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CARE Ratings

CREDIT RATING

Role & Concept of Credit Rating

- What is Credit Rating ?
- What Credit Rating is “NOT”?
- What is Credit Risk?
- Different issues to be rated
- Rating symbols/bands and Outlook
- Beneficiaries of credit ratings

Process of Credit Rating

What is Credit Rating?

- Credit rating is an **opinion** on the **relative ability and willingness** of an issuer to **make timely repayments** on **specific debt obligations** over the **life of the instrument**.
- Credit rating provides high-quality, value added analytical information to financial markets
- Credit rating is a ranking of creditworthiness
- Credit rating is a judgmental process of ranking and classifying credits into different homogeneous risk buckets

What is Credit Rating?

- Credit rating is a forward looking exercise
- Credit rating is about using observable information (available at a particular point of time) to predict future outcomes of credits granted
- Subjective element attached to the rating process (qualitative factors)
- Recognition of a rating agency ultimately depends on investors' willingness to accept its judgment

What Credit Rating is “NOT”?

- Not a recommendation
- Not an audit
- Not one time evaluation

Credit Risk for Investor

Credit risk

- An economic loss from the failure of counterparty to fulfil its contractual obligations.
- Cost of replacing cash flows if the other party defaults.

Components of Credit Risk

- Probability of Default
- Credit Exposure
- Loss Given Default

*Credit Rating captures only
Probability of default and credit exposure or Loss given
default*

Types of Rating Instrument

- **Long-term Debt**
 - Debentures, preference shares, Long-term bank loan
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- **Medium-term Debt**
 - Debentures, Fixed deposits
- **Short-term Debt**
 - Commercial paper, Inter-Corporate Deposit, Certificate of Deposit

Credit Rating Symbols/Bands

- Long Term Ratings
 - High Investment Grade
 - CARE AAA
 - CARE AA
 - Investment Grade
 - CARE A
 - CARE BBB
 - Speculative Grade
 - CARE BB
 - CARE B
 - CARE C

Modifiers {"+" (plus) / "-"(minus)} can be used with the rating symbols for the categories CARE AA to CARE C. The modifiers reflect the comparative standing within the category.

Credit Rating Outlook

- Long-term Credit Ratings are assigned Rating Outlook.
- There are three categories of Rating Outlook:
 - **Positive-** Indicates an expected upgrade in the credit ratings in the medium term on account of expected positive impact on the credit risk profile of the entity in the medium term.
 - **Stable-** Indicates expected stability (or retention) of the credit ratings in the medium term on account of stable credit risk profile of the entity in the medium term.
 - **Negative-** