



SEBI Registered  
RBI Accredited  
NSIC Empanelled

# Rating's Transition & Default Study FY 2017



## About Brickwork Ratings

Brickwork Ratings, a credit rating agency founded by bankers, former regulators, and credit rating professionals, is a SEBI registered credit rating agency with its corporate office in Bengaluru. It is also accredited by RBI and empaneled by NSIC for carrying out bank loan, SME rating, NCD, Commercial paper and MSME rating respectively. It has a country wide presence through its branches in Ahmedabad, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives across more than 40 cities

## 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](http://www.brickworkratings.com)

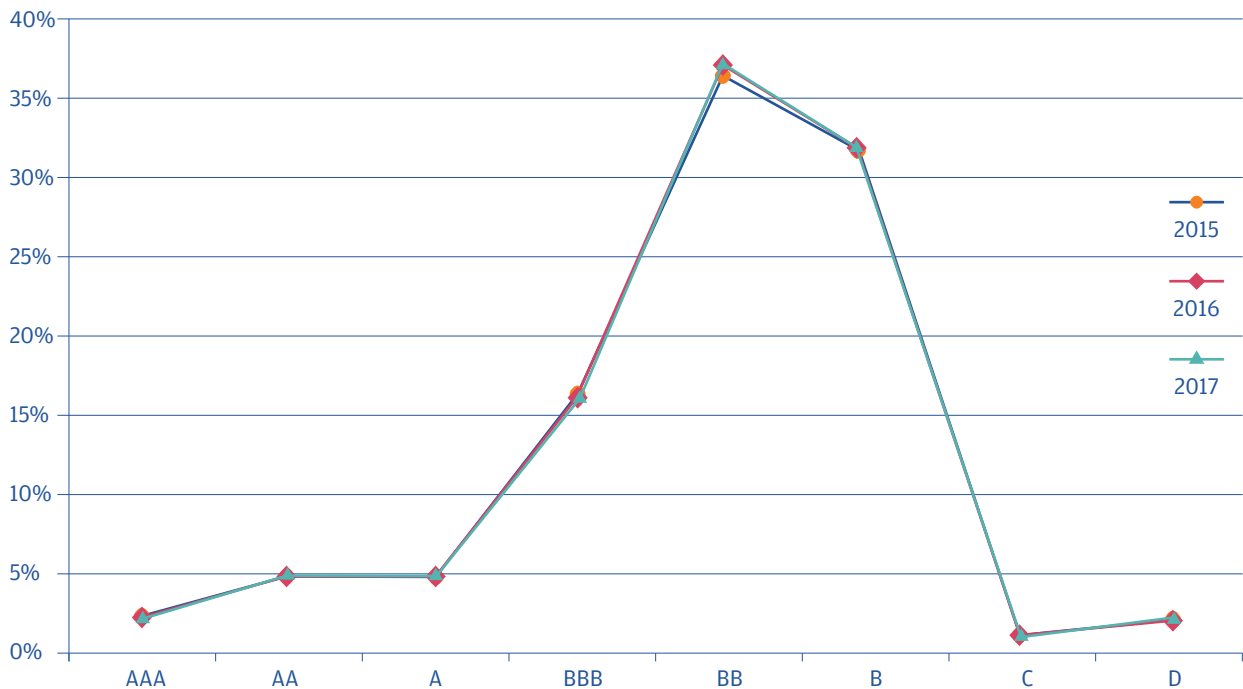
## Executive Summary

The total number of long term ratings assigned by Brickwork ratings that were outstanding as of 31st March 2017 exceeded over 5700 ratings. This increase in volume is mainly due to the increasing number of bank loans that have been rated by Brickwork Ratings. The ratings distribution of Brickwork Ratings continues to have a median of BB which was the case for FY 16. The non-investment grade population of Brickwork Ratings has increased by 1% from FY 16 and now contributes to around 74% of the total rated population for FY17.

