SECURITIES LAWS AND COMPLIANCES
PART A — SECURITIES LAWS
STUDY V - CREDIT RATING
LEARNING OBJECTIVES

The study will enable the students to understand

- Concept and uses of credit rating
- Important issues in credit rating
- Credit Rating Agencies, rating process and symbols
- Overview of SEBI (Credit Rating Agencies) Regulations, 1999

INTRODUCTION

Credit rating, in general sense, is the evaluation of the credit worthiness of an individual or of a business concern or of an instrument of a business based on relevant factors indicating ability and willingness to pay obligations as well as net worth.

'Encyclopedia of Banking & Finance' by Charles J. Woelfel states that a credit rating is a letter or number used by a mercantile or other agency in reports and credit rating books to denote the ability and disposition of various businesses (individual, proprietorship, partnership or corporation) to meet their financial obligations. It also states that ratings are used as a guide to the investment quality of bonds and stocks, based on security of principal and interest (or dividends), earning power, mortgage position, market history and marketability.

Credit ratings establish a link between risk and return. An investor or any other interested person uses the rating to assess the risk-level and compares the offered rate of return with his expected rate of return.

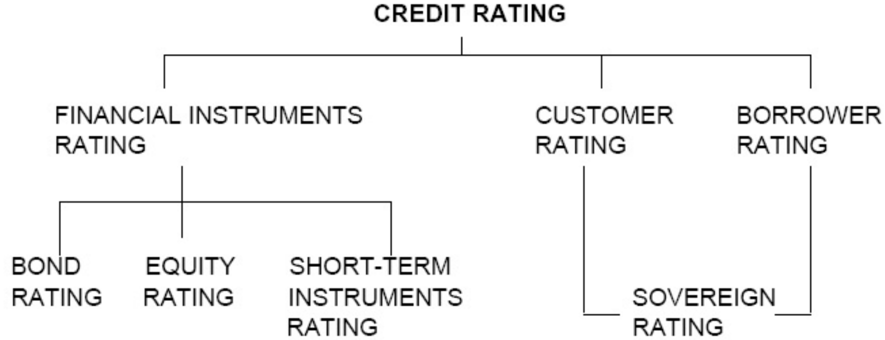
Credit rating is extremely important as it not only plays a role in investor protection but also benefits industry as a whole in terms of direct mobilisation of savings from individuals. Rating also provide a marketing tool to the company and its investment bankers in placing company's debt obligations with a investor base that is aware of, and comfortable with, the level of risk. Ratings also encourage discipline amongst corporate borrowers to improve their financial structure and operating risks to obtain a better rating for their debt obligations and thereby lower the cost of borrowing. Companies those get a lower rating are forewarned, as it were and have the freedom, if they desire, to take steps on their financial or business risks and thereby improve their standing in the market.

The need for reliable information in channelisation of the resources to the most productive uses can hardly be overemphasized. Relevant and reliable information helps the investors to arrive at their investment decisions. These include offer documents of the issuers, research reports of market intermediaries and media reports. In the developed markets, credit rating agencies have also come to occupy a leading position as information providers alongwith rating of financial instruments. Particularly for the credit related opinions in respect of debt related instruments, such agencies offer

independent opinions which are objective, well researched and credible.
During the great American depression years, high levels of default triggered the growth of credit rating as an essential input for the investors. The recognition for credit rating received a new impetus when Government Pension Funds, Insurance Companies etc. were directed not to invest in securities rated below a particular grade by credit rating agencies. This led to the growth in the awareness of credit rating as a primary tool of risk assessment.
The first Mercantile Credit Agency was established in New York in 1841. Its first rating guide was published in 1859 by Robert Dun. Another similar agency was set up by John Bradstreet which published its rating guide in 1857. These two agencies were merged to form Dun and Bradstreet in 1933 which acquired Moody's Investor Service in 1962. Moody's was founded by Moody in 1900. The other world renowned rating agency namely Standard and Poor was created in 1941 by merging the Standard Statistics Company and Poor's Publishing Company which had their origin earlier.
In India CRISIL (Credit Rating and Information Services (India) Limited) was set up as the first credit rating agency in 1987. This was followed by ICRA Limited (Investment Information and Credit Rating Agency of India Limited) in 1991 and CARE (Credit Analyses and Research Limited) in 1994 and Fitch Rating India Pvt. Ltd. Both these four credit rating agencies are registered with the Securities and Exchange Board of India.

I. CONCEPT & OVERVIEW

Credit Rating is a symbolic indication of the current opinion regarding the relative capability of a corporate entity to service its debt obligations in time with reference to the instrument being rated. It enables the investor to differentiate between debt instruments on the basis of their underlying credit quality. To facilitate simple and easy understanding, credit rating is expressed in alphabetical or alphanumerical symbols.
A rating is specific to a debt instrument and is intended to grade different such instruments in terms of credit risk and ability of the company to service the debt obligations as per terms of contract namely - principal as well as interest. A rating is neither a general purpose evaluation of a corporate entity, nor an over all assessment of the credit risk likely to be involved in all the debts contracted or to be contracted by such entity.
Though credit rating is considered more relevant for gradation of debt securities, it can be applied for other purposes also. The diagram below depicts various types of credit ratings:



The various purposes for which credit rating is applied are:

1. Long-term/Medium-term debt obligations such as debentures, bonds, preference shares or project finance debts are considered long-term and debts ranging from 1 to 3 years like fixed deposits are considered medium-term;
2. Short-term debt obligations - the period involved is one year or less and cover money market instruments such as commercial paper, credit notes, cash certificates etc.;
3. Equity Grading and Assessment, structured obligations, municipal bonds, mutual fund schemes, plantation schemes, real estate projects, infrastructure related debts, ADR, GDR issues, bank securities etc.

Credit rating does not bound the investor to decide whether to hold or sell an instrument as it does not take into consideration factors such as market prices, personal risk preferences and other consideration which may influence an investment decision. It does not create any fiduciary relationship between the rating agency and the user of the rating. A credit rating agency does not perform an audit but relies on information provided by the issuer and collected by the analysts from different sources hence it does not guarantee the completeness or accuracy of the information on which the rating is based.

In determining a rating, both qualitative and quantitative analysis are employed. The judgement is qualitative in nature and the role of the quantitative analysis is to help make the best possible overall qualitative judgement or opinion. The reliability of the rating depends on the validity of the criteria and the quality of analysis.

The quality of credit rating mainly depends upon and quality of the rating agency, rating elements also. The agency should have good reputation, personal competence, independence, qualified and experienced staff.

Uses of Credit Rating

Credit rating is useful to investors, issuers, intermediaries and regulators.

For Investors: The main purpose of credit rating is to communicate to the investors the relative ranking of the default loss probability for a given fixed income investment, in comparison with other rated instruments. In a way it is essentially an information service. In the absence of professional credit rating, the investor has to largely depend on his familiarity with the names of promoters or collaborators of a company issuing debt instruments. This is not a reliable method. Credit rating by skilled, competent and credible professionals eliminates or at least minimizes the role of name recognition and replaces it with a well researched and properly analysed opinions. This method provides a low cost supplement to investors. Large investors use information provided by rating agencies such as upgrades and downgrades and alter their portfolio mix by operating in the secondary market. Investors also use the industry reports, corporate reports, seminars and open access provided by the credit rating agencies.

For Issuers: The market places immense faith in opinion of credit rating agencies, hence the issuers also depend on their critical analysis. This enables the issuers of highly rated instruments to access the market even during adverse market conditions. Credit rating provides a basis for determining the additional return (over and above a risk free return) which investors must get in order to be compensated for the additional risk that they bear. The difference in price leads to significant cost savings in the case of highly rated instruments.

For Intermediaries: Rating is useful to Intermediaries such as merchant bankers for planning, pricing, underwriting and placement of the issues. Intermediaries like brokers and dealers in securities use rating as an input for monitoring risk exposures. Merchant bankers also use credit rating for pre-packaging issues by way of asset securitisation/structured obligations.

For Regulators: Regulatory authorities in different countries such as US, Australia and Japan have specified rules that restrict entry to the market of new issues rated below a particular grade, that stipulate different margin requirements for mortgage of rated and unrated instruments, that prohibit institutional investors for puchasing or holding instruments rated below a particular level and so on.

Factors for Success of a Rating System

a. Credible and independent structure and procedures;
b. Objectivity and impartiality of opinions;
c. Analytical research, integrity and consistency;
d. Professionalism and industry related expertise;
e. Confidentiality;
f. Timeliness of rating review and announcement of changes;
g. Ability to reach wide range of investors by means of Press reports, print or electronic media and investor oriented research services;

Important Issues in Credit Rating

Investments and Speculative Grades: Securities rated below ‘BBB’ (S & P), ‘Baa’ (Moody’s) are called non-investment grade or speculative grade or junk bonds. Rating agencies do not recommend or indicate the rating levels of instruments up to which one should or should not invest.

Surveillance: The rating published by credit rating agencies is subjected to a continuous surveillance during the life of the instrument or so long as any amount is outstanding against the specific instrument. The frequency of surveillance may range between quarterly or yearly. A formal and extensive written review is taken at least once in an year but where some specific concern arises about the industry or the issuing entity, the review is taken up immediately. Where justified the rating agency may change the rating by upgradation or downgradation depending on the likely impact of changing circumstances on the debt servicing capability of the issuer. In other cases, the rating is retained at the same level.

Credit Watch: When a major deviation from the expected trends of the issuers business occurs, or when an event has taken place, it creates an impact on the debt servicing capability of the issuer and warrants a rating change, the rating agency may put such ratings under credit watch till the exact impact of such unanticipated development is analysed and decision is taken regarding the rating change. The credit watch listing may also specify positive or negative outlooks. It should be noted that being under credit watch does not necessarily mean that there would be a rating change.

Ownership as a rating consideration: Ownership by a strong concern may enhance the credit rating of an entity, unless there exists a strong barrier separating the activities of the parent and the subsidiary. The important issues involved in deciding the relationship are - the mutual dependence on each other, legal relationship, to what extent one entity has the desire and ability to influence the business of the other, and how important is the operation of the subsidiary to the owner.

Rating agency keeps the information provided by the issuer confidential and completes the rating within 2 to 4 weeks. Once the rating is assigned, it is communicated to the issuer, who is given an opportunity to make one request for a review, only in case fresh facts or clarifications become relevant. After these are considered, the final rating is assigned. In India, the issuer has the option of not accepting the assigned rate in which case the rating is not disclosed by the rating agency. However, if the rating is accepted, it comes under the surveillance process of the concerned agency.

Rating of Manufacturing Companies

The factors generally considered for rating of manufacturing companies are as under:

Industry Risk : It is defined as the strength of the industry within the economy and relativity to the economic trends. It is evaluated on the basis of factors like business cyclicality, earnings volatility, growth prospects, demand - supply projections, entry barriers and extent of competition and nature and extent of regulation.

