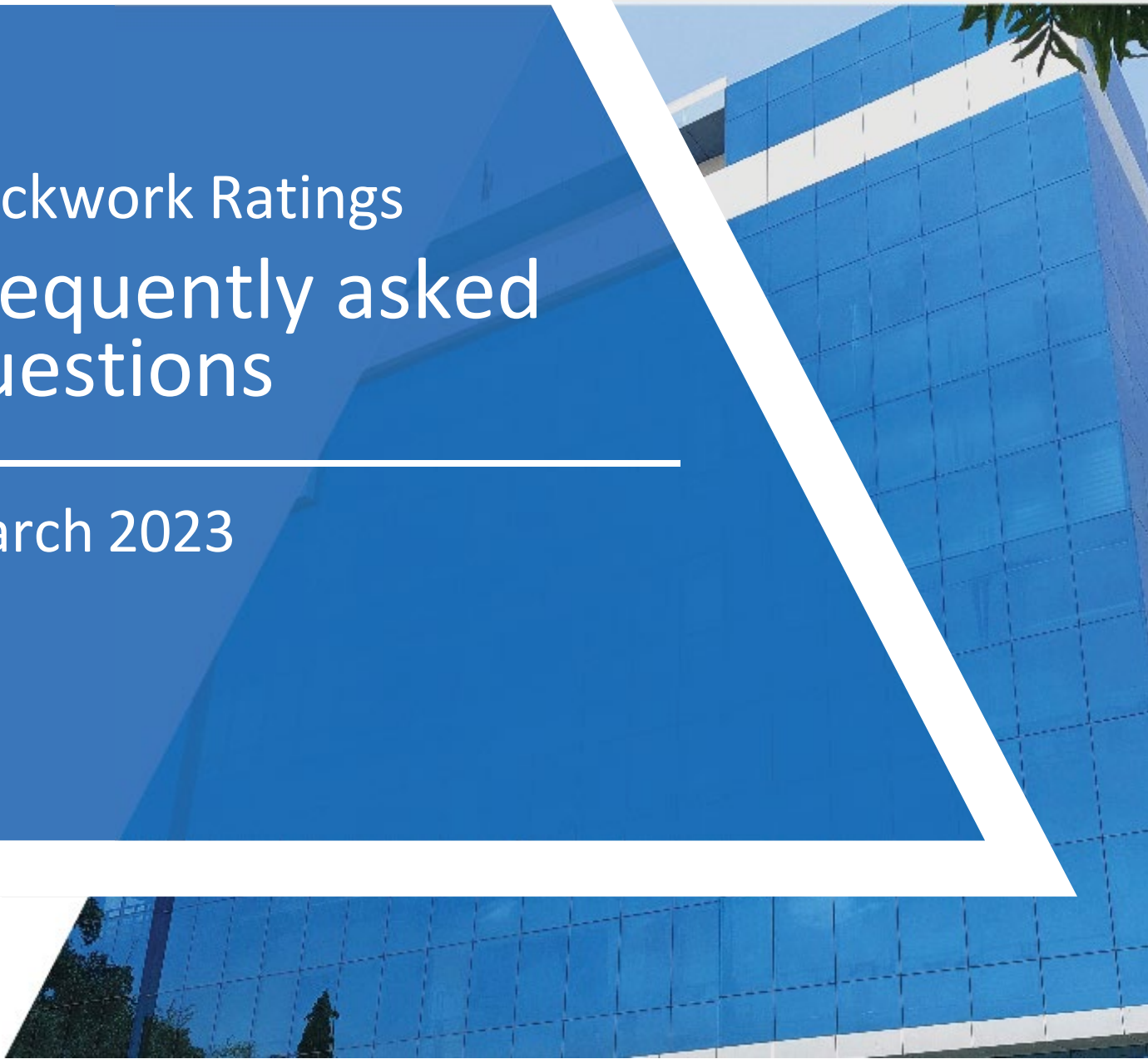




Brickwork Ratings Frequently asked questions

March 2023



FREQUENTLY ASKED QUESTIONS [FAQs]

