RATING PROCESS MANUAL

Frequently Asked Questions (FAQs)

October 2024

Last edition date 29.10.2024

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FREQUENTLY ASKED QUESTIONS (FAQS)

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

A Credit Rating Agency (CRA) is an entity that provides credit ratings for various financial instruments. The Securities and Exchange Board of India (SEBI) serves as the regulator for CRAs issuing Certificates of Registration to authorize them to conduct rating activities. The Reserve Bank of India (RBI) grants accreditation to SEBI-registered CRAs for conducting Bank Loan Rating (BLR) as per Basel guidelines., known as External Credit Assessment Institution (ECAI). Only SEBI registered CRAs are permitted to issue credit ratings and only those accredited with RBI as ECAIs 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 on time. 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. Who regulates Credit Rating Agencies (CRAs)?

CRAs are regulated by the Securities and Exchange Board of India (SEBI)under the SEBI (Credit Rating Agencies) regulations, 1999. These regulations outline the eligibility criteria for the registration of CRAs, ensure the monitoring and review of ratings, mandate a robust rating process and address the need to avoid conflicts of interest. Additionally, the regulations provide for the inspection of rating agencies by SEBI, among other key requirements.

4. Who regulates Credit Rating Agencies (CRAs)?

SEBI does not influence or participate in the assessment conducted by CRAs. The ratings are intended to be independent, objective, and professional opinions provided solely by the CRAs.

5. Who regulates Credit Rating Agencies (CRAs)?

A CRA does not guarantee repayment of obligations under the rated instrument. Rather it is an opinion on the relative degree of risk associated with such repayment.

6. What a Credit Rating is not?

A credit rating does not account for other risks, such as market or liquidity risks, which can impact the value of a security. It does not consider the price at which an investor buys or sells a security. A credit rating should not be interpreted as investment advice or as a recommendation to buy, sell, or hold securities. Additionally, it is not a guarantee that a financial obligation will be repaid. For instance, an ‘AAA' credit rating on a debt instrument does not guarantee absolute certainty of repayment, as even highly rated instruments can occasionally default.

7. Who pays for the credit ratings?

The issuer entity pays for the credit rating.

8. If the issuer pays for the ratings, how does a CRA maintain its independence?

The issuer pays for the rating, while the investor utilizes it. The "value" of a rating is determined by the investor's perception, which is influenced by the credibility of past ratings assigned by each CRA. Additionally, CRAs are expected to adhere to a Code of Conduct, details of which can be found on the BWR website.

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

The ratings of entities and instruments rated by BWR are published through press releases and available on the BWR website. Companies utilizing BWR ratings for bonds or debentures disclose these ratings in their offer document or information memoranda. Any changes to the ratings, are also announced through press releases and updated on the BWR website.

10. Are Credit Ratings based on historical information or are they forward looking?

Credit ratings are forward-looking, requiring an evaluation of both the past performance and future potential of the entity. BWR’s rating philosophy involves assessing an entity’s performance based on historical data as well as its future prospects. A credit rating represents an assessment of the creditworthiness of a debt instrument or issuer, grounded in the credit rating agency's criteria, framework, assumptions, and expectations. It may also reflect the agency's subjective judgment of an issuer's business and management risks. While historical financial and operational data, as well as collateral performance, are considered in the analysis, credit ratings are ultimately opinions about how an obligor may perform in the future. Investors are encouraged to conduct their own due diligence when using CRA ratings.

11. Are Credit Ratings relative?

Yes, credit ratings generally provide a relative ranking of credit risk. For example, an issuer or debt security with a higher credit rating is considered by the credit rating agency to have a lower likelihood of default compared to one with a lower rating. Credit ratings may also reflect the agency's subjective assessment of an issuer's business and management.

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

BWR employs a consistent framework for rating all types of issuers or issues, whether long-term or short-term, solicited or unsolicited, and for individual entities or pools of assets. This framework includes key factors such as business risk, industry risk, management risk, and financial risk. Each of these broad categories encompasses specific parameters, which may vary depending on the sector.

