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Rating's Transition & Default Study FY 2014



About Brickwork Ratings

Brickwork Ratings India Private Limited (BWR/Brickwork/Brickwork Ratings) began its credit rating operations in 2008 as a SEBI registered credit rating agency. In April 2012, Brickwork Ratings was recognized by the Reserve Bank of India as an eligible credit rating agency to undertake bank loan ratings. With the addition of bank loan ratings to its services offered, Brickwork Ratings has further expanded its ratings base in the market place.

About this Publication

The Transition and Default Study report is an annual publication of Brickwork Ratings. Brickwork considers analytical excellence, integrity and transparency as its core values in its operations. The report seeks to provide an insight into the rating performance of all ratings assigned by Brickwork Ratings to the investing community and the public at large. All rating rationales are also available on the website of Brickwork Ratings.

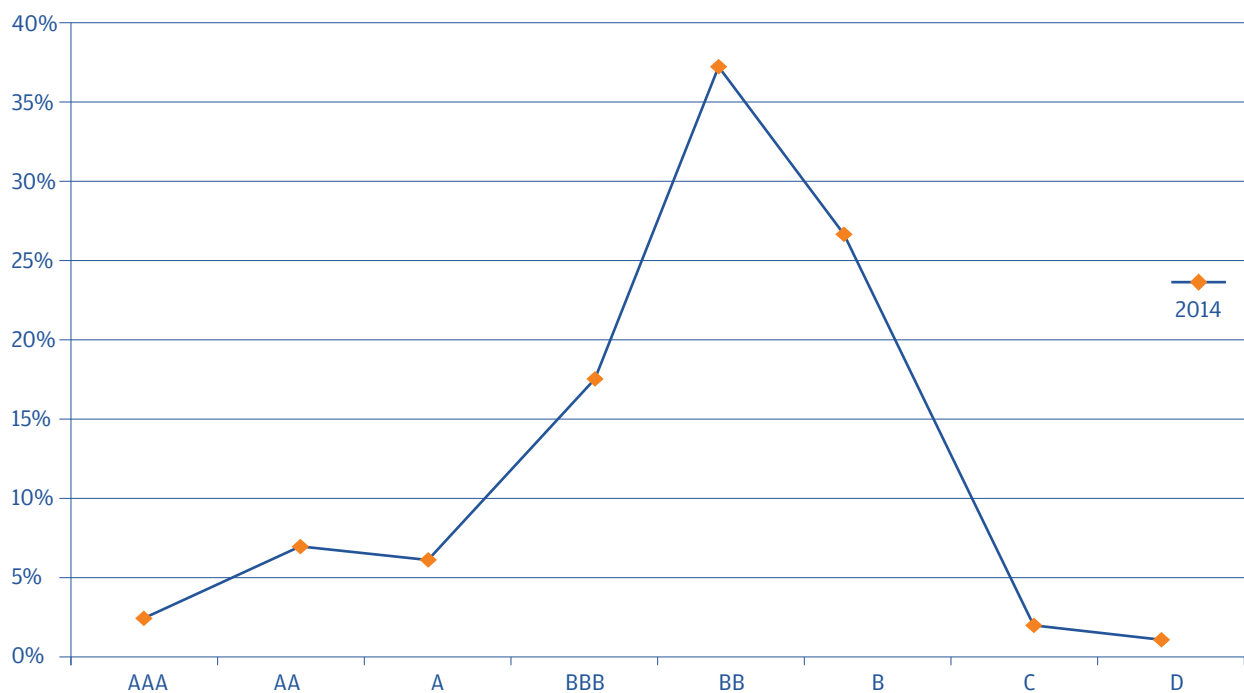
www.brickworkratings.com

Executive Summary

The total number of long term ratings assigned by Brickwork Ratings that were outstanding as of 31st March 2014 exceeded over 1700. The ratings distribution has a median of BB. The non-investment grade population of Brickwork Ratings contributes to around 67% of the total rated population for FY14.

The Credit Ratings Behavior Ratio (CRBR) is an indication of the rating action trend and is defined as $(\text{Rating Upgrades} / \text{Rating Downgrades})$. For the current year the CRBR for the total rated population stood at 1.53 overall. We have also defined a Modified Credit Ratings Behavior Ratio (MCRBR) which is $(\text{Rating Upgrades} + \text{Ratings Reaffirmed}) / (\text{Rating Downgrades} + \text{Ratings Reaffirmed})$. For the current year the MCRBR for the total rated population stood at 1.02 overall.