# Credit Ratings Behavior ratio

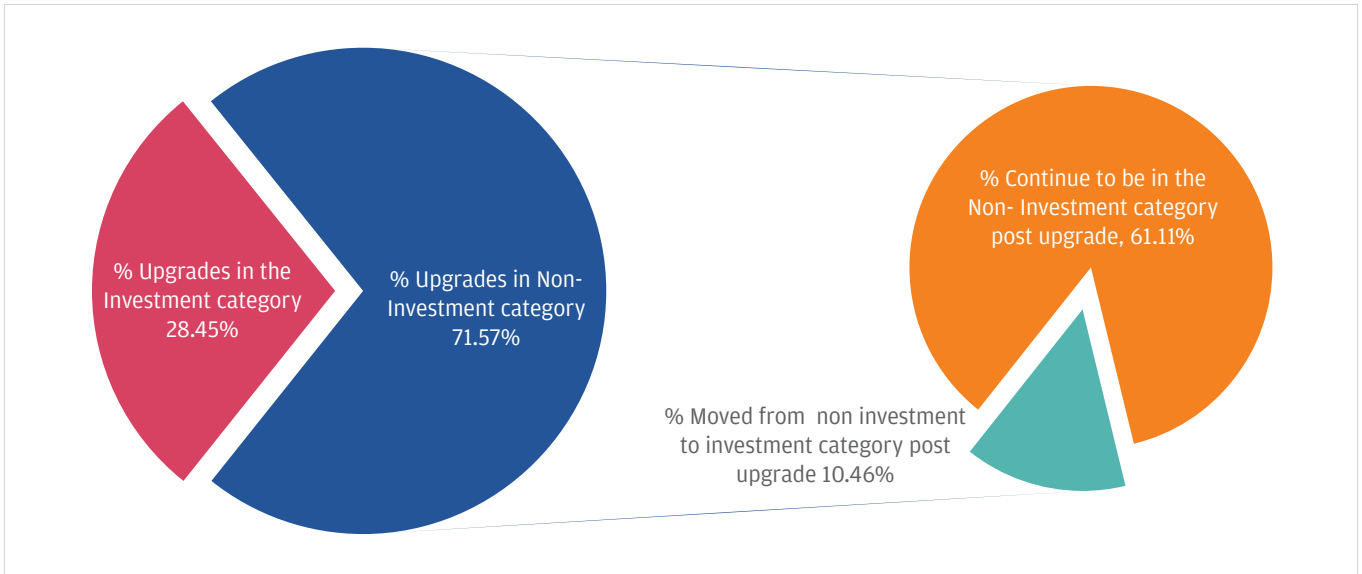
Credit Rating Behavior ratio (CRBR) is calculated by the formula (Ratings Upgrades/ Rating Downgrades). CRBR for the period 2016-17 stood at 1.34. CRBR when broken down further, it stood at 1.61 for the investment grade category and 1.25 for the non-investment grade category. Modified Credit Ratings Behavior Ratio (MCRBR) which is (Rating Upgrades + Ratings Reaffirmed)/(Rating Downgrades + Ratings Reaffirmed) for the total rated population stood at 1.02 overall.

## Ratings Distribution



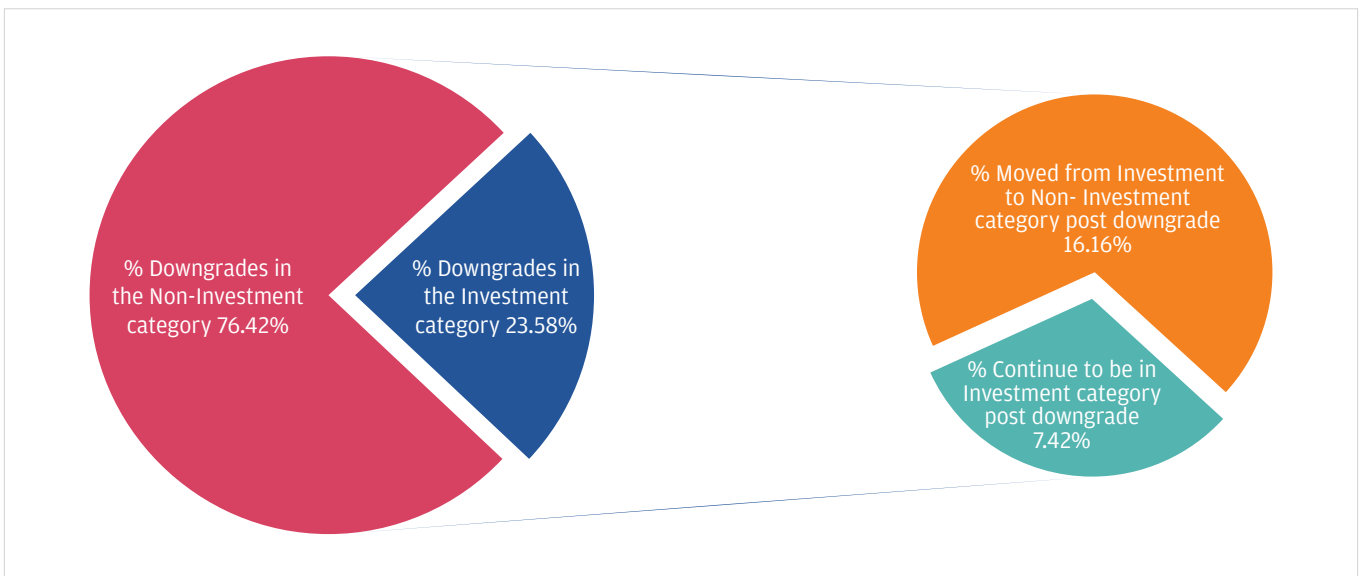
The rating distribution as on March 2017 has shifted slightly to the right compared to that of March 2016, with nearly 74% of the total ratings assigned falling in the non-investment category. The median of the rating distribution continues to remain in the BB rating category as on March 2017.