13. What are Bank Loan Ratings (BLR)?

BLRs are issued by CRAs for facilities accessed by borrowers, including both fund-based and non-fund-based facilities. The rating symbols and definitions for bank loans or credit facilities are similar to those used for debt instruments, though they may vary based on the nature and tenure of the credit facilities. Higher ratings may lead to lower interest rates from some banks. Under Basel II norms, banks determine their capital requirements based on the ratings assigned by External Credit Assessment Institutions (ECAIs) to these bank loans. According to RBI guidelines issued in 2007, banks adopted a standardized methodology for calculating credit risk capital in line with Basel norms from March 2008. Consequently, entities borrowing from banks are rated by ECAIs accredited by the RBI.

14. Does a credit rating lower borrowing costs for the client?

A credit rating does not guarantee a reduction in borrowing costs. Investors and lenders have the discretion to set lending margins at levels that align with their commercial objectives, regardless of the credit rating.

15. What are the Rating Symbols used?

BWR uses SEBI's standardized Rating Symbols and definitions as outlined in the SEBI circular CIR/MIRSD/4/2011 dated June 15, 2011, and its subsequent amendments.
These symbols are distinct for long-term and short-term issues/issuers. In addition to these standardized symbols, Brickwork Ratings prefixes all ratings with “BWR.” Each

rating symbol represents the probability of repayment risk associated with debt instruments. For Bank Loan Ratings, BWR applies the same rating scale used for NCDs/bonds to both long-term and short-term facilities. Short-term ratings apply to securities or bank facilities with maturities of up to 12 months, while long-term ratings are for securities or bank facilities with maturities beyond one year. Note that Working Capital facilities like Cash Credit or Overdraft are considered long-term and rated accordingly as per RBI guidelines. Rating symbols for these categories are differentiated accordingly. [Click here] for the list of typical facilities rated by BWR under bank loan ratings.

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

Modifiers such as “+" (plus) and "-"(minus) can be used with rating symbols from BWR AA to BWR C to reflect a more precise ranking within a category. The plus and minus symbols help finer distinctions within each category. It is important to note that the minus does not imply a negative connotation. For instance, BB -' rating is stronger than B+, even though both are in different rating categories.

17. What are Rating Criteria and how are the ratings linked to them?

Rating Criteria outline BWR’s methodology for assessing the factors that influence ratings within a given sector. They detail the analytical approach and assumptions used to evaluate these factors for assigning and maintaining credit ratings. All credit ratings are based on the relevant criteria. In compliance with current regulations, links to the applicable criteria are provided in the rationales published with the assigned credit ratings.

18. What is a rating action?

A rating action refers to the process of updating a credit rating based on continuous surveillance of the entity’s performance. Ratings may change due to significant shifts in business, industry, management, or financial conditions. A "rating action" involves determining whether to upgrade, downgrade, or reaffirm an existing credit rating. An upgrade occurs when positive developments are observed, while a downgrade happens in response to adverse changes. If the changes are neutral, the rating is reaffirmed. Credit rating agencies also provide rating "Outlooks" and "Watches" to alert investors about potential future changes, though these alerts do not always precede every rating action.

19. What is the meaning of Outlook?

Long-term ratings are accompanied by a ‘Rating Outlook’ which can be ‘Stable’, ‘Positive’ or ‘Negative’. The ‘Rating Outlook’ indicates the anticipated direction of rating’s movement based on o conditions and factors considered by the analyst during the rating assessment.

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 the current assessment, the rating is likely to move upwards in the medium term subject to the realisation of certain conditions
Negative	As per the current assessment, the rating is likely to move downwards in the medium term subject to the realisation of certain conditions

20. When are ratings placed on "Rating Watch"?

During the surveillance period of an assigned rating, unexpected events or developments may occur, affecting the entity's business, management, industry or financial profile. The immediate impact of such changes on the entity's rating may be difficult to assess immediately, necessitating the placement of the rating under 'Rating Watch'.

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.