Company's industry and market position: The company's sales position in its major fields and its historical background of its market position is analysed alongwith ability to sustain/increase market shares; brand strengths and position; price leadership and distribution and marketing strengths/weaknesses.

Operating efficiencies: Ability to control costs, productivity efficiencies relative to others, labour relationship, extent of forward and backward integration, access to raw materials/markets, and technology.

Accounting Quality: Financial statements are adjusted for non-standard accounting treatments. Overall evaluation of the accounting policies employed and the extent to which they understate or overstate financial performance and position. These include analysis of auditor's qualifications, revenue recognition, depreciation policy, inventory evaluation, funding for pension liabilities, undervalued assets etc.

Financial flexibility: Evaluation of the company's financing needs, plans and alternatives, its flexibility to accomplish its financing programmes under stress without damaging creditworthiness.

Earnings protection: The key measurements which indicate the basic long term earnings power of the company including return on capital, profit margins, earnings from various business segments, sources of future earnings growth, coverage ratios etc.

Financial leverage: Relative usage of debt and levels of debt appropriate to different types of businesses, utilisation of long and short term sources of funds, management of working capital.

Cash flow adequacy: It is the relationship of cash flows to leverage and the ability to internally meet all cash needs of the business. It measures the magnitude and variability of future cash flows relative to debt servicing obligations and other commitments such as group company funding, BIFR packages and contingent liabilities. This analysis goes into the inherent protective factors for expected cash flows of the company and the sensitivity of these cash flows to changes in variables like raw material costs and selling prices.

Management evaluation: The record of achievement in operations and financial results, strategic and financial planning, commitment, consistency and credibility, overall quality of management, line of succession, strength of middle management and organisation structure and its linkage with the operating environment and management strategies.

Rating of Financial Services Companies

The rating methodology for non-banking financial services companies is based on CAMEL model encompassing, Capital adequacy, Asset quality, Management, Earnings and Liquidity. The nature and accessibility of funding sources is also considered.

Rating of Structured Obligations/Asset Securitisation

Structured borrowing arrangements are entered into by companies for various reasons. However, the most important one is that less credit worthy instruments or corporates are able to tap sources of funds at a more advantageous borrowing rate by offering a variety of credit enhancements. The process of converting loans or receivables into negotiable instruments is known as securitisation. These negotiable instruments are then sold to investors', they are secured by the underlying assets and have other credit enhancements. Securitisation transforms illiquid assets like the renewable portfolio on the balance sheet of a lender into a marketable security.

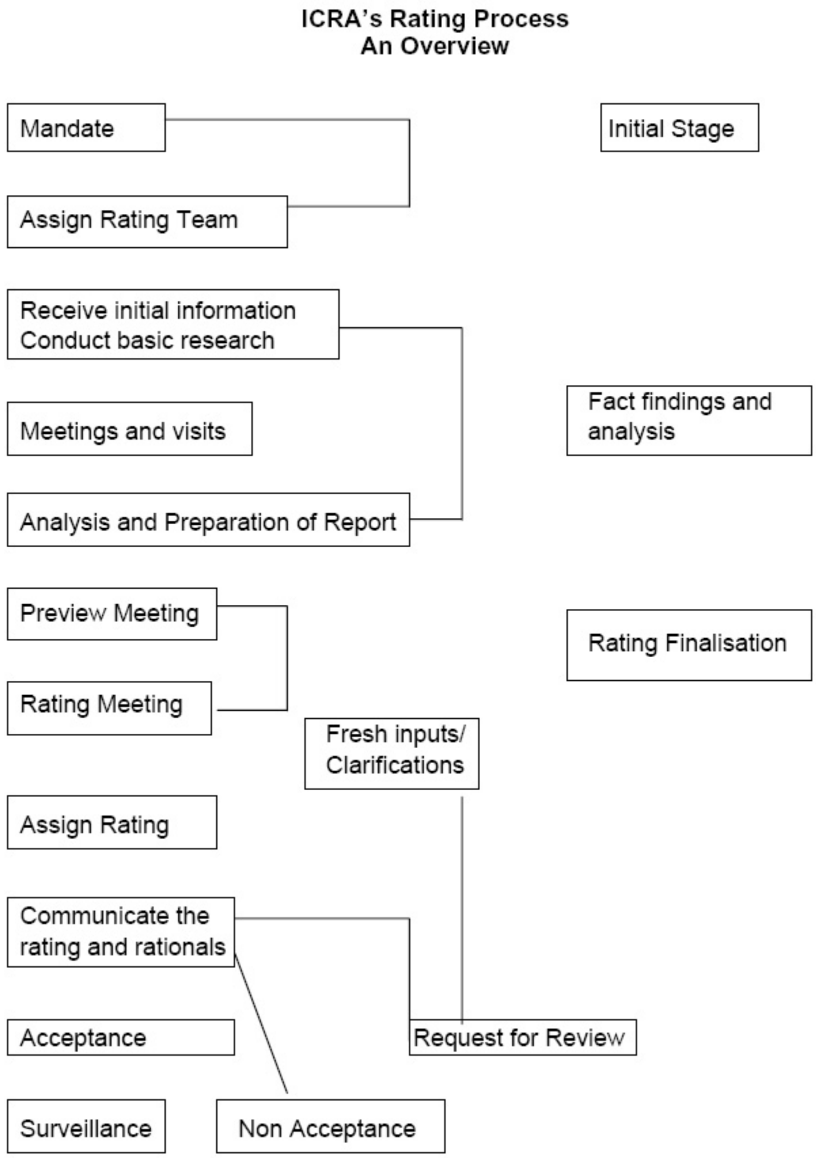
The principal credit risk in asset backed financing is potential impairment of cash flows due to the assets becoming defaulting on repayments or turning into a loss. The main factors considered for credit rating are the overall risk profile and monitoring and collection procedures of the issuer; the quality of the assets being securitised; the process of selection of the asset pool to be securitised; the characteristics of the pool and the cash flows from it based on the past record of its behaviour. The possible credit loss and other deficiencies of the pool in terms of timing and quantum of cash flows are analysed and the extent and nature of credit enhancement is then determined.

Other important considerations in a securitisation transaction are the legal and tax structure and the ability and willingness of the services and trustee to manage and maintain control on assets and payment streams from them.

Rating Process

Rating process refers to the typical practices and procedures which a rating agency follows to gather information for evaluating the credit risk of specific issuers and issues, to analyse and conclude on the appropriate rating to monitor the credit quality of the rated issuer or security over time, deciding on timely changes in ratings, as and when companies' fundamentals change

and to keep investors and the market players informed. All these are interrelated and on going processes. The general principals followed all over the world are the same. The rating agencies in India have adopted the methodology of the major international credit rating agencies.
As a sample we indicate ICRA's Rating Process in the the form of a flow chart below:



The rating process begins with the receipt of a mandate from the issuer company. The next step is to form analytical teams with sectoral skills.

Information gathering/analysis

For the basic research, obtain credit related data, both statistical and qualitative, from a multitude of sources like annual reports, prospectus, industry/sectoral economic data, government reports, news reports, discussions with industry/ regulatory/other circles. Statistical data bases are developed over time to enable comparability across major issuer categories.

Meetings with Management

Meetings are held with key operating personnel of the company covering broadly the background, history, organisational structure, operating performance, financial management and topics of special relevance to the company's future. The central focus of all discussions is the same with analysts looking for information that will help them to understand the issuer's ability to generate cash from operations to meet debt obligations over the next several years. It is the management's opportunity to explain the company's business and financial strategies. Finally, a meeting with top management is held, where apart from corporate strategy and philosophy, key issues relevant to the rating are discussed. A plant visit with the major manufacturing/work centres and project sites is invariably undertaken.

In India, credit rating agencies do not undertake unsolicited ratings merely based on published information of the company. The quality of credit rating will greatly improve with privileged information obtained from the companies by credit rating agencies. It is possible to have two agencies to do the rating for a particular issue and the findings may even vary, because rating is a matter of perceptions. But generally the findings will not be varying widely. The ratings can be published by the agency only after approval and with the permission of the issuer. Subsequent changes emerging out of the monitoring by the credit rating agency will be published even if such changes are not found acceptable to the issuers. The issuer may appeal on the findings of an agency. In such a case the agency will undertake a review and thereafter indicate its final decision. Unless the rating agency has over looked critical information at the first stage, chances of the rating being changed on appeal will be rare.

There is no system yet to rate the rating agency. Informed public opinion is the touch stone on which the rating companies are being assessed. The success of a rating agency is measured by the quality, consistency and integrity and the record of acceptance in the market. The rating is always about a particular issue and not generally about the issuer.

II. RATING SYMBOLS

Rating symbols are used in terms of alphabets. For preference shares the letters 'pf' are prefixed to the debenture rating symbols and 'f' prefixed for fixed deposits while 'P' (prime) is prefixed to short-term instruments. Below are given rating symbols used by various credit rating agencies.

A. Rating Symbols of CRISIL (Credit Rating Information Services of India Ltd.)

CRISIL Debenture Rating Symbols

(a) High Investment Grades		
	AAA (triple A)	Highest Safety - on timely payment of interest and principal.
	AA (double A)	High Safety - regarding timely payment of Interest and principal. This symbol shows minor variation from triple A.
(b) Investme		

nt Grades		
	A	Adequate safety - regarding timely payment of interest and principal subject to adverse impact arising out of changed circumstances.
	BBB (triple B)	Moderate safety - regarding timely payment of interest and principal subject to variations caused by changing circumstances weakening the capacity.
(c) Speculative Grades		
	BB (double B)	Inadequate safety - regarding payment of timely interest and principal due to the comparative uncertainties faced by the issuer.
	B	High risk - susceptible to default in payment of principal and interest due to adverse business or economic conditions affecting the issuer.
	C	Substantial risk - Due to the presence of factors which make the issue vulnerable to default if unfavourable circumstances develop.
	D	Default - default likely in payment of interest and maturity amount. Such debentures are extremely speculative and returns from them can be realised only on reorganisation or liquidation.

CRISIL has decided to include a new rating category called "not meaningful" (NM) for companies which have been referred to the Bureau for Industrial and Financial Re-construction (BIFR).

Note: CRISIL may apply + (plus) or – (minus) signs for ratings from AA to D to reflect comparative standing on a better or worse scale within the category.

CRISIL Fixed Deposit Rating Symbols

FAAA (F triple A)	Highest safety - indicates the degree of safety regarding timely payment of interest and principal is very strong.
FAA (F double A)	High safety - indicates the degree of safety regarding timely payment of interest and principal is strong.
FA	Adequate safety - indicates the degree of safety regarding timely payment of interest and principal is satisfactory. Changes in circumstances can affect such issues more than those in the higher rated categories.
FB	Inadequate safety - indicates inadequate safety of timely payment of

interest and principal. Such issues are less susceptible to default than fixed deposits rating below this category, but the uncertainties that the issuer faces could lead to inadequate capacity to make timely interest and principal payments.

