

CRISIL Ratings

Rating process

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Executive summary

The rating process¹ of CRISIL Ratings is designed to ensure that all ratings are based on the highest standards of independence and analytical rigour. Analysis of each credit is carried out by a multi-member rating team and is based on information obtained from the issuer and on an understanding of the business environment in which the issuer operates. It is conducted within the framework of clearly delineated rating criteria. The analysis is then presented to a rating committee, comprising members with professional experience and expertise to meaningfully assess the credit. The rating committee approach entails credit assessment of an entity by a group of experienced professionals, thereby ensuring objectivity of the rating.

Once ratings are assigned, they are communicated to the issuers. The issuer has an option to appeal against the rating decision. The ratings that are accepted by the issuer are disseminated to the subscriber base and media sources of CRISIL Ratings, and uploaded on its website in the form of a detailed rationale. CRISIL Ratings also publishes unaccepted ratings on its website, in line with the Securities and Exchange Board of India (SEBI) guidelines.

For accepted ratings, CRISIL Ratings continues to monitor the ratings on the basis of the performance of the issuer and the economic environment in which it operates. Ratings may be withdrawn on fulfilling certain conditions, which have been elaborated in the CRISIL Ratings policy on withdrawal of ratings, available on its website.

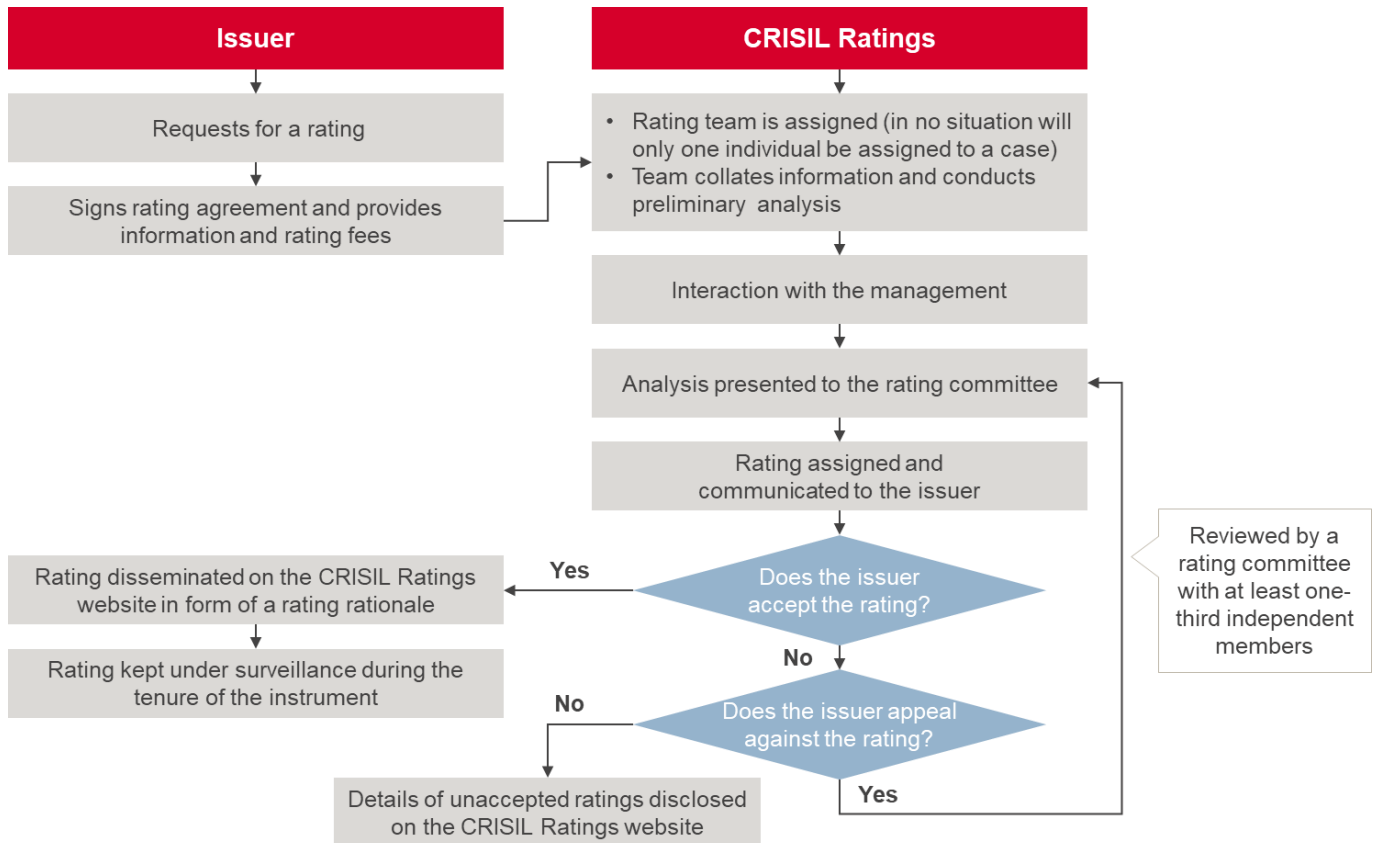
CRISIL Ratings monitors its ratings on a continuous basis. In case of non-cooperation by an issuer, CRISIL Ratings will rate the instrument on the basis of best available information. Please refer to the article 'Assessing information adequacy risk' for details on how CRISIL Ratings approaches ratings with limited information. CRISIL Ratings maintains confidentiality of the information obtained as part of the rating exercise by enforcing appropriate process safeguards.