Ratings Distribution



The median of the rating distribution as on March 2014 is in the BB rating category. Out of the total ratings assigned 33% were in the Investment grades and 67% in the Non-Investment grades.

Credit Ratings Behavior ratio & Modified Credit Ratings Behavior ratio

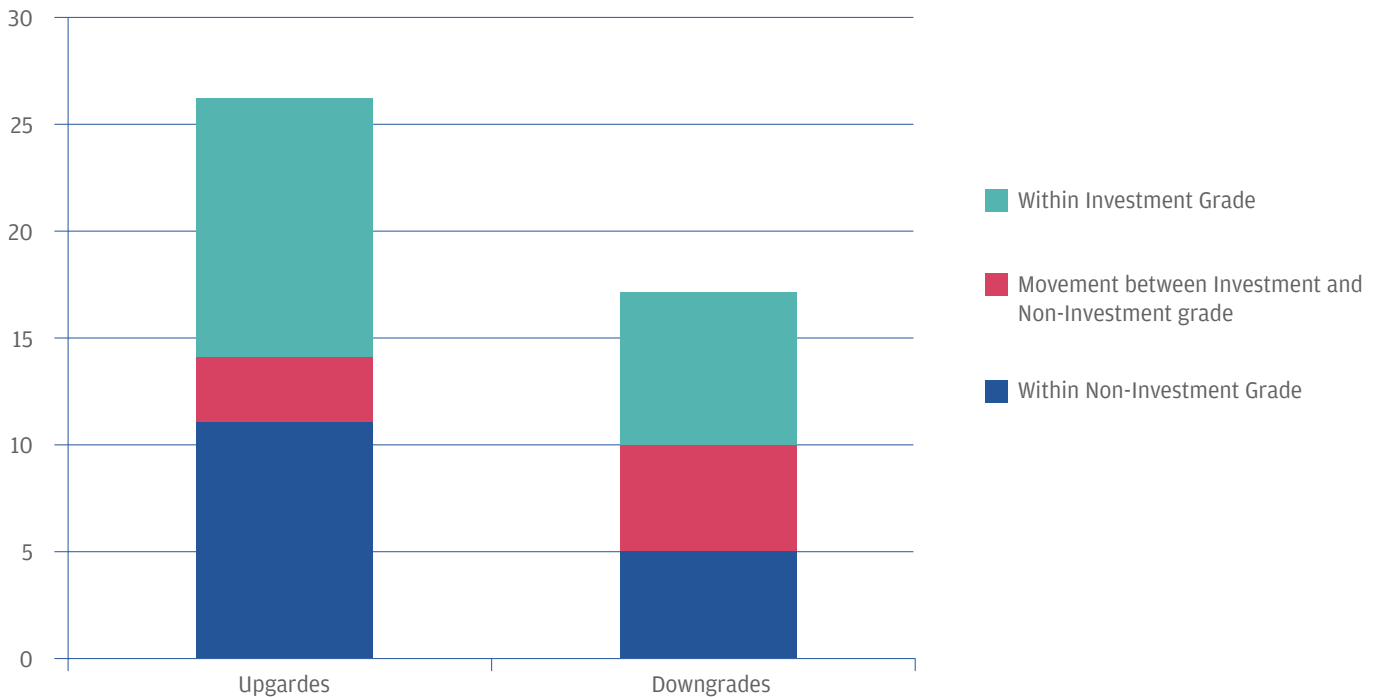
CRBR for the total rated population for the period 2013-14 stood at 1.53 which is a result of 26 upgrades as against 17 downgrades. The MCRBR for the total rated population stood at 1.02 overall.

The CRBR calculated should be understood after considering the following:

- ✓ The small rating population of Brickwork Ratings
- ✓ The portfolio of the rated population of Brickwork Ratings

The downgrades were primarily due to changes in the financial performance, deteriorating liquidity profiles and delays in debt servicing. The upgrades, on the other hand, were due to strong liquidity profiles, change in management and improved financial performance. While the overall economic growth in 2013-14 was muted, Brickwork Ratings upgraded companies that showed their ability to grow and strengthen their financial and operational performance in adverse conditions.