FC High risk - indicates the degree of safety regarding timely payment of interest and principal is doubtful. Such issues have factors at present that make them vulnerable to default; adverse business or economic conditions would lead to lack of ability or willingness to pay interest or principal.

FD Default - indicates the issuer is either in default or is expected to be in default upon maturity.

Note: CRISIL may apply + (plus) or – (minus) signs for rating from FAA to FC to indicate the relative position within the rating category of the company raising fixed deposits.

CRISIL's Rating for Short-term Instruments

P-1 This rating indicates that the degree of safety regarding timely payment on the instrument is very strong.

P-2 This rating indicates that the degree of safety regarding timely payment on the instrument is strong; however the relative degree of safety is lower that for instruments rated "P-I".

P-6 This rating indicates that the degree of safety regarding timely payment on the instrument is adequate, however, the instrument is more vulnerable to the adverse effects changing circumstances than an instrument rated in the two higher categories.

P-4 This rating indicates that the degree of safety regarding timely payment on the instrument is minimal and it is likely to be adversely affected by short-term adversity or less favourable conditions.

P-5 This rating indicates that the instrument is expected to be in default on maturity or is in default.

Note: CRISIL may apply + (plus) sign for rating from P-1 to P-3 to reflect a comparatively higher standing within the category.

CRISIL's Rating Symbols for Structured Obligations (SO)

Structured obligations ratings are based on the same scale (AAA to D) as CRISIL ratings for long-term instruments. However, reflecting the distinction of structured obligations from a debt instrument, structured obligations rating symbols are defined differently.

1. *High Investment Grades*

   AAA (SO) (Triple A) - Highest Safety - This rating indicates highest degree of certainty regarding timely payment of financial obligations on the instrument. Any adverse changes in circumstances are most unlikely to affect the payments on the instruments.

   AA (SO) (Double A) - High safety - This rating indicates highest degree of certainty regarding timely payment of financial obligations on the instrument.
2. *Investment Grades*

A (SO) - Adequate Safety - This rating indicates adequate degree of certainty regarding timely payment of financial obligations on the instrument. Changes in circumstances can adversely affect such instruments more than those in the higher rated categories.
BBB (SO) (Triple B) - Moderate Safety - This rating indicates moderate degree of certainty regarding timely payment of financial obligations on the instrument. However, changing circumstances are more likely to lead to a weakened capacity to meet financial obligations than for instruments in higher rated categories.

3. *Speculative Grades*
BB (SO) (Double B) - Inadequate Safety - This rating indicates inadequate degree of certainty regarding timely payment of financial obligations on the instrument. Such instruments are less susceptible to default than instruments rated below this category.
B (SO) - High Risk - This rating indicates high risk and greater susceptiability to default. Any adverse business or economic conditions would lead to lack of capability or willingness to meet financial obligations on time.
C (SO) - Substantial Risk - This rating indicates that the degree of certainty regarding timely payment of financial obligations is doubtful unless circumstances are favourable.
D (SO) - Default - This rating indicates that the obligor is in default or expected to be in default.

Note: CRISIL may apply + (plus) sign for rating from AA to C to reflect a comparatively higher standing within the category.

CRISIL's Rating Symbols for Real Estate Developers' Projects

Highest Ability: PA-1: Projects rated PA-1 indicate highest ability of the developer to specify and build to agreed quality levels and transfer clear title within stipulated time schedules.

High Ability: PA-2: Projects rated PA-2 indicate that the developers' ability to build the project to specified quality levels, time schedules and transfer clear title is high.

Adequate Ability: PA-3: Projects rated PA-3 indicate adequate ability of the developer to build to reasonable quality levels and time schedules and transfer clear title for the present. However, changing circumstances are likely to adversely affect these projects more than those in the higher rated categories.

Inadequate Ability: PA-4: Projects rated PA-4 indicate that the developers ability to build to specified quality levels and adhere to time schedules is inadequate. Uncertainties facing the project could result in inability and/or unwillingness to complete projects.

Inability: PA-5: Projects rated PA-5 indicate inability of the developer to complete projects or transfer clear title.

Note: CRISIL may apply + (plus) sign for rating from P-1 to P-3 to reflect a comparatively higher standing within the category.

CRISIL Foreign Structured Obligations (FSO) Rating Scales

CRISIL has developed a framework for rating the debt obligations of Indian corporates supported by credit enhancements extended by entities based outside the country. The issues considered inter alia include the credit worthiness of the offshore entity, the nature and structure of the credit enhancement mechanism to ensure timely payments on rated debt obligations an regulatory issues as regards the transfer risk. CRISIL would notch up the standalone credit ratings of these Indian issuers depending on all these factors.

CRISIL ratings of Foreign Structured Obligations (FSO) factor the credit enhancement extended by an entity based outside the country. The ratings indicate the degree of certainty regarding timely payment of financial obligations on the instrument. These ratings have been assigned in the current regulatory framework as regards the transfer risk and any change therein could impact the ratings.

The credit enhancements could be in the form of guarantees, letters of credit, asset backing or other suitable structures. Due to the current regulatory controls on inward remittances, CRISIL would require suitable liquidity mechanisms to be in place for ensuring timely payment on due dates.

Foreign Structured Obligations ratings are based on the same scale (AAA through D) as CRISIL ratings for long-term instruments. Foreign Structured Obligations ratings symbols are defined below :

High Investment Grades		
	AAA(fso) (Triple A)*	Highest Safety - This rating indicates highest degree of certainty regarding timely payment of financial obligations on the instrument. Any adverse changes in circumstances are most unlikely to affect the payments on the instrument.
	AA(fso) (Double A)*	Highest Safety - This rating indicates high degree of certainty regardin timely payment of financial obligations on the instrument. This instrument differs in safety, from "AAA(fso)" instruments only marginally.
Investment Grades		
	A(fso)*	Adequate Safety -This rating indicates adequate degree of certainty regarding timely payment of financial obligations on the instrument. Changes in circumstances can adversely affect such instruments. Changes in circumstances can adversely affect such instruments more than those in the higher rated categories.
	BBB(fso)	Moderate Safety - This rating indicates a moderate degree of certainty regarding timely payment of financial obligations on

	(Triple B)*	the instrument. However, changing circumstances are more likely to lead to a weakened capacity to meet financial obligations than for instruments in higher rated categories.
Speculative Grades		
	BB(fso) (Double B)*	Inadequate Safety - This rating indicates inadequate degree of certainty regarding timely payment of financial obligation on the instrument. Such instruments are less susceptible to default than instruments rated below this category.
	B(fso)	High Risk - This rating indicates high risk and greater susceptibility to default. Any adverse business or economic conditions would lead to lack of capability or willingness to meet financial obligations on time.
	C(fso)	Substantial Risk - This rating indicates that the degree of certainty regarding timely payment of financial obligations is doubtful unless circumstances are favourable.
	D(fso)	Default - This rating indicates that the obligation is in default or expected to default.

Note: The contents within Parenthesis are a guide to the pronunciation of the rating symbols.

CRISIL Rating Scale for Instrument Carrying Non-Credit Risk

AAAr (Triple A r) Highest Safety	Debentures rated AAAr are judged to offer highest safety of timely payment of interest and/ or principal. Though the circumstances providing this degree of safety are likely to change, such changes as can be envisaged are most unlikely to affect adversely the fundamentally strong position of such issues.
AAr (Double A r) High Safety	Debentures rated AAr are judged to offer high safety of timely payment of interest and/ or principal. They differ in safety from AAAr issues only marginally.
Ar (Single A r) Adequate Safety	Debentures rated Ar are judged to offer adequate safety of timely payment of interest and/ or principal; however, changes in circumstances can adversely affect such issues more than those in the higher rated categories.
BBBr (Triple B r) Moderate Safety	Debentures rated BBBr are judged to offer sufficient safety of timely payment of interest and/ or principal for the present; however, changing circumstances are more likely to lead to a weakened capacity to pay interest and repay principal than for debentures in higher rated categories.
BBr (Single B r) High	Debentures rated BBr are judged to carry inadequate safety of timely payment of interest and/ or principal; while they are less susceptible to default than other speculative grade debentures in

Risk	the immediate future, the uncertainties that the issuer faces could lead to inadequate capacity to make timely interest and principal payments.
Br (Single B r) High Risk	Debentures rated Br are judged to have greater susceptibility to default; while currently interest and/ or principal payments are met, adverse business or economic conditions would lead to lack of ability or willingness to pay interest or principal.
Cr (Single C r) Substantial Risk	Debentures rated Cr are judged to have factors present that make them vulnerable to default; timely payment of interest and/ or principal is possible only if favourable circumstances continue.
Dr (Single D r) In Default	Debentures rated Dr are in default and in arrears of interest and/ or principal payments or are expected to default on maturity. Such debentures are extremely speculative and returns from these debentures may be realized only on reorganisation or liquidation.

Note:

1. CRISIL may apply "+" (plus) or "–" (minus) signs for ratings from AA to C to reflect comparative standing within the category.
2. The contents within parenthesis are a guide to the pronunciation of the rating symbols.
3. The 'r' symbol attached to the rating indicates that the instrument has an element of non-credit risk (such as market risk). The risk represented by the 'r' symbol would be specific for each instrument.
4. In situations where there is any arrangement for payment on the instrument by an obligor other than the issuer or any means of enhancing credit including arrangements such as guarantees, letters of credit, etc., CRISIL can add the structured obligations rating symbol '(so)' to this rating scale.

Credit Rating Scale for Financial Strength Ratings (FSR)

Ratings are broadly divided into two categories - Secure and Vulnerable. Rating categories from "AAA" to "BBB" are classified as 'secure' ratings and are used to indicate insurance companies whose financial capacity to meet policyholder obligations is sound. Rating categories from "BB" to "D" are classified as vulnerable ratings and are used to indicate insurance companies whose financial capacity to meet policyholder obligations is vulnerable to adverse economic and underwriting conditions.

The opinion does not take into account timeliness of payment or the likelihood of the use of a defense such as fraud to deny claims. For insurance companies with cross-border or multi-national operations, including those conducted by branch offices or subsidiaries, ratings do not take into account any potential that may exist for foreign exchange restrictions to prevent policy obligations from being met. Financial strength ratings do not refer to an insurance company's ability to meet non-policy obligations (i.e. debt contracts).

The ratings are not recommendations to purchase or discontinue a policy, contract or security issued by an insurance company nor are they guarantees of financial strength.

Secure Ratings

AAA	Reflects Highest Financial Strength to meet policyholder obligations. Though the circumstances providing this strength are likely to change, such changes as can be envisaged are most unlikely to affect adversely the fundamentally strong position.
AA	Reflects High Financial Strength to meet policyholder obligations. Though the circumstances providing this degree of strength are likely to change, such changes as can be envisaged are most unlikely to affect adversely the fundamentally strong position. Companies in this category differ only marginally from the 'AAA' rated insurance companies.
A	Reflects Adequate Financial Strength to meet policyholder obligations. However, change in circumstances can adversely affect such companies more than those in the higher rated categories.
BBB	Reflects Moderate Financial Strength to meet policyholder obligations. However, changing circumstances are more likely to lead to a weakened capacity to meet policyholder obligations than the higher rated categories.