¹ For accessing previous criteria on Crisil Ratings' Rating process, please refer to the below link
https://www.crisilratings.com/content/dam/crisil/criteria_methodology/basics-of-ratings/archive/the-rating-process-april2020.pdf

Process for credit rating assignment

The following flowchart explains the rating process followed by CRISIL Ratings for a credit rating instrument. The details are explained in the succeeding section:

Rating process



The surveillance process for a rated client differs from the mentioned process in the following aspects:

- Once rated, the performance of the issuer is regularly monitored, and the rating is kept under surveillance. Therefore, the surveillance process starts from step 3.
- After a rating is reviewed, it is published on the CRISIL Ratings website. Therefore, step 6 is generally followed by step 9, unless the client appeals, in which case, step 8 follows step 6. Steps 7 and 11 are not applicable in this case.

Preliminary analysis

The rating process starts with a rating request from the issuer. Thereafter, the rating agreement is signed and the fee collected from the issuer. All interactions with regard to the rating fee are carried out by the business development team of CRISIL Ratings, with no involvement of the analytical team. When this process is completed, an analytical team is assigned the responsibility of assessing the issuer’s credit risk profile. This rating team (comprising at least two analysts) then collates preliminary information from the issuer to understand its business, management and financial risk profiles.

The impact of security on credit rating

It may be noted that the rating addresses probability of default (PD), one of the four components of credit risk, as identified under the Basel-III approach. CRISIL Ratings does not provide any uplift to the facility rating on account of the underlying security, though asset security may have a significant impact on the loss given default component of credit risk. This is because the presence of security does not prevent default and investors usually enforce their security interests only after default has occurred. Therefore, realisations from enforcement of the underlying security do not influence PD.

Management interaction

CRISIL Ratings strongly believes that investor interest is best served if there is an open dialogue between the issuer and CRISIL Ratings. This enables CRISIL Ratings to incorporate non-public information into its rating decision and helps it arrive at forward-looking ratings.

Management interactions can be carried out telephonically or at any of the offices of CRISIL Ratings or the issuer. Discussions during management interactions are wide-ranging, covering competitive position, strategy, financial policy, historical performance, and near- and long-term financial and business prospects. In these discussions, the CRISIL Ratings team focuses on the issuer's business risk profile and strategies, in addition to reviewing financial data. The ratings are not assigned based solely on financial projections made by the issuer or on the management outlook. Instead, these serve as a valuable input in the assessment of the issuer's profile as they shed light on the management's assumptions, strategy and contingency plans.

