived in broad terms, only as an aid to a rating decision.