1. **What is a Credit Rating Agency (CRA)? Who can be a CRA?**

Credit Rating Agency or CRA means an entity that is in the business of issuing credit ratings. Securities and Exchange Board of India (SEBI) is the Regulator for Credit Rating Agencies and SEBI issues a certificate of Registration for a CRA to carry on the activity of Credit Rating. The Reserve Bank of India provides accreditation to SEBI registered CRAs for carrying on bank loan rating as per Basel requirements. This is termed as 'External Credit Assessment Institution (ECAI) status. Only CRAs registered with SEBI could carry out the business of credit rating and similarly who are accredited as ECAI with RBI can carry out bank loan ratings.

2. **What is a Credit Rating?**

A Credit Rating is an opinion about whether an issuer of a credit commitment, debt or debt-like security is likely to make timely repayment of its financial obligations generally or a particular financial obligation. A credit rating measures the ability of a borrower / issuer / counterparty to pay / meet its debt obligations in a timely manner. A credit rating is not a recommendation to 'buy', 'sell' or 'hold' a debt instrument / financial obligation. Credit Rating only provides an additional input to the investor and the investor is required to make his own independent and objective analysis before arriving at an investment decision. It is emphasized that a credit rating is not a recommendation to buy/invest in equity of the same firm/company either.

3. **What a Credit Rating is not?**

A Credit Rating does not reflect other types of risk, such as market or liquidity risks, which may also affect the value of a security. Nor does a credit rating consider the price at which an investor purchased a security, or the price at which the security may be sold. One should not interpret a credit rating as investment advice and should not view it as a recommendation to buy, sell, or hold securities. A credit rating is not a guarantee that a financial obligation will be repaid. For example, a 'AAA' credit rating on a debt instrument does not mean the investor will always be paid with absolute certainty—instruments rated at this level sometimes default.

4. **Who pays for the credit ratings?**

The issuer entity pays for the credit rating.

5. **How do you get the list of ratings / rating rationale of entities or instruments rated by BWR?**

The ratings of entities / instruments rated by BWR are made available through press releases and also in BWR website. The companies that use BWR Rating for bonds or debentures also disclose such ratings in their offer document / information memorandum. Whenever changes are made to the ratings, the same are also disclosed through press releases and on BWR website.

6. Are Credit Ratings based on Historical information or are they forward looking?

Credit Ratings are forward looking and hence there is a need to look at the potential performance of the entity as well. BWR rating philosophy includes assessing the performance of the entity based on the past and future potential performance. A credit rating is an assessment of the creditworthiness of a debt instrument or obligor, based on a credit rating agency's criteria & framework, assumptions and expectations. A credit rating may reflect a credit rating agency's subjective judgment of an issuer's business and management risk. While historical financial and operating experience and collateral performance may be factored into the analysis of an obligor, credit ratings are simply an opinion of how an obligor may behave in the future. Investors may have to do their own due diligence while using CRA opinions.

7. Are Credit Ratings relative?

Credit ratings generally reflect a relative ranking of credit risk. For example, an obligor or debt security with a high credit rating is assessed by the credit rating agency to have a lower likelihood of default than an issuer or debt security with a lower credit rating. A credit rating may reflect a credit rating agency's subjective judgment of an issuer's business and management.

8. What are the common factors that are used for credit ratings?

BWR uses a common thread for rating all Issuers or Issues, Long- term or Short-term, Solicited or Unsolicited and Individual or a pool of assets. Such a common thread 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 Sectors.

9. What are Bank Loan Ratings?

Bank Loan Ratings are ratings issued by credit rating agencies to facilities that are availed by borrowers in the form of fund based and non- fund based facilities. The rating symbols and definitions used for Bank Loan/credit facilities are similar to the ratings of debt instruments depending on the nature of credit facilities, tenure etc. Some banks offer a lower interest on higher ratings. As per the Basel II norms, banks calculate their capital requirement based on the ratings assigned by External Credit Assessment Institutions (ECAI) to these bank loans.

