



SEBI Registered
RBI Accredited
NSIC Empanelled

Rating's Transition & Default Study FY 2015



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.

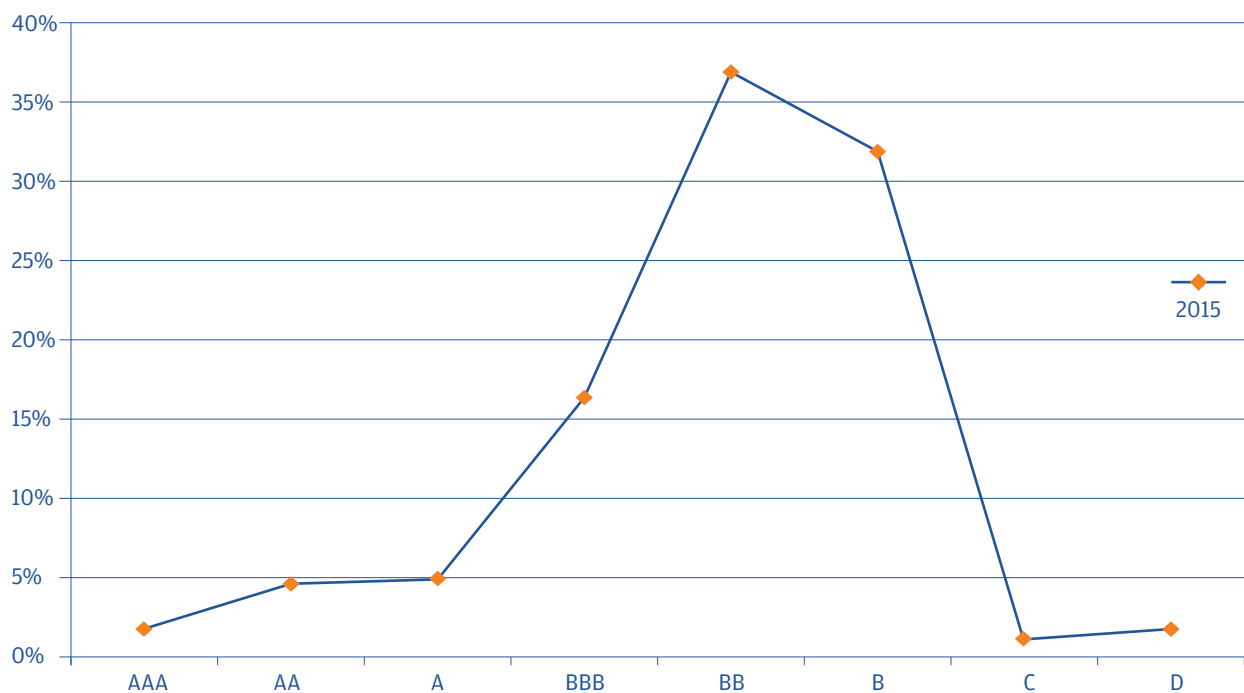
www.brickworkratings.com

Executive Summary

The total number of long term ratings assigned by Brickwork Ratings that were outstanding as of 31st March 2015 exceeded over 3000. The ratings distribution has a median of BB. The non-investment grade population of Brickwork Ratings contributes to around 72% of the total rated population for FY15.

The Credit Ratings Behavior Ratio (CRBR) is an indication of the rating action trend and is defined as (Rating Upgrades / Rating Downgrades). For the current year the CRBR for the total rated population stood at 3.89 overall. Modified Credit Ratings Behavior Ratio (MCRBR) which is (Rating Upgrades + Ratings Reaffirmed)/(Rating Downgrades +Ratings Reaffirmed) stood at 1.13 overall for the total rated population.

Ratings Distribution



The median of rating distribution as on March 2015 is in the BB rating category. Out of the total ratings assigned 28% were in the Investment grades and 72% in the Non-Investment grades.