The following chart shows the upgrade/downgrade details for 2013-14:



Around 98% of the ratings continued to be in the investment/non-investment grades after the rating actions taken. Of the 2% of the ratings that shifted between the two, 3 were upgraded from a noninvestment grade to an investment grade, while 5 were downgraded from an investment grade to a noninvestment grade.

The reasons for steep downgrades include inability of the Company to repay debt, stressed liquidity scenarios and certain regulatory concerns.

Transition Matrix and Default Study

The transition matrix shows the stability rates as well as the percentage of ratings upgraded or downgraded for each rating scale. The highlighted cells indicate the stability rates which reflect the strength of the rating methodology of Brickwork Ratings.

Transition Matrix for rated instruments excludes structured finance ratings (only 1 structured finance rating has been assigned by BWR to date). The table below indicates weighted average transition of ratings for the years FY 12 - FY14 for 1 year CDR & 3 year CDR.

One Year Transition Rate [FY 2012-FY 2014] Table 1.1

	BWR AAA	BWR AA	BWR A	BWR BBB	BWR BB	BWR B	BWR C	BWR D
BWR AAA	95.89%	4.11%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
BWR AA	0.00%	97.67%	2.33%	0.00%	0.00%	0.00%	0.00%	0.00%
BWR A	0.00%	1.01%	94.95%	1.01%	1.01%	1.01%	1.01%	0.00%
BWR BBB	0.00%	0.00%	0.00%	95.19%	1.92%	0.00%	0.96%	1.92%
BWR BB	0.00%	0.00%	0.00%	2.03%	95.27%	2.70%	0.00%	0.00%
BWR B	0.00%	0.00%	0.00%	0.00%	1.61%	98.39%	0.00%	0.00%
BWR C	0.00%	0.00%	0.00%	0.00%	0.00%	14.29%	85.71%	0.00%

Three Year Transition Rate [FY 2012-FY 2014] Table 1.2

	BWR AAA	BWR AA	BWR A	BWR BBB	BWR BB	BWR B	BWR C	BWR D
BWR AAA	84.21%	15.79%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
BWR AA	0.00%	93.33%	6.67%	0.00%	0.00%	0.00%	0.00%	0.00%
BWR A	0.00%	7.69%	84.62%	7.69%	0.00%	0.00%	0.00%	0.00%
BWR BBB	0.00%	0.00%	0.00%	0.00%	100.00%	0.00%	0.00%	0.00%
BWR BB	0.00%	0.00%	0.00%	0.00%	0.00%	100.00%	0.00%	0.00%
BWR B	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
BWR C	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

The default and transition rates shown above should be considered statistically insignificant, considering the rating sample size and the number of years of operations of Brickwork Ratings. For a small rating population, even one company being downgraded / upgraded can cause a big shift in the stability rate.

BWR Transition and Default Methodology

The Transition Rate is calculated across all rating categories over one and three year time period to evaluate behavior of ratings over different time horizons. BWR has adopted long-term rolling-over weighted average approach to assess CDR (Cumulative Default rate) for arriving at one year CDR and at three year CDR of the ratings which are reviewed on an ongoing basis.

- ✓ The study tracks long term rating assigned and accepted by the client/issuer and is issuer specific for bank loan ratings which is a major part of rating population of BWR and also for NCD's/Bonds.
- ✓ The static pool consists of number of ratings outstanding for each rating category as on the beginning of financial year under study. Default behavior of each rating category is examined over one and three year periods.

The highlighted cells in Table 1.1 & 1.2 indicate the stability rate across respective rating categories.

Cumulative Default Rates

One year and Three year Cumulative Default rate (CDR): Table 1.3

Rating Category	1-Year CDR	3-Year CDR
AAA or equivalent	0.00%	0.00%
AA or equivalent	0.00%	0.00%
A or equivalent	0.00%	0.00%
BBB or equivalent	1.92%	0.00%
BB or equivalent	0.00%	0.00%
B or equivalent	0.00%	0.00%
C or equivalent	0.00%	0.00%

The default rates shown above should be considered statistically insignificant, considering the rating sample size and the number of years of operations of Brickwork Ratings.

Disclaimer

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