According to the Reserve Bank of India (RBI) guidelines issued in 2007, banks have moved to the standardized methodology for credit risk capital calculation as state in the Basel norms from March 2008. Thus, entities that have borrowed from the banks are rated the ECAs that have been accredited by the Reserve Bank of India.

10. What are the Rating Symbols used?

BWR has adopted SEBI's standardized Rating Symbols and their definitions in reference to SEBI circular CIR/MIRSD/4/2011 dated June 15, 2011, and as modified from time to time. The rating symbols are separate for long-term and short- term issues / issuers. However, in addition to adopting standardised rating symbols and definitions, Brickwork Ratings prefixes

the rating symbols by “BWR” in all the ratings assigned. Each rating symbol is an alphanumeric representation of the probability of degree of repayment risk associated with debt instruments. For Bank Loan Ratings, the rating symbols assigned by BWR are for both long-term and short-term facilities and the rating scale is the same as the scale for NCDs/bonds that have been rated by BWR. Short-term ratings relate to securities or bank facilities of up to 12 months' maturity whereas long-term rating is for securities or bank facilities beyond one-year maturity. (Working Capital facilities such as Cash Credit or Overdraft facilities are treated as Long Term and assigned Long Term ratings as per RBI's guidelines.) They are differentiated by using separate rating symbols. [Click here for the list of typical facilities rated by BWR under bank loan ratings.](#)

11. What are rating modifiers? What symbols are used?

Modifier {"+" (plus) / "-"(minus)} can be used with the rating symbols for the categories BWR AA to BWR C to reflect the comparative standing within the category. Plus and minus symbols are used to indicate finer distinctions within a rating category. The minus symbol associated with ratings has no negative connotations. In fact, ratings in a higher rating category such as 'BB -' are stronger than ratings in a lower rating category such as 'B+'.

12. What are Rating Criteria and how are the ratings linked to it?

Rating Criteria describe the methodology of BWR's assessment of the rating drivers affecting a given sector, the analytical approach and assumptions used to analyze those drivers to assign and maintain credit ratings. All credit ratings are assigned according to the applicable criteria. As per extant regulations, links to the applicable criteria are included in the rationales published in respect of the assigned credit ratings.

13. What is a rating action?

The entities are initially assigned a credit rating which are subject to continuous surveillance. There could be changes in rating due to sudden changes in the prospects for the company's performance due to changes arising from business, industry, management and financial profiles of the company. When such changes occur, the CRA takes “Credit rating action” and that means to determine an upgrade or downgrade of an existing credit rating or a reaffirmation of an existing credit rating. Whenever the changes have a positive impact in the opinion of the BWR, an upgrade action is taken and whenever the changes could adversely impact the company, rating downgrades are initiated. When these changes have a neutral impact, the rating is reaffirmed. Credit rating agencies provide rating “Outlook” and credit “Watch” to formally alert investors about potential revisions to those ratings. It is not necessary that these alerts have to precede every time rating action is considered.

14. What is the meaning of Outlook?

The long term ratings are accompanied by a ‘Rating Outlook’ namely, ‘Stable’, ‘Positive’ or ‘Negative’. The ‘Rating Outlook’ is aimed at providing an expected direction of movement of the rating within the boundaries of certain conditions considered by the analyst during the rating exercise.

Standard Descriptors:

Rating Outlook	Implication
Stable	As per current assessment, the rating is likely to remain at the same position in the medium term
Positive	As per current assessment, the rating is likely to move upwards in the medium term subject to realisation of certain conditions
Negative	As per current assessment, the rating is likely to move downwards in the medium term subject to realisation of certain conditions

15. When are ratings placed on Rating watch?

During the surveillance period of the assigned rating of any entity, there may be sudden events or developments involving changes in business, management, industry or financial profile of the entity. The impact of such developments for the entity's rating may be difficult to assess immediately and hence the rating requires to be put under 'Rating Watch'.