## Upgrade Portfolio-FY 17



Of the upgrades done in the non-investment category, 61.11% of them were upgraded within in the non-investment category while only 10.46% moved to the investment category.

## Downgrade Portfolio-FY 17



Of the total downgrades during the year, 76.42 % of the downgrades are in non-investment category and the remaining corresponds to 23.58%. The CRBR should be seen with the stability indicators for a proper analysis and not on stand-alone basis.

# 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 excluding structured finance ratings. The table below indicates the weighted average transition of ratings from FY 2012 to FY 2017 for 1 year CDR & 3 year CDR, without considering the structured finance rating.

One Year Transition Rate [FY 2012-FY 2017] Table 1.1

	BWR AAA	BWR AA	BWR A	BWR BBB	BWR BB	BWR B	BWR C	BWR D
BWR AAA	95.81%	4.19%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
BWR AA	1.34%	96.32%	1.67%	0.33%	0.00%	0.00%	0.00%	0.33%
BWR A	0.00%	2.67%	93.56%	1.11%	2.00%	0.22%	0.22%	0.22%
BWR BBB	0.00%	0.00%	2.75%	92.09%	3.85%	0.07%	0.07%	1.17%
BWR BB	0.00%	0.00%	0.00%	3.26%	93.87%	1.98%	0.15%	0.76%
BWR B	0.00%	0.00%	0.00%	0.00%	4.76%	93.63%	0.48%	1.14%
BWR C	0.00%	0.00%	0.00%	0.00%	1.42%	12.06%	82.27%	4.26%

Three Year Transition Rate [FY 2012-FY 2017] Table 1.2

	BWR AAA	BWR AA	BWR A	BWR BBB	BWR BB	BWR B	BWR C	BWR D
BWR AAA	83.91%	16.09%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
BWR AA	6.56%	88.52%	3.28%	0.00%	0.00%	0.00%	0.00%	1.64%
BWR A	0.80%	8.80%	81.60%	4.00%	3.20%	0.80%	0.00%	0.80%
BWR BBB	0.00%	0.00%	8.36%	79.60%	7.02%	0.67%	0.00%	4.35%
BWR BB	0.00%	0.00%	0.00%	8.99%	81.40%	6.10%	0.61%	2.90%
BWR B	0.00%	0.00%	0.00%	0.66%	12.80%	82.56%	0.66%	3.31%
BWR C	0.00%	0.00%	0.00%	5.13%	2.56%	28.21%	51.28%	12.82%

AAA stability is less than that of AA because of the small sample size of AAA rated companies. 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 horizon. 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 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 static pool under study consists of long term ratings in the category of Bank loans, NCDs, Bonds.

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

## Transition Matrix for all structured finance instruments

Only one structured finance rating has been assigned by BWR till date and it has continued its stability in BWR AAA (SO) category since initial Rating assigned, indicating no change in the stability.

## 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	0.33%	1.64%
A or equivalent	0.22%	0.80%
BBB or equivalent	1.17%	4.35%
BB or equivalent	0.76%	2.90%
B or equivalent	1.14%	3.31%
C or equivalent	4.26%	12.82%