Rating committee and assignment of ratings

After the interaction with the management of the issuer, the CRISIL Ratings analysts prepare a report detailing their assessment of the business, financial and management risks associated with the issuer. The report is based on rating methodologies and criteria that are clearly spelt out, published and consistently applied. The report is then presented to the rating committee. This is the only aspect of the process in which the issuer does not directly participate. The rating committee comprises experienced professionals who bring with them extensive experience in credit assessment. The rating committee assigns a rating after thorough discussions on the report prepared by the analysts.

The Rating Committee Meeting (RCM) process ensures objectivity of the rating, as the decision results from the collective thinking of a group of experienced professionals. The process also ensures high quality and consistency of analysis because the reports and discussions are focused on key rating factors that are relevant to the issuer. If CRISIL Ratings and the issuer have any common directors, such directors do not participate in the RCM or rating process. A disclosure to this effect is also made with the announcement of the rating.

Communicating the rating to the issuer

On finalisation of a rating at the RCM, the rating decision is communicated to the issuer. Thereafter, a document (rating rationale) highlighting the key reasons for the rating is shared with the issuer. This is to help the issuer understand the key analytical factors that have been assessed for arriving at the rating decision.

If the issuer decides to accept the rating, it can do so by sending a letter of acceptance to CRISIL Ratings. If, on the other hand, the issuer disagrees with the rating decision, it can appeal for a fresh look at the rating assigned. In such a case, the issuer needs to submit additional facts, data or new information to the ratings team, to be presented to the rating committee. Such information must be material to the appeal and should ideally address areas that have been highlighted as factors constraining the rating in the rating rationale. Pursuant to SEBI

guidelines, an appeal is considered by a rating committee, wherein a majority of the members are different from the one that assigned the rating and at least one-third are independent members. The rating committee then discusses the information submitted. It may or may not change the rating depending on the facts of the case. If the rating is not changed and the issuer continues to disagree with the rating, then the issuer has the option of not accepting the rating. In line with SEBI guidelines, the unaccepted rating is also disclosed on the CRISIL Ratings website.

Publication of accepted ratings

The accepted ratings are disseminated to the subscriber base of CRISIL Ratings and to local and international media. The rating information is also updated online on www.crisilratings.com, the website of CRISIL Ratings, in the form of a rating rationale, which provides information about the company, rated instrument, assigned rating and outlook, rationale for assigning the rating and applicable criteria, among others.

Also, CRISIL Ratings, in compliance with the **International Organization of Securities Commission (IOSCO)** code of conduct, publishes a more detailed credit rating report (CRR) on its website, www.crisilratings.com. The publication of the CRR ensures transparency in rating methodologies and assumptions by CRISIL Ratings, and enables investors to understand how CRISIL Ratings has arrived at the rating. In addition, CRISIL Ratings publishes credit insights derived from its rated universe through periodic publications called Ratings Roundup (published semi-annually) and Default Study (published annually).

Timeframe

From the initial management meeting to the assignment of rating, the rating process can take up to four weeks, though CRISIL Ratings sometimes arrives at rating decisions in shorter timeframes to meet urgent requirements.

Surveillance

All ratings assigned by CRISIL Ratings are under continuous surveillance. After a rating has been published, CRISIL Ratings continues to monitor² the performance of the issuer and the economic environment in which it operates. The surveillance process ensures that the analysts stay updated on current developments and changes in the issuer's plans, and review sensitive areas.

The analysts maintain periodic contact with the issuer and ensure that financial and other information is shared regularly with CRISIL Ratings. Moreover, CRISIL Ratings endeavours to interact with the issuer's management at least once a year. These interactions essentially focus on developments since the last interaction and the outlook for the coming year.