Standard Descriptors:

Rating Outlook	Implication
Rating Watch with Positive Implications	Certain event(s) is/are likely to have a positive impact on the credit rating of the entity.
Rating Watch with Developing Implications	Certain event(s) is/are likely to have a significant impact on the credit rating of the entity. However, the nature of the impact is uncertain at the current point in time.
Rating Watch with Negative Implications	Certain event(s) is/are likely to have a negative impact on the credit rating of the entity.

16. What is the difference between issue rating and issuer rating?

In the case of NCD or Debenture or Bond, the Rating is assigned to the issue or a security or an instrument. In the case of Bank Loan, the Rating is assigned to the facilities / type of exposure. Sometimes, the ratings are also assigned to the Issuer, when such ratings are not used for borrowings and instead used for internal benchmarking. However, in all cases, BWR uses standardised rating symbols.

17. What are investment grade and speculative grade ratings?

An investment grade rating signifies the rating agency's belief that the rated instrument is likely to meet its payment obligations. In the Indian context, debt instruments rated 'BBB-' and above are classified as investment grade ratings. Instruments that are rated 'BB+' and

below are classified as speculative grade ratings in which case the ability to meet the payment obligations is considered to be “speculative”. Instruments rated in the speculative grade are considered to carry materially higher risk and a higher probability of default compared to instruments rated in the investment grade.

18. Can a company have the same rating for NCD and its Bank Loan?

The issue structure will determine the ratings that are assigned to a company's NCDs. Bank Loan Ratings are specific to the facilities that are availed from different banks and would be rated separately.

19. What is the difference between SO and CE ratings?

Structured Obligation (SO) ratings are ratings that are based on a 'credit enhancement' mechanism and/or a structured payment mechanism. Structured finance products generally include securitized or asset backed transactions, and ratings of such instruments carry the suffix SO, in the rating symbol. All ratings where the credit enhancement/ structure around cash flows leads to rated instrument being bankruptcy remote of the issuer/ originator will carry the 'SO' suffix. A suffix in the form of 'SO' indicates that the obligation being rated is a “structured obligation” that is different and distinct from the “general obligations” of the issuer.

CE stands for Credit Enhancement. All ratings where the credit enhancement is external (or from third party), but the rated instrument is not bankruptcy remote of the issuer/originator, will carry the 'CE' suffix.

20. What is Partial Credit Enhancement?

Generally, BWR considers credit enhancement based on 100% guarantee and extends the rating as that of the guarantor and differentiates the rating symbol with a suffix to the rating symbol (CE) denoting it is a credit enhanced rating. Credit enhanced ratings can also be assigned based on Partial Credit Enhancement through partial guarantee from a corporate or Irrevocable Contingent Line of Credit (ICLC) from a bank. An Issuer can partially enhance its credit rating by obtaining a Guarantee from a higher rated Corporate/NBFC or ICLC from a higher rated bank which makes the provider of the guarantee/ICLC liable to bear losses up to a certain specified limit as documented in the guarantee/ICLC.

21. What is the time taken by Brickwork Ratings in completing a Rating assignment?

The timing of the rating process is dependent on a number of factors, including the availability of all relevant information, management discussions and the complexity of the assignment. Typically, a new rating may take about 3 weeks, from the time BWR receives all the information required to undertake the analysis to the dissemination of the rating. BWR is sensitive to Issuers' needs and timing concerns, and shall endeavor to accelerate turnaround times where appropriate.

22. When are the rationales published?

Once BWR's Rating Committee's approval is received, the client is provided with a copy of

the draft rating rationale, to ensure that the information is correctly incorporated. All Initial Ratings issued by BWR and the Rating rationale need acceptance of the issuer within five days of communication of rating.

On receipt of the client's acceptance of Rating, the rating rationale is published on BWR's website. While client acceptance of the rating is required for initial rating, acceptance is not required for a rating arising out of a review.

23. What happens if the rating is Not Accepted by the client?

In the case of initial ratings, if the issuer does not convey acceptance of the rating within 5 working days from the date of communication of the rating or communicates a non-acceptance of the rating provided, the rating is treated as a un-accepted rating. BWR will disclose the unaccepted ratings on its website, as per extant SEBI guidelines. In case of non-acceptance of rating, the rationale is not published.

