

Disclosure on Probability of Default (PD) benchmarks for Long-term ratings

In accordance with the Securities and Exchange Board of India (SEBI) guidelines for Enhanced Disclosure by Credit Rating Agencies (CRAs) circular SEBI/HO/MIRSD/DOS3/CIR/P/2019/70 dated Jun 13, 2019, SEBI in consultation with CRAs has prescribed that CRAs should disclose standardized and uniform Probability of Default (PD) benchmarks for each rating category on their website. These benchmarks are for one-year, two-year and three-year Cumulative Default Rates (CDRs) both for short-run and long-run.

The benchmarks as prescribed by SEBI are only for long-term ratings on a consolidated basis for all financial instruments based on methodology prescribed in the circular. The benchmarks have been prepared following the Marginal Default Rate (MDR) approach using monthly static pool for the last 10-year period. The long-run benchmarks are computed based on a confidence interval of 95.0% over the weighted average default rates and making adjustments to achieve ordinality, wherever required. The short-run benchmarks are similarly computed based on a confidence interval of 99.7% over the weighted average default rates and making adjustments to achieve ordinality, wherever required.

These benchmarks are being disclosed herewith in line with the aforesaid SEBI guidelines:

Rating Category	Long-run PD benchmarks		
	1-year	2-year	3-year
AAA	0%	0%	0% (1%)
AA	0%	0% (2%)	2.0%
A	0% (3%)	3.5%	5.4%
BBB	3.3%	6.0%	10.5%
BB	8.7%	14.4%	19.6%
B	17.2%	33.1%	45.3%
C	100.0%	100.0%	100.0%

Rating Category	Short-run PD benchmarks		
	1-year	2-year	3-year
AAA	0%	0%	0% (1%)
AA	0%	0% (2%)	2.4%
A	0% (3%)	4.3%	6.5%
BBB	3.9%	7.1%	12.1%
BB	10.5%	17.1%	23.2%
B	19.6%	35.3%	48.2%
C	100.0%	100.0%	100.0%

Please note:

1. PD benchmarks in brackets for certain categories reflect permitted tolerance levels in line the SEBI Circular.
2. The above PD benchmarks may be re-indexed from time to time by SEBI.