Vulnerable Ratings

BB	Reflects Inadequate Financial Strength to meet policyholder obligations. While companies rated in this category are less susceptible to default than other speculative grade companies in the immediate future, the uncertainties that they face could lead to inadequate capacity to meet their policyholder obligations.
B	Reflects Greater Susceptibility to default on policyholder obligations. While current obligations are met, adverse business or economic conditions would lead to lack of ability or willingness to meet policyholder obligations.
C	Vulnerable to default. Ability to meet policyholder obligations is possible only if favourable circumstances prevail.
D	In default. Current policyholder obligations are in default. Insurance companies rated "D" are extremely speculative and policyholder obligations may be realised only on reorganisation or liquidation.

Financial strength ratings from "AA" to "BB" may be modified by use of a plus (+) or minus (–) sign to show the relative standing of the insurance / reinsurance company within the rating categories.

CRISIL Bond Fund Rating Symbols

AAAf The fund's portfolio holdings provide very strong protection against losses from credit defaults.

Aaf The fund's portfolio holdings provide strong protection against losses from credit defaults.

Af The fund's portfolio holdings provide adequate protection against losses from credit defaults.

BBBf The fund's portfolio holdings provide moderate protection against losses from credit defaults.

BBf The fund's portfolio holdings provide inadequate protection against losses from credit defaults.

Cf The fund's portfolio holdings have factors present which make them vulnerable to credit defaults.

CRISIL Rating Scales for Real estate Developers

DA1 **Excellent.**

The developer's past track record in executing real estate projects as per specified quality levels and transferring clear title within stipulated time schedule is *excellent.*

DA2 **Very Good.**

The developer's past track record in executing real estate projects as per specified quality levels and time schedules and transferring clear title, is *very good.*

DA3 **Good.**

The developer's past track record in executing real estate projects as per specified quality levels and time schedules and transferring clear title, is *good.*

DA4 **Unsatisfactory.**

The developer's past track record in executing real estate projects as per specified quality levels and time schedules and transferring clear title, is *unsatisfactory.*

DA5 **Poor.**

The developer's past track record in executing real estate projects as per specified quality levels and time schedules and transferring clear title, is *poor.*

CRISIL Grading Scale for Governance and Value Creation

Level The capability of firms rated CRISIL GVC Level-1 with respect to

1:	wealth creation for all their stakeholders while adopting sound corporate governance practices is the highest.
Level 2:	The capability of firms rated CRISIL GVC Level-2 with respect to wealth creation for all their stakeholders while adopting sound corporate governance practices is high.
Level 3:	The capability of firms rated CRISIL GVC Level-3 with respect to wealth creation for all their stakeholders while adopting sound corporate governance practices is strong.
Level 4:	The capability of firms rated CRISIL GVC Level-4 with respect to wealth creation for all their stakeholders while adopting sound corporate governance practices is moderate.
Level 5:	The capability of firms rated CRISIL GVC Level-5 with respect to wealth creation for all their stakeholders while adopting sound corporate governance practices is adequate.
Level 6:	The capability of firms rated CRISIL GVC Level-6 with respect to wealth creation for all their stakeholders while adopting sound corporate governance practices is inadequate.
Level 7:	The capability of firms rated CRISIL GVC Level-7 with respect to wealth creation for all their stakeholders while adopting sound corporate governance practices is poor.
Level 8:	The capability of firms rated CRISIL GVC Level-8 with respect to wealth creation for all their stakeholders while adopting sound corporate governance practices is the lowest.

CRISIL Grading Scale for Healthcare Institutions

The grading scale for healthcare institutions will have two components. The first will be the hospital classification such as

— Nursing home
— General secondary care
— Specialty secondary care
— Single-specialty tertiary care
— Multi-specialty tertiary care

The second component of the grading scale will be the hospital's grading within that classification on a four-point scale. Thus, a typical grading could read - General secondary care hospital assigned Grade C or Nursing home assigned Grade B.

The hospital classification will be based on the number of specialties offered by the hospital. The definition for various grades, as envisaged currently, is given below:

Grade A:	Reflects Very Good Quality of delivered patient care. A healthcare institution graded in this category has facilities, equipment, manpower and service quality levels which are consistent with the highest standards in the Indian healthcare industry.
Grade B:	Reflects Good Quality of delivered patient care. A healthcare institution graded in this category has facilities, equipment, manpower and service quality levels which are consistent with high standards in the

Indian healthcare industry, although these would be lower than healthcare quality levels in Grade A hospitals.

Grade C: Reflects an Average Quality of delivered patient care. A healthcare institution graded in this category has facilities, equipment, manpower and service quality levels which are consistent with adequate standards in the Indian healthcare industry. Improvements in specific areas would be required for such hospitals to be eligible for a higher grade.

Grade D: The grading reflects Poor Quality of delivered patient care. The healthcare institution graded in this category has facilities, equipment, manpower and service quality levels which are below the average standards in the Indian healthcare industry. The grading indicates that quality standards would need to be set up in the institution and substantial improvements in patient care would be needed to obtain a higher grade.

A typical definition would read as follows:
CRISIL has classified the XYZ Hospital as a 'Speciality Secondary Care Hospital' and assigned a 'Grade B'. The grading reflects a Good Quality of delivered patient care. The healthcare institution graded in this category has facilities, equipment, manpower and service quality levels which are consistent with high standards in the Indian healthcare industry."

CRISIL Rating Symbols for Credit Assessments

1 *Very Strong Capacity* - This indicates that the capacity for timely payment of interest and principal is very strong.

2, 3, 4 *Strong Capacity* - This indicates that the capacity for timely payment of interest and principal is strong. However, the capacity is not as strong as for borrowers with Credit Assessment "1".

5, 6, 7 *Adequate Capacity* - This indicates that the capacity for timely payment of interest and principal is satisfactory. Changes in circumstances can affect the capacity of the borrower more than those in the stronger Credit Assessment categories.

8, 9, 10 *Inadequate Capacity* - This indicates inadequate capacity for timely payment of interest and principal. Such borrowers are less susceptible to default than borrowers with Credit Assessments below this category, but the uncertainties that the borrower faces could lead to inadequate capacity to make timely interest and principal payment.

11, 12, 13 *Poor Capacity* - This indicates that the capacity for timely payment of interest and principal is doubtful. Such borrowers face circumstances at present that make them vulnerable to default; adverse business or economic conditions would lead to lack of capacity to pay interest or principal.

14 *Default* - This indicates that the borrower is either in default or is expected to be in default upon maturity of the debt.

CRISIL Rating for Collective Investment Scheme

Invest

Investment Grade		
	Grade - I (High Certainty)	This rating indicates high certainty that the Collective Investment Scheme will provide the assured returns in the form of produce and/or cash.
	Grade - II (Adequate Certainty)	This rating indicates adequate certainty that the Collective Investment Scheme will provide the assured returns in the form of produce and/or cash.
	Grade - III (Moderate Certainty)	This rating indicates moderate certainty that the Collective Investment Scheme will provide the assured returns in the form of produce and/or cash.
Non-Investment Grade		
	Grade - IV (Inadequate Certainty)	This rating indicates inadequate certainty that the Collective Investment Scheme will provide the assured returns in the form of produce and/or cash. Risk factors for the scheme are high and the scheme is prone to default.
	Grade - V (High Uncertainty)	This rating indicates high uncertainty that the Collective Investment Scheme will provide the assured returns in the form of produce and/or cash. Risk factors for the scheme are extremely high leading to high expectation of default on obligations.

B. Rating Symbols of ICRA (Investment Information and Credit Rating Agency of India Ltd.)

Long-term including debentures, bonds and preference shares

LAAA	Highest Safety - indicates fundamentally strong position. Risk factors are negligible. There may be circumstances adversely affecting the degree of safety but such circumstances, as may be visualised, are not likely to affect the timely payment of principal and interest as per terms.
LAA+ LAA LAA–	High Safety - Risk factors are modest and may vary slightly. The protective factors are strong and the prospect of timely payment of principal and interest as per terms under adverse circumstances, as may be visualised, differs from 'LAAA' only marginally.
LA+ LA LA–	Adequate Safety - Risk factors are more variable and greater in periods of economic stress. The protective factors are average and any adverse change in circumstances, as may be visualised, may alter the fundamental as per terms.

LBBB+ LBBB LBBB–	Moderate Safety - Considerable variably in risk factors. The protective factors are below average. Adverse changes in business/economic circumstances are likely to affect the timely payment of principal and interest as per terms.
LBB+ LBB LBB–	Inadequate Safety - The timely payment of interest and principal are more likely to be affected by present or prospective changes in business/economic circumstances. The protective factors fluctuate in case of changes in economy/ business conditions.
LB+ LB LB–	Risk Prone - Risk factors indicate that obligations may not be met when due. The protective factors are narrow. Adverse changes in business/economic conditions could result in inability/unwillingness to service debts on time as per terms.
LC+ LC LC–	Substantial Risk - There are inherent elements of risk and timely servicing of debts/obligations could be possible only in case of continued existence of favourable circumstances.
LD	Default - Extremely speculative. Either already in default in payment of interest and/or principal as per terms or expected to default. Recovery is likely only in liquidation or re- organisation.

Medium-term including fixed deposite and fixed deposite progarmme

MAAA	High Safety - The prospect of timely servicing of interest and principal as per terms is the best.
MAA+ MAA MAA–	High Safety - The prospect of timely servicing of the interest and principal as per terms is high, but not as in MAAA rating.
MA+ MA MA–	Adequate Safety - The prospect of timely servicing of the interest and principal is adequate. However debt servicing may be affected by adverse changes in the business/ economic conditions.
MC+ MC MC–	Risk Prone - Susceptibility to default high. Adverse changes in business/economic conditions could result in inability/ unwillingness to service debts on time and as per terms.

MD	Default - Either already in default or expected to default.

Short-term debt including commercial paper

A1+ A1	Highest Safety - The prospect of timely payment of debt/ obligation is the best.
A2+ A2	High Safety - The relative safety is marginally lower than in 'A-1' rating.
A3+ A3	Adequate Safety - The prospect of timely payment of interest and instalment is adequate, but any adverse changes in business/economic conditions may affect the fundamental strength.
A4+ A4	Risk prone - The degree of safety is low. Likely to default in case of adverse changes in business/economic conditions.
A5	Default - Either already in default or expected to default. Inadequate capacity.

Note: The suffix of + (plus) sign or – (minus) may be used with the rating symbol to indicate the comparative position within the group covered by the symbol.