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

An issue rating is assigned to a specific security, such as an NCD, debenture, or bond, and reflects the creditworthiness of that particular instrument. In contrast, a rating for a bank loan is assigned to the facilities or type of exposure rather than to a specific security. Occasionally, ratings may also be assigned to the issuer itself, particularly when these ratings are used for internal benchmarking rather than for external borrowings. In all cases, BWR employs standardized rating symbols.

22. What are investment grade and speculative grade ratings?

An investment grade rating indicates that the rating agency believes that the rated instrument is likely to fulfill its payment obligations. In India, debt instruments rated 'BBB-' and above are classified as investment grade. Instruments rated 'BB+' and below are classified as speculative grade, where the ability to meet the payment obligations is deemed "speculative". Speculative grade instruments are considered to carry significantly higher risk and greater probability of default compared to investment grade instruments.

23. Can a company have the same rating for NCD and its bank loan?

The rating of a company's NCDs are determined by the specific structure of the issue. Bank Loan Ratings on the other hand, are assigned based on facilities from different banks and are rated separately. Therefore, it is possible for a company to have different ratings for its NCDs and its bank loans.

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

Structured Obligation (SO) ratings apply to instruments backed by a 'credit enhancement' mechanism or a structured payment mechanism. These structured finance products, which often include securitized or asset-backed transactions, have an 'SO' suffix in their rating symbol. This indicates that the rating is based on a structure that makes the instrument largely bankruptcy-remote from the issuer or originator.

On the other hand, CE stands for Credit Enhancement. Ratings with the 'CE' suffix is used when the credit enhancement is provided by an external party but does not make the rated instrument bankruptcy-remote from the issuer or originator.

25. What is Partial Credit Enhancement?

Partial Credit Enhancement occurs when a credit rating is supported by a partial guarantee or an Irrevocable Contingent Line of Credit (ICLC) from a higher-rated entity, rather than a full guarantee. BWR generally assigns ratings based on a 100% guarantee, aligning the rating with that of the guarantor and marking it with the suffix (CE) to denote it as credit enhanced. However, in the case of partial credit enhancement, the rating is supported by a partial guarantee from a higher-rated corporate or an ICLC from a higher-rated bank. This means the provider of the guarantee or ICLC is responsible for covering losses up to a specified limit, as detailed in the guarantee or ICLC documentation.

26. What is the time taken by BWR to complete a rating assignment?

The time required for completing a rating assignment depends on several factors, including the availability of all relevant information, management discussions, and the complexity of the assignment. Generally, a new rating can take approximately three weeks from the time BWR receives all necessary information until the rating is disseminated. BWR is attentive to the needs and timing concerns of issuers and will strive to expedite turnaround times when feasible.

27. When are the rationales published?

After receiving approval from BWR's Rating Committee, the client is provided with a draft of the rating rationale to verify that all information has been accurately included. Initial ratings issued by BWR require the issuer's acceptance of the rating rationale within five days of its communication. Once the client accepts the rating, the rationale is published on BWR's website. For ratings resulting from a review, client acceptance is not required.

28. What happens if the rating is not accepted by the client?

For initial ratings, if the issuer does not convey acceptance within 5 working days from the date of communication or if the issuer communicates non-acceptance of the rating, the rating is classified as an unaccepted rating. BWR will disclose these unaccepted ratings on its website per SEBI guidelines. In the case of non-acceptance, the rating rationale will not be published.

29. Is there an appeal process against assigned ratings or rating actions?

If a client or issuer disagrees with an assigned, reaffirmed, or revised rating, they may submit a written appeal to BWR for a review. The appeal should include any additional or relevant new information, along with adequate supporting documents. This request must be made within 5 working days of the initial rating communication or within 3 days for surveillance, monitoring, or periodic reviews. Each request for appeal is accepted only once and will be considered at BWR's discretion. BWR will review the appeal by presenting the additional information to the Appeal Committee, which comprises a majority of members different from those who assigned the initial rating and includes at least one- third independent members. The final decision will be communicated following this review

30. Why do ratings change?

Ratings are opinions based on information available at a specific point in time and the assessment made by the rating agency based on that information. However, as new information and expectations emerge, they can significantly impact the prospects of the rated entity. Consequently, ratings may be updated to reflect these changes and provide an accurate assessment of the entity's ability to meet its obligations.