24. Is there an Appeal process against assigned ratings or rating actions?

In case a client / issuer disagrees with the rating assigned or reaffirmed/revised, it can appeal in writing to BWR to review such a rating. The client / issuer, while submitting the appeal shall also provide any additional or relevant new information complete in all respect and with adequate supporting documents. Such a request should be received within 5 working days from the date of the communication of the rating to the issuer in case of initial rating and within 2 days in case of surveillance, monitoring or periodic review of ratings. A request for appeal will be accepted only once and acted upon at the discretion of BWR. BWR will, then, undertake a review by placing the additional information before the Appeal committee and thereafter indicate its final decision. The appeal committee consists of a majority of committee members different from those who had assigned the initial rating and at least one- third of the committee members are independent.

25. What are Provisional Ratings? What is the Rating Prefix of provisional Rating?

A Provisional rating may be assigned to debt instruments/borrowing facilities when the rating is contingent upon completion of the critical pending steps and/or execution of pending documentation, such as execution of letter of comfort, corporate guarantee, or other forms of explicit third party support, execution of documents such as debenture trustee deed/debenture trustee agreement, legal opinions, representations and warranties, final term sheet, assignment of loan pools or finalisation of cash flow escrow arrangements, setting up of debt service reserve account (DSRA), opening up of escrow account etc. The provisional ratings assigned by BWR are prefixed with the word 'Provisional'. Generally, such provisional rating would be converted to a final Rating within a period of 90 days from the date of issuance of debt /availment of borrowings.

26. What is the validity of ratings?

Ratings are reviewed until they are withdrawn. Ratings of long term debt instruments and issuer ratings are valid for 12 months from the date of publication of the rating rationale on BWR website and generation of a rating letter thereafter and are subject to annual/periodical review. Ratings of short term debt instruments are valid for periods less

than 12 months depending on the tenure. Bank loan ratings are valid for 12 months or lesser depending upon their tenor. Rating of security receipts are valid for 6 months.

27. Is rating a one-time exercise? Will BWR monitor the credit rating?

With the exception of those credit ratings which are clearly identified as point-in-time ratings, once a credit rating has been published, BWR shall keep the rating under surveillance/ monitoring, as deemed appropriate, as long as the instrument is outstanding or until the rating is withdrawn and will modify the credit rating as necessary in response to changes in our opinion of the creditworthiness of the Issuer or issue.

28. When can a review of rating be conducted on suo moto basis?

Once a rating is in the public domain, BWR shall keep the rating under surveillance/monitoring as long as the instrument is outstanding or until the rating is withdrawn. Annual review of ratings in case of Bonds/NCD and Bank loan Ratings shall necessarily be made. A review can also be made at a shorter frequency, based on occurrence of early warning signals or material events. Early warning signals entail but are not limited to insufficient EBITDA to meet the interest payments for the last 3 years, deterioration in liquidity, adverse feedback from lenders/investors, abnormal increase in borrowing cost, disclosures made to Exchanges etc.

Similarly, an indicative and not exhaustive list of material events includes Quarterly / Half Yearly / Annual Results, Merger / Demerger /Amalgamation / Acquisition, Corporate Debt.

Restructuring, NCLT, IBBI or winding up petition filed by any party/creditors in an appropriate legal forum, significant decline in share prices/bond prices of the issuer or group companies which is not in line with overall market movement, significant increase in debt level or cost of debt, losses, sharp revenue de-growth etc., which are not in line with BWR's earlier reviewed estimates, change in regulatory environment, Disruption/commencement/postponement of operations of any unit or division of the company, any actions initiated by statutory bodies against the Issuer, any rating action taken by International Rating Agencies etc.