ICRA Rating Symbols For Debt Funds

The ICRA Rating Symbols for Credit Risk Rating of Debt Funds and their implications are as follows:

MfAAA	Indicates highest quality. The investment quality is of highest grade and is similar to that of fixed income obligations of highest safety.
mfAA+ mfAA mfAA-	Indicates high quality. The investment quality is of high grade and is similar to that of fixed income obligations of high safety.
mfA+ mfA mfA-	Indicates adequate quality. The investment quality is of upper medium grade and is similar to that of fixed income obligations of adequate safety.
mfBBB+ mfBBB mfBBB-	Indicates moderate quality. The investment quality is of medium grade and is similar to that of fixed income obligations of moderate safety.
mfBB+ mfBB mfBB-	Indicates inadequate quality. The investment quality is of low grade and is similar to that of fixed income obligations of inadequate safety.

mfB+ mfB mfB- Indicates poor quality. The investment quality is of lowest grade and is similar to that of fixed income obligations that are risk prone.

The ICRA Rating Symbols for Market Risk Rating of Debt Funds and their implications are as follows:

M1 Indicates very low sensitivity to changing interest rates and other market conditions.

M2 Indicates low sensitivity to changing interest rates and other market conditions.

M3 Indicates moderate sensitivity to changing interest rates and other market conditions.

M4 Indicates high sensitivity to changing interest rates and other market conditions.

M5 Indicates very high sensitivity to changing interest rates and other market conditions.

Rating Scale for Insurance Companies

iAAA Highest claims paying ability. Indicates fundamentally strong position. Prospect of meeting policyholder obligations is best.

iAA High cliams paying ability. Risk factors are modest and may vary slightly. Prospect of meeting policy holder obligations is high and differs from iAAA only marginally.

iA Adequate claims paying ability. Prospect of meeting policyholder obligations is adequate. The risk factors are more variable and greater in periods of economic stress and adverse changes in business/ economic circumstances as may be visualised, may alter the fundamental strength.

iBBB Moderate claims paying ability. The protective factors are below average and adverse changes in business/ economic circumstances are alikely to affect the prospect of meeting policyholder obligations.

iBB Inadequate claims paying ability. The protective factors fluctuate in case of changes in business/economic conditions and prospects of meeting policyholder obligations are more likely to be affected by such changes.

iB Weak claims paying ability. Risk factors indicate that policyholders' obligations may not be met when due. Adverse changes in business/economic conditions could result in inability/unwillingness to service policyholder obligations.

iC Lowest claims paying ability. Indicates fundamentally poor position. Such companies may often be in default on policyholder obligations and may be or likely to be placed under supervision of insurance regulators.

Equity grades

ICRA Equity Grade outstanding shows any outstanding Equity assigned by ICRA to the company. ICRA's equity grade comments upon the relative inherent quality of equity reflected by the earnings prospects, risk and financial strength associated with the specific company. ICRA's Equity Grading Scale is listed below.

ER1 A	Excellent Earnings Prospects; Low Risk
ER1 B	Excellent Earnings Prospects;Moderate Risk
ER1C	Excellent Earnings Prospects; High Risk
ER2A	Very Good Earnings Prospects; Low Risk
ER2B	Very Good Earnings Prospects; Moderate Risk
ER2C	Very Good Earnings Prospects; HIgh Risk
ER3A	Good Earnings Prospects; Low Risk
ER3B	Good Earnings Prospects; Moderate Risk
ER3C	Good Earnings Prospects; High Risk
ER4A	Moderate Earnings Prospects; Low Risk
ER4B	Moderate Earnings Prospects; Moderate Risk
ER4C	Moderate Earnings Prospects; High Risk
ER5A	Weak Earnings Prospects; Low Risk
ER5B	Weak Earnings Prospects; Moderate Risk
ER5C	Weak Earnings Prospects; High Risk
ER6A	Poor Earnings Prospects; Low Risk
ER6B	Poor Earnings Prospects; Moderate Risk
ER6C	Poor Earnings Prospects; High Risk

ICRA-CIDC grading symbols for Project Owner

OR 1	Very strong project promoter. The likelihood of good project management and adequacy of project finance are highest.
OR 2+ OR 2 OR 2-	Strong project promoter. The likelihood of good project management and adequacy of project finance are high but not as high as OR1.
OR 3+ OR 3 OR 3-	Moderate project promoter. The likelihood of good project management and adequacy of project finance are moderate. Adverse changes in the economic situation might prevent the owner from being able to financially close the project.
OR 4+ OR 4 OR 4-	Inadequate project promoter. The likelihood of good project management and adequacy of project finance are inadequate. The project promoter has inadequate experience and/or financial strength in implementing projects.

OR5	Weak project promoter. The likelihood of good project management and adequacy of project finance are weak.

ICRA-CIDC grading symbols for the Project

PT1	Very strong project. The prospects of successful implementation of the project as per plan are highest. The project risk factors are lowest.
PT2+ PT2 PT2-	Strong project. The prospects of successful implementation of the project as per plan are high. The project risk factors are low.
PT3+ PT3 PT3-	Moderate project. The prospects of successful implementation of the project as per plan are moderate. The project risk factors are moderate.
PT4+ PT4 PT4-	Inadequate project. The prospects of successful implementation of the project as per plan are inadequate. The project risk factors are high.
PT5	Weak project. The prospects of successful implementation of the project as per plan are poor. The project risk factors are highest.

'P' RATING

The letter 'P' in parenthesis after the rating symbol shall indicate that the debt instrument is being issued to raise resources by a new company for financing a new project and the rating assumes successful completion of the project.

During 1992, ICRA also launched two schemes of credit assessment and general assessment.

Rating Scale for Collective Investment Schemes

Investment Grades		
	CS 1	High Grade - Schemes rated CS 1 are considered to have high probability of achieving indicated returns.The protective factors are above average.
	CS 2	Adequate Grade - Schemes rated CS 2 are considered to have adequate probability of achieving indicated returns.The risks associated with such schemes are higher than schemes rated as CS 1.The protective factors are average. Returns are susceptible to adverse changes in circumstances.
	CS 3	Moderate Grade - Schemes rated CS3 are considered to have moderate probability of achieving indicated returns. The risks associated with such schemes are higher than schemes rated in the higher categories. The protective factors are below average. Adverse changes in circumstances are more likely to affect returns.

Speculative (Non-Investment) Grades

CS4	Inadequate Grade - Schemes rated CS4 are considered to have inadequate probability of achieving indicated returns. The protective factors are weak. Such schemes are considered to have speculative characteristics.
CS5	High risk - Schemes rated CS5 are considered to have very high risks. Such schemes are extremely speculative.

ICRA-CIDC grading symbols for Contractors

CR1	Very strong contract execution capacity - The prospects of timely completion of projects without cost overruns are best and the ability to pay liquidated damages for non-conformance with contract is highest.
CR2+ CR2 CR–	Strong contract execution capacity - The prospects of timely completion of projects without cost overruns and the ability to pay liquidated damages for non-confirmance are high but not as high as CR1.
CR3+ CR3 CR–	Moderate Contract execution capacity - The prospects of timely completion of projects without cost overruns and the ability to pay liquidated damages for non-conformance are moderate. Contract execution capacity can be affected moderately by changes in the construction sector prospects.
CR4+ CR4 CR–	Inadequate contract execution capacity - The prospects of timely completion of projects without cost overruns and the ability to pay liquidated damages for non-conformance are inadequate. Contract execution capacity can be affected severely by changes in the construction sector prospects.
CR5	Week contract execution capacity - The prospects of timely completion of projects without cost overruns and the ability to pay liquidated damages for non-conformance are poor.

ICRA-CIDC grading symbols for Consultants

CT1	Very strong project engineering capacity - The prospects of good technical design and the ability to pay liquidated damages for non-conformance with contract are highest.
CT2+ CT2 CT	Strong project engineering capacity - The prospects of good technical design and the ability to pay liquidated damages for non-conformance are high but not as high as CT1.

2–	
CT 3+ CT 3 CT 3–	Moderate project engineering capacity - The prospects of good technical design and the ability to pay liquidated damages for non-conformance are moderate.
CT 4+ CT 4 CT 4–	Inadequate project engineering capacity - The prospects of good technical design and the ability to pay liquidated damages for non-conformance are inadequate. The track record of the consultant in project designing is not impressive.
CT 5	Weak project engineering capacity - The prospects of good technical design and the ability to pay liquidated damages for non-conformance are poor. The consultant either has no track record or has a track record of design flaws and disputes with clients.

C. Rating Symbols of CARE (Credit Analysis and Research Ltd.)

Long-term and Medium-term Instrumets

CARE AAA CARE AAA(FD)/(CD)/(SO)/CCPS	Instruments carrying this rating are considered to be of the best quality, carrying negligible investment risk.Debt service payments are protected by stable cash flows, with good margin. While the underlying assumptions may change, such changes as can be visualised are most unlikely to impair the strong position of such instruments.
CARE AA CARE AA(FD)/(CD)/(SO)/CCPS	Insruments carrying this rating are judged to be of high quality by all standards. They are also classified as high investment grade.They are rated lower than CARE AAA securities because of somewhat lower margins of protection. Changes in assumptions may have a greater impact or the long-term risks may be somewhat larger. Overall, the difference with CARE AAA rated securities is marginal.
CARE A CARE A(FD)/	Insruments carrying this rating are considered upper medium grade instruments and have many favourable investment attributes.Safety for principal and interest are considered adequate. Assumptions that do not materialise may have a greater impact as compared to the instruments rated higher.

(CD)/ (SO)/ CCPS	
CARE BBB CARE BBB(FD)/ (CD)/ (SO)/ CCPS	Such instruments are considered to be of investment grade. They indicate sufficient safety for payment of interest and principal, at the time of rating. However, adverse changes in assumptions are more likely to weaken the debt servicing capability compared to the higher rated instruments.
CARE BB CARE BB(FD)/ (CD)/ (SO)/ CCPS	Such instruments are considered to be speculative, within adequate protection for interest and principal payments.
CARE B CARE B(FD)/ (CD)/ (SO)/ CCPS	Instruments with such rating are generally classified susceptible to default. While interest nd principal payment are being met, adverse achanges in business conditions are likely to lead to default.
CARE C CARE C(FD)/ (CD)/ (SO)/ CCPS	Such instruments carry high investment risk with likelihood of default in the payment of interest and principal.
CAR	Such instruments are of the lowest category. They are either in

E D	default or are likely to be in default soon.
CARE D(FD)/(CD)/(SO)/CCPS	

FD – Fixed Deposit
CD – Certificate of Deposit
SO – Structured obligation.

Short-term instruments

PR 1	Instruments would have superior capacity for repayment of short- term promissory obligations. Issuers of such instruments will normally be characterised by leading market positions in established industries, high rates of return on funds employed, etc.
PR 2	Instruments would have strong capacity for repayment of short-term promissory obligations. Issuers would have most of the characteristics as for those with PR1.
PR 3	Instruments have an adequate capacity for repayment of short-term promissory obligations. The effect of industry characteristics and market composition may be more pronounced. Variability in earnings and profitability may result in changes in the level of debt protection.
PR 4	Instruments have minimal degree of safety regarding timely payment of short-term promissory obligations and the safety is likely to be adversely affected by short-term adversity or less favourable conditions.
PR 5	The instrument is in default or is likely to be in default on maturity.