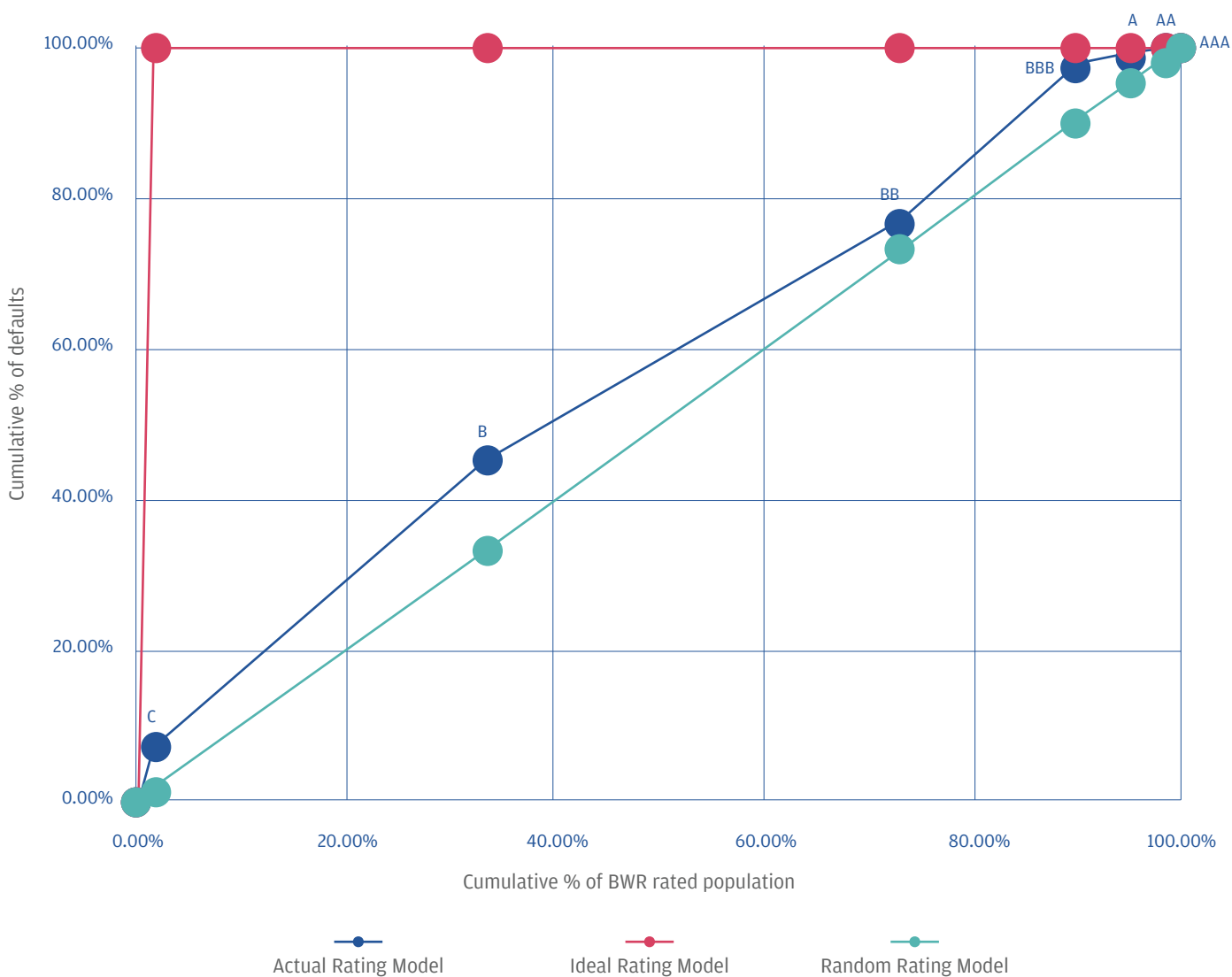
BWR annual default rates are calculated on an issuer basis. One year and three year Cumulative Default rate has been calculated on weighted average basis. Wherein, the default population is weighted with the category population of each year and averaged by total static pool for all the years. Data prior to 2012 is insignificant to be considered for default study as the population was too small, consisting of only bond and NCD ratings of large corporates with hardly any default. BWR started bank loan ratings on a larger scale from FY14 onwards.

# Lorenz curve and Gini Coefficient Ratio

Lorenz curve and Gini Coefficient (accuracy ratio) is adopted as a measure to represent the accuracy of the rating exercise by BWR. Following is the Lorenz Curve for the period FY17.

The Lorenz curve (Cumulative Curve) represents the actual scenario vis-à-vis Perfect Scenario. The closer the Lorenz curve is to perfect curve, the better the predictability of ratings. The Gini Coefficient is a ratio which represents the area between the cumulative curve (Lorenz Curve) and random Curve in relation to area between perfect curve and the random curve. This ratio is also called accuracy ratio. If the ratio is nearer to 1, it indicates ratings having better predictive ability, wherein cumulative curve will merge closely with perfect curve. BWR's Gini Coefficient for One year average default for FY 2012-17 was 0.27.

## Lorenz Curve : FY2012-FY2017



## 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](http://www.brickworkratings.com)