Credit Ratings Behavior ratio & Modified Credit Ratings Behavior ratio

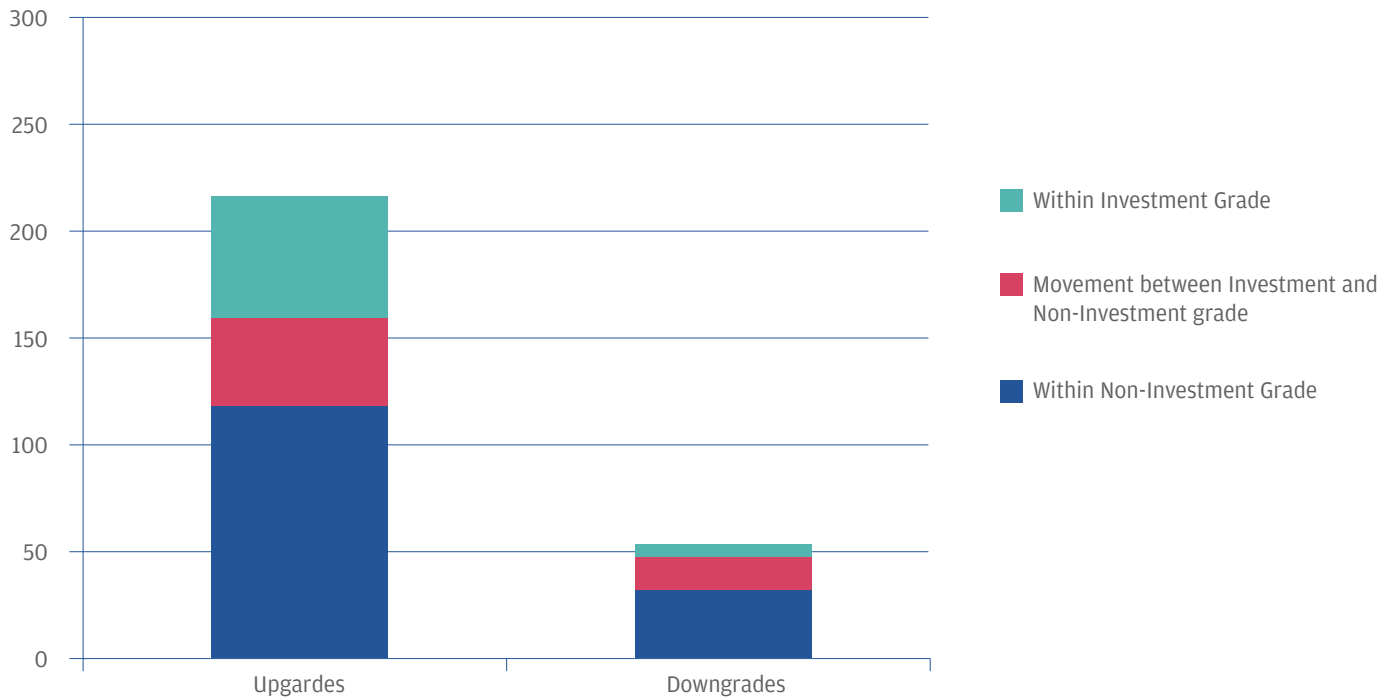
CRBR for the total rated population for the period 2014-15 stood at 3.89 which is a result of 218 upgrades as against 56 downgrades. The MCRBR for the total rating population stood at 1.13 overall.

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 2014-15 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 2014-15



Around 97% of the ratings continued to be in the investment/non-investment grades after the rating actions taken. Of the 3% of the ratings that shifted between the two, 33 were upgraded from a non-investment grade to an investment grade while 18 were downgraded from an investment grade to a noninvestment grade. The CRBR should be seen with the stability indicators for a proper analysis and not on a stand-alone basis.

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. The table below indicates the weighted average transition of ratings.

One Year Transition Rate [FY 2012-FY 2015] Table 1.1

	BWR AAA	BWR AA	BWR A	BWR BBB	BWR BB	BWR B	BWR C	BWR D
BWR AAA	96.15%	3.85%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
BWR AA	1.50%	96.24%	1.50%	0.75%	0.00%	0.00%	0.00%	0.00%
BWR A	0.00%	2.75%	94.51%	0.55%	1.10%	0.55%	0.55%	0.00%
BWR BBB	0.00%	0.00%	1.08%	92.97%	3.24%	0.00%	0.27%	2.43%
BWR BB	0.00%	0.00%	0.00%	4.85%	93.41%	1.48%	0.00%	0.27%
BWR B	0.00%	0.00%	0.00%	0.00%	5.62%	92.77%	0.60%	1.00%
BWR C	0.00%	0.00%	0.00%	0.00%	4.26%	14.89%	74.47%	6.38%

Three Year Transition Rate [FY 2012-FY 2015] Table 1.2

	BWR AAA	BWR AA	BWR A	BWR BBB	BWR BB	BWR B	BWR C	BWR D
BWR AAA	82.50%	17.50%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
BWR AA	5.13%	92.31%	2.56%	0.00%	0.00%	0.00%	0.00%	0.00%
BWR A	0.00%	10.00%	80.00%	6.67%	3.33%	0.00%	0.00%	0.00%
BWR BBB	0.00%	0.00%	0.00%	25.00%	50.00%	25.00%	0.00%	0.00%
BWR BB	0.00%	0.00%	0.00%	0.00%	75.00%	25.00%	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%	100.00%	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.

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 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 the 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	2.43%	0.00%
BB or equivalent	0.27%	0.00%
B or equivalent	1.00%	0.00%
C or equivalent	6.38%	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

BWR has taken utmost care in preparing and publishing this study/report. However, BWR does not guarantee accuracy, adequacy or completeness of the information and is not responsible for any errors or omissions or the outcome from use of the information. BWR specifically states that it has no liability whatsoever, including financial liability towards anyone on account of use of this report/information. Any use/reproduction of the contents of the report needs prior permission of the publisher.



SEBI Registered
RBI Accredited
NSIC Empanelled

BRICKWORK RATINGS INDIA PVT. LTD.

Corporate Office

3rd Floor, Raj Alkaa Park, 29/3 & 32/2 Kalena Agrahara, Bannerghatta Road, Bengaluru - 560 076
Phone : +91 80 4040 9940 | Fax: +91 80 4040 9941 | Mobile: +91 96118 05999

www.brickworkratings.com