Credit Analysis Rating

CARE 1	Excellent debt management capacity. Such companies will normally be characterised leaders in the respective industries.
CARE 2	Very good debt management capability. Such companies would normally be regarded as close to those rated CARE 1 but with a lower capability to withstand changes in

assumptions.

CARE 3	Good capability for debt management. Such companies are considered medium grade; assumptions that do not materialise may impair debt management capability in future.
CARE 4	Barely satisfactory capability for debt management. The capacity to meet obligations is likely to be adversely affected by short- term adversity or less favourable conditions.
CARE 5	Poor capability for debt management. Such companies are in default or are likely to default in meeting their debt obligations.

As instrument characteristics or debt management capability could cover a wide range of possible attributes whereas rating is expressed only in limited number of symbols, CARE assigns '+' or signs to be shown after the assigned rating (wherever necessary) to indicate the relative position within the band covered by the rating symbol.

Long-Term Loans

CARE AAA (L)	Loans carrying this rating are considered to be of the best quality, carrying negligible investment risk. Debt service payments are protected by stable cash flows with good margin. While the underlying assumptions may change, such changes as can be visualised are most unlikely to impair the strong position of such loans.
CARE AA (L)	Loans carrying this rating are judged to be of high quality by all standards. They are also classified as high investment grade. They are rated lower than CARE AAA loans because of somewhat lower margins of protection. Changes in assumptions may have a greater impact or the long-term risks may be somewhat larger. Overall, the difference with CARE AAA rated loans is marginal.
CARE A (L)	Loans with this rating are considered upper medium grade and have many favourable investment attributes. Safety for principal and interest are considered adequate. Assumptions that do not materialise may have a greater impact as compared to the loans rated higher.
CARE BBB (L)	Such loans are considered to be of investment grade.They indicate sufficient safety for payment of interest and principal, at the time of rating. However, adverse changes in assumptions are more likely to weaken the debt servicing capability compared to the higher rated loans.
CARE BB (L)	Such loans are considered to be speculative, with inadequate protection for interest and principal payments.
CARE B (L)	Loans with such ratings are generally classified susceptible to default. While interest and principal payments are being met, adverse changes in business conditions are likely to lead to default.
CARE C (L)	Such loans carry high investment risk with likelihood of default in the payment of interest and principal.

CARE D (L)	Such loans are of the lowest category. They are either in default or are likely to be in default soon.

As loan characteristics or debt management capability could cover a wide range of possible attributes whereas rating is expressed only in limited number of symbols CARE assigns ‘+’ or ‘–’ signs to be shown after the assigned rating (wherever necessary) to indicate the relative position within the band covered by the rating symbol.

Short Term Loans

PL-1	Superior capacity for repayment of interest and principal on the loan.
PL-2	Strong capacity for repayment of interest and principal on the loan. They are rated lower than PL-1 because of somewhat lower margins of protection. Changes in assumptions may have a greater impact.
PL-3	Adequate capacity for repayment of interest and principal on the loan. Variability in earnings and profitability may result in significant changes in the level of debt servicing capability. The effect of industry characteristics may be more pronounced.
PL-4	Minimal degree of safety regarding timely payment of interest and principal and the safety is likely to be adversely affected by short-term adversity or less favourable conditions.
PL-5	The loan is in default or is likely to be in default on maturity.

As instrument characteristics loan characteristics or debt management capability could cover a wide range of possible attributes whereas rating is expressed only in limited number of symbols, CARE assigns ‘+’ or ‘–’ signs to be shown after the assigned rating (wherever necessary) to indicate the relative position within the band covered by the rating symbol.

Collective Investment Schemes

CARE 1 (CIS)	Schemes carrying this rating are considered to be very strong, with high likelihood of achieving their objectives and meeting the obligations to investors.
CARE 2 (CIS)	Schemes carrying this rating are considered to be strong, with adequate likelihood of achieving their objectives and meeting the obligations to investors. They are rated lower than CARE 1 (CIS) rated schemes because of relatively higher risk.
CARE 3 (CIS)	Such schemes are considered to have adequate strengths for achieving their objectives and meeting the obligations to investors. They are considered to be investment grade.
CARE 4 (CIS)	Schemes carrying this rating are considered to have inadequate capability to achieve their objectives and meet the obligations to investors. They are considered to be speculative grade.
CARE 5	Such schemes are considered weak and are unlikely to achieve their objectives and meet their obligations to investors. They have either

(CIS) failed or are likely to do so in the near future.

Performance Rating of Parallel Marketers

These ratings are on a scale of 1 to 4 as notified by Government of India.

1. Good 2. Satisfactory 3. Low Risk 4. High Risk.

Following is the summary of rating symbols used by CARE:

A - Long-term and medium-term instruments

	Grade	*For Debenture/bonds*		For FD's/CD/SO
1.	High Investment	CARE AAA	CARE AAA	(FD/CD/SO/CCPS)
		CARE AA	CARE AA	(FD/CD/SO/CCPS)
2.	Investment Grade	CARE A	CARE A	(FD/CD/SO/CCPS)
		CARE BBB	CARE BBB	(FD/CD/SO/CCPS)
3.	Speculative	CARE BB	CARE BB	(FD/CD/SO/CCPS)
		CARE B	CARE B	(FD/CD/SO/CCPS)
4.	Poor Grade	CARE C	CARE C	(FD/CD/SO/CCPS)
		CARE D	CARE D	(FD/CD/SO/CCPS)

Wherein FD means fixed deposits, CD means Certificate of deposits and SO means structured obligations and CCPS means consultative convertible preference shares.

B. Short-term instruments

Grade	*Commercial Papers*
High Investment	PR-1
	PR-2
Investment	PR-3
Speculative	PR-4
Poor	PR-5

D. Rating Symbols of Fitch India

Long Term (12 months and above)

Investment Grade

Rating	*Definition*
AAA(ind)	*Highest credit quality.* 'AAA(ind)' ratings indicate the lowest expectation of credit risk. They are assigned only in case of exceptionally strong capacity for timely payment of financial commitments. This capacity is unlikely to be adversely affected by foreseeable events.
AA(ind)	*High credit quality.* 'AA(ind)' ratings indicate a low expectation of credit risk. They indicate strong capacity for timely payment of financial commitments. This capacity may vary slightly from time to time because of economic conditions.
A(in	*Adequate credit quality.* 'A(ind)' ratings indicate that there is currently a

d)	low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.
BBB(ind)	*Moderate credit quality.* 'BBB(ind)' ratings indicate a moderate expectation of credit risk. The capacity for timely payment of financial commitments is considered sufficient, but adverse changes in circumstances and in economic conditions are more likely to impair this category. This is the lowest investment-grade category.

Speculative Grade

Rating	*Definition*
BB(ind)	*Speculative.* 'BB(ind)' ratings indicate a fairly weak credit risk. Payment of financial commitments is uncertain to some degree and capacity for timely repayment remains more vulnerable to adverse economic change over time.
B(ind)	*Highly Speculative.* 'B(ind)' ratings indicate a significantly weak credit risk. Payment of financial commitments may not be made when due. Capacity for timely repayment is contingent upon a sustained, favourable business and economic environment.
C(ind)	*High Default Risk.* 'C(ind)' ratings indicate imminent default. Capacity for meeting financial commitments is solely reliant upon sustained, favourable business or economic developments.
D(ind)	*Default.* 'D(ind)' ratings indicate default. Expected recovery values are highly speculative and cannot be estimated with any precision.

Term Deposits (Bank Deposits, Fixed Deposits)

Investment Grade

Rating	*Definition*
tAAA(ind)	*Highest credit quality.* Protection factors are very high. Capacity for timely payment of financial commitments is unlikely to be adversely affected by foreseeable events.
tAA(ind)	*High credit quality.* Protection factors are high. Capacity for timely payment of financial commitments may vary slightly from time to time because of economic conditions.
tA(ind)	*Adequate credit quality.* Protection factors are average. Capacity for timely payment of financial commitments may be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.

Speculative Grade

Rating	*Definition*
tB(ind)	*Speculative.* Protection factors are low. Capacity for timely repayment of financial commitments remains more vulnerable to adverse

economic change over time.

tC(ind)	*High Default Risk.* Capacity for meeting financial commitments is solely reliant upon sustained, favourable business or economic developments.
tD(ind)	*Default.* Expected recovery values are highly speculative and cannot be estimated with any precision.

Short Term (less than 1 year)

Rating	*Definition*
F1(ind)	*Highest credit quality.* Indicates the strongest capacity for timely payment of financial commitments.
F2(ind)	*Good credit quality.* A satisfactory capacity for timely payment of financial commitments, but the margin of safety is not as great as in the case of the higher ratings.
F3(ind)	*Fair credit quality.* The capacity for timely payment of financial commitments is adequate; however, near-term adverse changes could result in a reduction to non-investment grade.
F4(ind)	*Speculative.* Minimal capacity for timely payment of financial commitments, plus vulnerability to near-term adverse changes in financial and economic conditions.
F5(ind)	*Default.* Denotes actual or imminent payment default.

Notes:

— Within a band of rating symbols (from AA(ind) to B(ind)), the signs "+" (plus) or "–" (minus) denote relative position within the rating category.
— The symbol (CP), (CD), (ICD), or (PS) after the rating indicates that Commercial Paper, Certificate of Deposit, Intercorporate Deposit or Preference Share has been rated.
— The symbol (M) after the rating indicates that the market or non-credit risks of the debt instrument are not reflected in the rating.
— The symbol (SO) after the rating indicates "structured obligation". The rating of the structured debt programme may differ from the rating of the secured/unsecured debt obligation of the issuer.
— Ratings may be placed on Rating Watch to notify investors that there is a reasonable probability of a rating change and the likely direction of such change. These are designated as "Positive", indicating a potential upgrade, "Negative", for a potential downgrade, or "Evolving", if ratings may be raised, lowered or maintained.