Withdrawal of ratings

Debt instruments rated by CRISIL Ratings are under continuous surveillance over the life of the instrument. Certain conditions have to be met for withdrawal of ratings. For details on the withdrawal policy of CRISIL Ratings, please refer to the article titled '[Policy for withdrawal of ratings](#)', which can be accessed at www.crisilratings.com. The CRISIL Ratings withdrawal policy is in line with the SEBI guidelines applicable for all credit rating agencies.

² As per Reserve Bank of India guidelines (Master Circular - Prudential Guidelines on Capital Adequacy and Market Discipline-New Capital Adequacy Framework [NCAF]), rating agencies should review each bank loan credit at least once in 15 months.

Non-cooperation by issuers

CRISIL Ratings monitors its ratings on a continuous basis. However, monitoring of a rated entity may become difficult because of non-cooperation by the entity. If the rated entity does not share information with CRISIL Ratings on a regular basis, or does not provide access to its management or discuss quarterly/annual results, or does not pay fee for conducting surveillance, that entity can be classified as non-cooperative. CRISIL Ratings rates the non-cooperative issuer on the basis of best available information. However, the aspects of non-cooperation are highlighted in the rating rationale disseminated on the CRISIL Ratings website. In such cases, the rating symbol will be accompanied by 'Issuer did not cooperate; based on best available information'. This is in accordance with SEBI guidelines.

Confidentiality

A substantial portion of the information shared by the issuer is confidential and is provided only for the purpose of arriving at the rating. Such information is kept strictly confidential by the analyst team and is not shared with other divisions or group companies of CRISIL Ratings. CRISIL Ratings does not disseminate confidential information about the entities it rates.

All employees of CRISIL Ratings are required to sign a confidentiality agreement. CRISIL Ratings does not disclose issuer-specific confidential information that it has obtained for the purpose of credit rating to anyone (other than to market regulators or law enforcement authorities, if required). For further details on the CRISIL Ratings confidentiality policy, please refer to the section under highlighted policies on the website.³

³ <https://www.crisilratings.com/content/dam/crisil/investors/corporate-governance/confidentiality-policy.pdf>

About CRISIL Ratings Limited (A subsidiary of CRISIL Limited, an S&P Global Company)

CRISIL Ratings pioneered the concept of credit rating in India in 1987. With a tradition of independence, analytical rigour and innovation, we set the standards in the credit rating business. We rate the entire range of debt instruments, such as, bank loans, certificates of deposit, commercial paper, non-convertible / convertible / partially convertible bonds and debentures, perpetual bonds, bank hybrid capital instruments, asset-backed and mortgage-backed securities, partial guarantees and other structured debt instruments. We have rated over 35,000 large and mid-scale corporates and financial institutions. We have also instituted several innovations in India in the rating business, including rating municipal bonds, partially guaranteed instruments and infrastructure investment trusts (InvITs). CRISIL Ratings Limited ("CRISIL Ratings") is a wholly-owned subsidiary of CRISIL Limited ("CRISIL"). CRISIL

Ratings Limited is registered in India as a credit rating agency with the Securities and Exchange Board of India ("SEBI").

For more information, visit www.crisilratings.com.

About CRISIL Limited

CRISIL is a leading, agile and innovative global analytics company driven by its mission of making markets function better.

It is India's foremost provider of ratings, data, research, analytics and solutions with a strong track record of growth, culture of innovation, and global footprint.

It has delivered independent opinions, actionable insights, and efficient solutions to over 100,000 customers through businesses that operate from India, the US, the UK, Argentina, Poland, China, Hong Kong and Singapore.

It is majority owned by S&P Global Inc, a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

CRISIL Privacy

CRISIL respects your privacy. We may use your personal information, such as your name, location, contact number and email id to fulfil your request, service your account and to provide you with additional information from CRISIL. For further information on CRISIL's privacy policy please visit www.crisil.com/privacy.