31. What is a Provisional Rating? What is the Rating Prefix of Provisional Rating?

A Provisional rating is assigned to debt instruments or borrowing facilities when the rating is dependent on the completion of certain critical steps or the execution of pending documentation. This may include executing letters of comfort, corporate guarantees, or other forms of explicit third-party support, as well as finalizing documents such as debenture trustee deeds, or agreements, legal opinions, representations and warranties, final term sheets, assignment of loan pools or cash flow escrow arrangements, and setting up of Debt Service Reserve Account (DSRA), or escrow accounts. Provisional ratings assigned by BWR are prefixed with the term ‘Provisional’. Typically, such provisional ratings are converted to final ratings within 90 days from the issuance of the debt or availement of borrowings.

32. What is the validity of ratings?

Ratings remain valid until they are withdrawn. Long-term debt instruments and issuer ratings are generally valid for 12 months from the date the rating rationale is published on the BWR website and the rating letter is generated. These ratings are subject to annual or periodical review. Short term debt instrument ratings are valid for periods shorter than 12 months, depending on the tenure. Bank loan ratings are valid for 12 months or a shorter duration based on their tenor. Rating of security receipts are valid for 6 months.

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

Except for credit ratings explicitly identified as point-in-time ratings, once a rating is published, BWR will continuously monitor and review the rating as long as the instrument remains outstanding or until the rating is withdrawn. BWR will adjust the rating as needed in response to changes in the creditworthiness of the issuer or the instrument.

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

Once a rating is public, BWR will continuously monitor it for as long as the instrument remains outstanding or until the rating is withdrawn. Bonds/NCDs and bank loan ratings are subject to an annual review. Additionally, reviews may be conducted more frequently if early warning signals or material events occur.
Early warning signals include, but are not limited to:

- Insufficient EBITDA to cover interest payments over the past 3 years
- Deterioration in liquidity
- Adverse feedback from lenders or investors
- Unusual increases in borrowing costs
- Significant disclosures made to Exchanges
- Material events, which may prompt a review, include:
- Quarterly, half-yearly, or annual financial results
- Mergers, demergers, amalgamations, or acquisitions
- Corporate debt restructuring

- NCLT or IBBI proceedings, or winding-up petitions
- Significant declines in share or bond prices not aligned with overall market movements
- Sharp increases in debt levels or cost of debt
- Losses or significant revenue declines inconsistent with earlier estimates
- Changes in the regulatory environment
- Disruptions or changes in operations
- Actions by statutory bodies against the issuer
- Rating actions by international rating agencies

35. What happens if an issuer does not cooperate with the rating agency?

For surveillance and review purposes, BWR requires timely information and data from rated entities. Non-cooperation by an issuer or entity is considered when:
They fail to provide necessary information for rating surveillance and periodic reviews, including any developments impacting the issuer's status, financial performance, or financial strength that could affect the assigned rating. They do not pay the agreed-upon fees for rating services.

36. How are the CRA's evaluated?

There is no formal method for evaluating a CRA; however, international best practices suggest reviewing the agency's transition studies. These studies provide investors with insights into the stability and reliability of the ratings assigned by the CRA.

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

BWR requires information and data from rated entities for surveillance and review purposes. Failure to provide timely and necessary information for rating surveillance and periodic review, including any updates affecting the issuer's financial status or performance, is considered non- cooperation. Non-payment of agreed fees for rating services and any other acts of omission or commission deemed as non-cooperation by BWR also fall under this category.

In cases where cooperation is lacking, ratings will be conducted based on publicly available information to the best of BWR's ability. A press release will announce such cases with the suffix "ISSUER NOT COOPERATING *", indicating the lack of cooperation and reliance on available data.

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.