III. SEBI (CREDIT RATING AGENCIES) REGULATIONS, 1999

SEBI regulations for Credit Rating Agencies (CRAs) cover rating of securities only and not rating of fixed deposits, foreign exchange, country ratings, real estates etc. CRAs can be promoted by public financial institutions, scheduled commercial banks, foreign banks operating in India, foreign credit rating agencies recognised in the country of their incorporation, having at least five years experience in rating, or any company or a body

corporate having continuous net worth of minimum Rs.100 crore for the previous five years. CRAs would be required to have a minimum net worth of Rs. 5 crore. A CRA can not rate a security issued by its promoter. No Chairman, Director or Employee of the promoters shall be Chairman, Director or Employee of CRA or its rating committee. A CRA can not rate securities issued by any borrower, subsidiary, an associate promoter of CRA, if there are common Chairman, Directors and Employees between the CRA or its rating committee and these entities. A CRA can not rate a security issued by its associate or subsidiary if the CRA or its rating committee has a Chairman, Director or Employee who is also a Chairman, Director or Employee of any such entity. CRAs would have to carry out periodic reviews of the ratings given during the lifetime of the rated instrument. For ensuring that corporates provide correct/ adequate information to CRAs, a clause would be incorporated in the listing agreement of the stock exchanges requiring the companies to co-operate with the rating agencies in giving correct and adequate information. Issuers coming out with a public/rights issue of debt securities would be required to incorporate an undertaking in the offer documents promising necessary co-operation with the rating agency in providing true and adequate information.
Some of the important definitions in the Regulations are reproduced below:

1. *Associate* - In relation to the Credit Rating Agency, associate includes a person—
   i. who directly or indirectly by himself or in combination with relatives, owns or controls shares carrying not less than 10% of the voting rights of the CRA, or
   ii. in respect of whom the CRA directly or indirectly by itself or in combination with other persons, owns or controls shares carrying not less than 10% of the voting rights, or
   iii. majority of the directors of which, own or control shares not less than 10% of the voting rights of the CRA, or
   iv. whose director, officer or employee is also a director, officer, employee of the CRA.
2. *Client* - means any person whose securities are rated by a CRA.
3. Credit Rating Agency - means a body corporate engaged in or proposes to be engaged in the business of rating of securities offered by way of public or rights issue.
4. *Issuer* - means a person or a company whose securities are proposed to be rated by a CRA.
5. *Networth* - means the aggregate value of the paid up equity capital and free reserves (excluding reserves created out of revaluation) reduced by the aggregate value of accumulated losses and deferred expenditure not written off including miscellaneous expenses not written off.
6. *Rating* - means an opinion regarding securities expressed in the form of standard symbols or in any other standardised manner, assigned by a CRA and used by the issuer of such securities to comply with a requirement specified by these Regulations
7. *Rating Committee* - means a committee constituted by a CRA to assign

rating to a security.

Registration of Credit Rating Agencies

Any person proposing to commence any activity as a credit rating agency should make an application to SEBI for the grant of a certificate of registration for the purpose. Any person, who before the said date carrying on any activity as a credit rating agency, should make an application to SEBI for the grant of a certificate within a period of three months from such date. However SEBI may, where it is of the opinion that it is necessary to do so, for reasons to be recorded in writing, extend the said period upto a maximum of six months from such date. An application for the grant of a certificate should be made to SEBI accompanied by a non-refundable specified application fee. Any person who fails to make an application for the grant of a certificate within the period specified in that sub-regulation, ceases to carry on rating activity.

Promoter of credit rating agency

SEBI should not consider an application unless the applicant is promoted by a person belonging to any of the following categories, namely:

i. a public financial institution;
ii. a scheduled commercial bank;
iii. a foreign bank operating in India with the approval of the Reserve Bank of India;
iv. a foreign credit rating agency recognised under Indian Law and having at least five years experience in rating securities;
v. any company or a body corporate, having continuous net worth of minimum rupees one hundred crores as per its audited annual accounts for the previous five years in relation to the date on which application to SEBI is made seeking registration.

Application to conform to the requirements

Any application for a certificate, which is not complete in all respects or does not conform to the requirement or instructions as specified should be rejected by SEBI. However before rejecting any application, the applicant should be given an opportunity to remove, within thirty days of the date of receipt of relevant communication, from SEBI such objections as may be indicated by SEBI. It has been further provided that SEBI may on sufficient reason being shown, extend the time for removal of objections by such further time, not exceeding thirty days to enable the applicant to remove such objections.

Furnishing of information, clarification and personal representation

SEBI may require the applicant to furnish such further information or clarification as it consider necessary, for the purpose of processing of the application. SEBI if so desires, may ask the applicant or its authorised representative to appear before SEBI for personal representation in connection with the grant of a certificate.

Grant of Certificate

SEBI grants a certificate after getting satisfied that the applicant is eligible for the grant of a certificate of registration. The grant of certificate of registration should be subject to the payment of the specified registration fee in the manner prescribed.

Conditions of certificate

The certificate granted is subject to the condition that the credit rating agency should comply with the provisions of the Act, the regulations made thereunder and the guidelines, directives, circulars and instructions issued by SEBI from time to time on the subject of credit rating. The credit rating agency should forthwith inform SEBI in writing where any information or particulars furnished to SEBI by a credit rating agency is found to be false or misleading in any material particular; or has undergone change subsequently to its furnishing at the time of the application for a certificate. The period of validity of certificate of registration shall be three years.

Renewal of certificate

A credit rating agency, if it desires renewal of the certificate granted to it, should make to SEBI an application for the renewal of the certificate of registration. An application for renewal of certificate of registration shall be accompanied by a non-refundable application fee as prescribed in Second Schedule of the Regulations. Schedule II provides for the following fees:

Application fee	-	Rs. 50,000/-
Registration fee for grant of certificate	-	Rs. 5,00,000/-
Renewal fees	-	Rs. 10,00,000/-

Such application should be made not less than three months before expiry of the period of validity of the certificate in the manner specified. The application for renewal should be accompanied by a renewal fee as specified and should be dealt in the same manner as if it were an application for the grant of a fresh certificate.

Procedure where certificate is not granted

SEBI may reject the application if after considering an application is of the opinion that a certificate should not be granted or renewed, after giving the applicant a reasonable opportunity of being heard. The decision of SEBI not to grant or not to renew the certificate should be communicated by SEBI to the applicant within a period of thirty days of such decision, stating the grounds of the decision. Any applicant aggrieved by the decision of SEBI rejecting his application may, within a period of thirty days from the date of receipt by him of the communication apply to SEBI in writing for re-consideration of such decision. Where an application for re-consideration is made, SEBI should consider the application and communicate to the applicant its decision in writing, as soon as may be.

Effect of refusal to grant certificate

An applicant whose application for the grant of a certificate has been rejected should not undertake any rating activity. An applicant whose application for the grant of a certificate has been rejected by SEBI, should on and from the date of the receipt of the communication ceases to carry on any rating activity. If SEBI is satisfied that it is in the interest of the investors, it may permit the credit rating agency to complete the rating assignments already entered into by it, during the pendency of the application or period of validity of the certificate. SEBI in order to protect the interests of investors, may issue directions with regard to the transfer of records, documents or reports relating to the activities of a credit rating agency, whose application for the grant or renewal of a certificate has been rejected and for this purpose also determine the terms and conditions of such appointment.

Code of Conduct

Every credit rating agency is required to abide by the Code of Conduct as per SEBI Regulations:

1. A credit rating agency in the conduct of its business should observe high standards of integrity and fairness in all its dealings with its clients.
2. A credit rating agency should fulfil its obligations in an ethical manner.
3. A credit rating agency should render at all times high standards of service, exercise due diligence, ensure proper care and exercise independent professional judgement. It shall wherever necessary, disclose to the clients, possible sources of conflict of duties and interests, while providing unbiased services.
4. The credit rating agency should avoid any conflict of interest of any member of its rating committee participating in the rating analysis. Any potential conflict of interest shall be disclosed to the client.
5. A credit rating agency should not indulge in unfair competition nor they wean away client of any other rating agency on assurance of higher rating.
6. A credit rating agency should not make any exaggerated statement, whether oral or written, to the client either about its qualification or its capability to render certain services or its achievements in regard to services rendered to other clients.
7. A credit rating agency should always endeavour to ensure that all professional dealings are effected in a prompt and efficient manner.
8. A credit rating agency should not divulge to other clients, press or any other party any confidential information about its client, which has come to its knowledge, without making disclosure to the concerned person of the rated company/client.
9. A credit rating agency should not make untrue statement or suppress any material fact in any documents, reports, papers or information furnished to SEBI or to public or to stock exchange.
10. A credit rating agency should not generally and particularly in respect of issue of securities rated by it be a party—
    a. to creation of false market
    b. passing of price sensitive information to brokers, members of the stock exchanges, other players in the capital market or to any other person or take any other action which is unethical or unfair to the investors.
11. A credit rating agency should maintain an arm’s length relationship between its credit rating activity and any other activity. A credit rating agency or any of his employees should not render directly or indirectly any investment advice about any security in the publicly accessible media, whether real-time or non-real time, unless a disclosure of his interest including long or short position in the said security has been made, while rendering such advice. In case an employee of the credit

rating agency is rendering such advice, he should also disclose the interest of his dependent family members and the employer including their long or short in the said security, while rendering such advice.

12. A credit rating agency is required to abide by the provisions of the Act, regulations and circulars which may be applicable and relevant to the activities carried on by the credit rating agency.

Agreement with the client

Every credit rating agency is required to enter into a written agreement with each client whose securities it proposes to rate, and every such agreement should include the following provisions, namely:

a. the rights and liabilities of each party in respect of the rating of securities shall be defined;
b. the fee to be charged by the credit rating agency shall be specified;
c. the client shall agree to a periodic review of the rating by the credit rating agency during the tenure of the rated instrument and to co-operate with the credit rating agency in order to enable the latter to arrive at, and maintain, a true and accurate rating of the clients' securities and shall in particular provide to the latter, true, adequate and timely information for the purpose;
d. the credit rating agency shall disclose to the client the rating assigned to the securities of the latter through regular methods of dissemination, irrespective of whether the rating is or is not accepted by the client;
e. the client shall agree to disclose the rating assigned to the client's listed securities by any credit rating agency during the last three years and any rating given in respect of the client's securities by any other credit rating agency, which has not been accepted by the client in the offer document;
f. the client shall agree to obtain a rating from at least two different rating agencies for any issue of debt securities whose size is equal to or exceeds, rupees one hundred crores.

Monitoring of ratings

Credit rating agency should during the lifetime of securities rated by it continuously monitor the rating of such securities. It should also disseminate information regarding newly assigned ratings, and changes in earlier rating promptly through press releases and websites, and, in the case of securities issued by listed companies, such information should also be provided simultaneously to the concerned to all the stock exchanges where the said securities are listed.

Procedure for review of rating

Every credit rating agency should carry out periodic review of all published ratings during the lifetime of the securities. If the client does not co-operate with the credit rating agency so as to enable the credit rating agency to comply with its obligations, the credit rating agency should carry out the review on the basis of the best available information.

However, it has been provided that if owing to such lack of co-operation, a rating has been based on the best available information, the credit rating agency should disclose to the investors the fact that the rating is so based. A credit rating agency should not withdraw a rating so long as the obligations under the security rated by it are outstanding, except where the company whose security is rated is wound up or merged or amalgamated with another company.

Internal Procedures to be framed

Credit rating agency should frame appropriate procedures and systems for monitoring the trading of securities by its employees in the securities of its clients, in order to prevent contravention of SEBI (Insider Trading) Regulations, 1992; SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to the Securities Market) Regulations, 2003; and other laws relevant to trading of securities.