29. What if the issuer does not cooperate with the rating agencies for sharing information?

For the purpose of surveillance and review, BWR calls for the information / data from the rated entities. The following shall be considered as Non-cooperation by an issuer/an entity:

- Failure to provide timely and required information for rating surveillance and for periodical review of the assigned rating including any information/ development which impacts the status / financial performance/ financial strength of the issuer / client which will have a bearing on the assigned rating.
- Non-payment of fee agreed for providing specified rating services.

- Any other act of omission or commission which BWR may consider as an act of non-cooperation.

Such ratings will be carried out based on publicly available information on a best effort basis. In such cases, a Press Release shall be made to this effect and the suffix "ISSUER NOT COOPERATING *" shall be added to the rating symbol. The asterisk mark shall be explained as "Issuer did not cooperate; Based on best available information". BWR may take a Rating action as deemed necessary by it, in case of non-cooperation by the issuer/client. BWR will communicate such ratings through its usual communication channels such as website, press release etc. If a rating remains in the "ISSUER NOT COOPERATING" category for more than 6 months, it is downgraded to sub-investment grade as per guidelines of SEBI.

30. What if the issuer is not able to provide data for annual review?

As per extant SEBI Guidelines, BWR shall disclose through an advisory on its website details of all such ratings where the review became due but was not completed before the expiry of the validity of the ratings. Such advisory is not construed as a rating Re-affirmation.

31. When does BWR assign a "Default" rating to Bank Loan Ratings?

BWR considers non-payment of financial obligations on the due-date as default and accordingly downgrades the rating assigned to the instrument/issuer to "BWR D". Financial obligations refer to both principal and interest payments due.

32. What is the Curing period?

BWR watches post default recovery of the issuer after a default is cured and the debt is regularised and takes appropriate rating action. A default rating may be revised to a speculative grade after the entity exhibits satisfactory conduct which primarily entails timely servicing of its debt obligations for a curing period of consecutive 90 days and displays its commitment to continue to meet all future debt obligations in a timely manner. However, rating transition to investment grade is generally subject to a curing period of 365 days during which conduct of timely debt servicing is established.

33. Are past defaults factored in?

If BWR becomes aware of the delays in servicing debt that have occurred in the past and have not been recognized by way of a default rating, the delay shall be recognised by downgrading the rating to 'BWR D'. The rating may be simultaneously upgraded to a non-default (non-D) rating, in line with the extant SEBI guidelines on curing period.

34. What is NDS and why is it required to be submitted monthly?

No default statement (NDS) is a statement required to be provided by the issuer/client confirming that the issuer/ client has not delayed on any payment of its interest/ principal obligations in the previous month. As per extant regulatory guidelines, such statements are required to be submitted by the first working day of the succeeding month. List of non-complying entities is published on BWR's website.

Non-submission or any irregularity in submission is strictly viewed as non-adherence to extant regulatory guidelines and is viewed negatively from the rating perspective and may result in a negative rating action viz., a rating downgrade and/or migration to the "ISSUER NOT COOPERATING" category.

35. Can the ratings be withdrawn?

A rating assigned and in the public domain may be withdrawn under various circumstances, in accordance with extant regulatory guidelines and BWR withdrawal policy. The rating may be withdrawn when the instrument/financial obligation is no more outstanding, the issuer does not mandate the surveillance in case of an issuer rating, the rated entity has been merged or amalgamated with another company, or wound up and when the obligation is yet outstanding, but under fulfillment of certain conditions and on the request of the client. In all cases of rating withdrawal, suitable press releases will be issued.

36. What is Independent Credit Evaluation of Resolution Plans?

Independent Credit Evaluation (ICE) provides credit opinion on the Resolution Plans (RP), especially on entities' residual debt's quality under the revised framework for resolution of stressed assets as notified by RBI. It is an independent view with respect to the credit risks of the debt facilities/instruments. The residual debt of the borrower entity means the aggregate debt (fund based as well as non-fund based) envisaged to be held by all the lenders as per the proposed RP. The ICE opinion is a One-Time exercise based on a 'Point in time' approach and on the current economic and regulatory scenario. Considering the specialised nature of the exercise, these credit opinions would be provided to the lenders and not disclosed in the public domain.

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