BWR reserves the right to take necessary rating actions in response to non-cooperation, communicated through its usual channels like the website and press releases. If a rating remains in the "ISSUER NOT COOPERATING" status for more than six months, it will be downgraded to sub-investment grade per SEBI guidelines.

38. What happens if the issuer is unable to provide data for the annual review?

According to SEBI guidelines, if an issuer fails to provide the necessary data for an annual review and the review is not completed before the rating’s validity expires, BWR will disclose this information through an advisory on its website. This advisory does not constitute a rating reaffirmation.

39. Under what circumstances does BWR assign a “Default” rating to Bank Loan Ratings?

BWR assigns a "Default" rating, indicated as "BWR D," when there is a non-payment of financial obligations on the due date. This includes both principal and interest payments that are overdue.

40. What is the Curing period?

The curing period is the time frame BWR observes after a default has been remedied and the debt has been regularized. For a default rating to be revised to a speculative grade, the issuer must demonstrate satisfactory conduct by timely servicing its debt obligations for a consecutive period of 90 days and show a commitment to meet all future debt obligations promptly. Transitioning to an investment grade rating typically requires a longer curing period of 365 days, during which consistent, timely debt servicing must be established.

41. Are past defaults factored in?

If BWR identifies past delays in debt servicing that have not previously been reflected as defaults, the rating will be downgraded to ‘BWR D’. Subsequently, if the issuer demonstrates satisfactory debt servicing and meets the curing period requirements as per SEBI guidelines, the rating may be upgraded from the default status to a non-default (non-D) rating.

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

A No Default Statement (NDS) is a declaration that the issuer or client has not missed or delayed any interest or principal payments during the previous month. Regulatory guidelines require this statement to be submitted by the first working day of the following month. Non-compliance or irregularities in submission are considered serious breaches of regulatory requirements and can negatively impact the rating. This may lead to a rating downgrade or a migration to the "ISSUER NOT COOPERATING" category. A list of non-compliant entities is published on BWR's website.

43. The ratings can be withdrawn?

Yes, a rating that has been assigned and is publicly available may be withdrawn under certain circumstances, following regulatory guidelines and BWR's withdrawal policy. Ratings may be withdrawn if:

- The instrument or financial obligation is no longer outstanding.
- The issuer chooses not to continue with surveillance for issuer ratings.
- The rated entity has merged, amalgamated with another company, or been wound up.
- The obligation remains outstanding but meets specific conditions requested by the client.

In all cases of rating withdrawal, BWR will issue appropriate press releases to inform stakeholders.

44. What is Independent Credit Evaluation of Resolution Plans?

Independent Credit Evaluation (ICE) assesses the credit quality of Resolution plans (RP) under the RBI's framework for resolving stressed assets. ICE offers an independent opinion on the credit risks associated with the residual debt of a borrower, which includes all outstanding debt (both fund-based and non-fund-based) as outlined in the proposed RP. This evaluation is a one-time exercise based on a 'point-in-time' analysis of the current economic and regulatory environment. Due to its specialized nature, the ICE opinion is provided directly to the lenders and is not publicly disclosed.

45. What is the grievance redressal mechanism available to institutional or corporate clients?

With effect from September 16, 2023, an institutional / corporate client shall first take up its grievance with BWR by lodging a complaint directly with them. If the grievance is not redressed satisfactorily, the institutional / corporate client may, in accordance with the SCORES guidelines, escalate the same through the SCORES Portal in accordance with the process laid out therein. After exhausting these options for resolution of the grievance, if the investor/client is still not satisfied with the outcome, the client can initiate dispute resolution through the Online Dispute Resolution (ODR) Portal.

BWR is covered under ODR to harness online conciliation and online arbitration for resolution of disputes between institutional or corporate clients and specified intermediaries / regulated entities. Please refer to SEBI Circular (SEBI/HO/OIAE/OIAE_IAD-1/P/CIR/2023/145 updated as on August 4, 2023) on "Online Resolution of Disputes in the Indian Securities Market" available through this link.