Disclosure of Rating Definitions

Credit rating agency should make public the definitions of the concerned rating, along with the symbol and state that the ratings do not constitute recommendations to buy, hold or sell any securities. It should also make available to the general public information relating to the rationale of the ratings, which shall cover an analysis of the various factors justifying a favourable assessment, as well as factors constituting a risk.

Submission of Information

In case any information is called by SEBI from a credit rating agency including any report relating to its activities, the credit rating agency is required to furnish such information to SEBI within a period specified or if no such period is specified, then within a reasonable time. It should also furnish to SEBI, copies of its balance sheet and profit and loss account at the close of each accounting period,

Every credit rating agency is requied to comply with such guidelines, directives, circulars and instructions as issued by SEBI from time to time.

Appointment of Compliance Officer

It is under an obligation to appoint a compliance officer who will be responsible for monitoring the compliance of the Act, Rules and Regulations, notifications, guidelines, instructions etc issued by SEBI or the Central Government. The compliance officer should immediately and independently report to SEBI any non-compliance observed by him.

Maintenance of Books of Accounts Records, etc.

Credit rating agency should keep and maintain, for a minimum period of five years, the following books of accounts, records and documents, namely:

i. copy of its balance sheet, as on the end of each accounting period;
ii. a copy of its profit and loss account for each accounting period;
iii. a copy of the auditor's report on its accounts for each accounting period.
iv. a copy of the agreement entered into, with each client;
v. information supplied by each of the clients;
vi. correspondence with each client;
vii. ratings assigned to various securities including upgradation and down gradation (if any) of the ratings so assigned;
viii. rating notes considered by the rating committee;
ix. record of decisions of the rating committee;
x. letter assigning rating;
xi. particulars of fees charged for rating and such other records as SEBI may

specify from time to time.

Credit rating agency is required to intimate to SEBI, the place where the books of account, records and documents required to be maintained under these regulations are being maintained.

Steps on auditor's report

Credit rating agency should within two month's from the date of the auditor's report, take steps to rectify the deficiencies if any, made out in the auditor's report, insofar as they relate to the activity of rating of securities.

Confidentiality

Every credit rating agency shall treat, as confidential, information supplied to it by the client and no credit rating agency shall disclose the same to any other person, except where such disclosure is required under any law.

Rating process

Credit rating agency should specify the rating process and file a copy of the same with SEBI for record and also file with SEBI any modifications or additions made therein from time to time. It should in all cases follow a proper rating process. Credit rating agency is required to have professional rating committees, comprising members who are adequately qualified and knowledgeable to assign a rating. All rating decisions, including the decisions regarding changes in rating, should be taken by the rating committee. Credit rating agency should be staffed by analysts qualified to carry out a rating assignment. Credit rating agency should inform SEBI about new rating instruments or symbols introduced by it. Credit rating agency, while rating a security should exercise due diligence in order to ensure that the rating given by the credit rating agency is fair and appropriate. A credit rating agency should not rate securities issued by it. Rating definition, as well as the structure for a particular rating product, should not be changed by a credit rating agency, without prior information to SEBI. A credit rating agency should disclose to the concerned stock exchange through press release and websites for general investors, the rating assigned to the securities of a client, after periodic review, including changes in rating, if any.

Securities issued by promoter

Credit rating agency shall not rate a security issued by its promoter. No credit rating agency should rate a security issued by an entity, which is a borrower of its promoter or a subsidiary of its promoter or an associate of its promoter, if there are common Chairman, Directors between credit rating agency and these entities, there are common employees, there are common Chairman, Directors, Employees on the rating committee. No credit rating agency should rate a security issued by its associate or subsidiary, if the credit rating agency or its rating committee has a Chairman, director or employee who is also a Chairman, director or employee of any such entity. However, these conditions do not apply to securities whose rating has been already done by a credit rating agency before the commencement of these regulations, and such securities may, subject to the provisions of the other Chapters of these regulations, continue to be rated, without the need to comply with the restrictions imposed by the regulations.

Procedure for inspection and investigation

SEBI can appoint one or more persons as inspecting officers, to undertake inspection or investigation of the books of account, records and documents of the credit rating agencies, for any of the purposes specified in the regulations. The purposes referred to in regulation should be to ascertain whether the books of account, records and documents are being maintained properly, to ascertain whether the provisions of the Act and these regulations are being complied with, to investigate into complaints received from investors, clients or any other person on any matter having a bearing on activities of the credit rating agency and in the interest of the securities market or in the interest of investors. The inspections ordered by SEBI should not ordinarily go into an examination of the appropriateness of the assigned ratings on the merits. Inspections to judge the appropriateness of the ratings may be ordered by SEBI, only in case of complaints which are serious in nature to be carried out either by the officers of SEBI or independent experts with relevant experience or combination of both.

Notice of inspection or investigation

SEBI shall give ten days written notice to the credit rating agency before ordering an inspection or investigation. SEBI in the interest of the investors may order in writing, direct that the inspection or investigation of the affairs of the credit rating agency to be taken up without such notice. During the course of an inspection or investigation, the credit rating agency against whom the inspection or investigation is being carried out should be bound to discharge all its obligations as provided in regulation.

Obligations of Credit Rating Agency

It should be the duty of credit rating agency whose affairs are being inspected or investigated, and of every director, officer or employee thereof, to produce to the inspecting or investigating officer such books, accounts and other documents in its or his custody or control and furnish him with such statements and information relating to its rating activities, as the inspecting officer may require within such reasonable period as may be specified by the officer. The credit rating agency should allow the inspecting officer to have reasonable access to the premises occupied by such credit rating agency or by any other person on its behalf and extend to the inspecting officer reasonable facility for examining any books, records, documents and computer data in the possession of the credit rating agency and to provide copies of documents or other materials which, in the opinion of the inspecting officer, are relevant for the purposes of the inspection or investigation, as the case may be. The inspecting officer, in the course of inspection or investigation, should be entitled to examine, or record the statements, of any officer, director or employee of the credit rating agency for the purposes connected with the inspection or investigation. Every director, officer or employee of the credit rating agency is bound to render to the inspecting officer all assistance in connection with the inspection or investigation which the inspecting officer may reasonably require.

The inspecting officer should as soon as possible, on completion of the inspection or investigation, submit a report to SEBI. However if directed to do so by SEBI, he may submit an interim report. SEBI after considering the inspection report or the interim report referred to in regulation communicate the findings of the inspecting officer to the credit rating agency and give it a reasonable opportunity of being heard in the matter. SEBI may call upon the credit rating agency on receipt of the explanation, if any to take such measures as it may deem fit in the interest of the securities market and for due compliance with the provisions of the Act and the regulations.

Action in case of default

A credit rating agency which fails to comply with any condition subject to which a certificate has been granted or contravenes any of the provisions of the Act or these regulations or any other regulations made under the Act, is liable to either of the penalties of suspension of registration; or cancellation of registration.

A penalty of cancellation of certificate of registration of a credit rating agency may be imposed by SEBI, if the credit rating agency is guilty of fraud, or has been convicted of an offence involving moral turpitude or an economic offence or in case of repeated defaults or the credit rating agency is declared insolvent or wound up. SEBI should furnish to the credit rating agency reasons in writing for cancellation of registration.

Order of Suspension and Cancellation

No order of suspension or of cancellation of the certificate of registration certificate, can be passed by SEBI, except after holding an enquiry in accordance with the procedure specified in regulation. However it has been provided that the holding of such an enquiry should not be necessary in cases where the credit rating agency is declared insolvent or is wound up; or the credit rating agency fails to pay SEBI registration fees or renewal fee as per these regulations. However it has been further provided that an opportunity of hearing shall be given before any action against the credit rating agency is taken.

Manner of Holding enquiry

SEBI may appoint one or more enquiry officers for the purpose of holding an enquiry. The enquiry officer should issue to the credit rating agency a notice at the registered office or the principal place of business of the credit rating agency, setting out the grounds on which action is proposed to be taken against it and calling upon it to show cause against such action within a period of fourteen days from the date of receipt of such notice. The credit rating agency may, within fourteen days from the date of receipt of such notice, furnish to the enquiry officer a written reply, together with copies of documentary or other evidence relied on by it or sought by SEBI. The enquiry officer should give a reasonable opportunity of hearing to the credit rating agency, to enable it to make its submission in support of its reply. The credit rating agency may either appear in person or through any person duly authorised on this behalf before the enquiry officer. However no lawyer or advocate should be permitted to represent the credit rating agency at the enquiry. It has been futher provided that where a lawyer or an advocate has been appointed by SEBI as a presenting officer it should be lawful for the credit rating agency to present his case through a lawyer or advocate. If it is considered necessary, the enquiry officer may request SEBI to appoint a presenting officer to present its case. The enquiry officer should after taking into account all relevant facts and submissions made by the credit rating agency, submit a report to SEBI and recommend the penalty, if any to be imposed upon the credit rating agency as also the grounds on the basis of which the proposed penalty is justified.

SEBI should consider the same and issue a show-cause notice on receipt of the report from the enquiry officer to the credit rating agency, as to why the penalty as proposed by the enquiry officer should not be imposed. The credit rating agency should within fourteen days of the date of receipt of the show-cause notice, send a reply to SEBI. After, considering the reply of the credit rating agency to the show-cause notice, SEBI may as soon as possible pass such order as it deems fit. Every order passed by SEBI should be self-contained and give reasons for the conclusions stated therein, including justification of the penalty if any imposed by that order. SEBI shall also send to the credit rating agency a copy of the order passed under regulation.

Effect of suspension and cancellation of registration

The credit rating agency should on and from the date of suspension of the certificate of registration, ceases to carry on any rating activity during the period of suspension and should be subject to such directions of SEBI with regard to any records, documents securities or reports that may be connected with in its rating activities, as specified by SEBI. The credit rating agency would cease to carry on any rating activity on and from the date of cancellation of the certificate of registration and should also subject to such directions of SEBI with regard to the transfer of records, documents, securities or reports connected with its rating activities which may be in its custody or control as specified. SEBI if satisfied in the interest of the investors may grant to the credit rating agency permission to carry on such activities relating its assignments undertaken prior to such suspension or cancellation as specified by SEBI. The order of suspension or cancellation of certificate of registration passed is required to be published by SEBI in at least two daily newspapers.

LESSON ROUND-UP

- Credit rating is the evaluation of the credit worthiness of an individual or of a business concern or of an instrument of a business based on relevant factors indicating ability and willingness to pay obligations as well as net worth.
- The main purpose of credit rating is to communicate to the investors the relative ranking of the default loss probability for a given fixed income investment, in comparison with other rated instruments.
- In India CRISIL (Credit Rating and Information Services (India) Limited) was set up as the first credit rating agency in 1987. This was followed by ICRA Limited (Investment Information and Credit Rating Agency of India Limited) in 1991 and CARE (Credit Analysis and Research Limited) in 1994 and Fitch Rating India Pvt. Ltd. All these four credit rating agencies are registered with the Securities and Exchange Board of India.
- Credit Rating Agencies are regulated by SEBI(Credit Rating Agencies) Regulations, 1999.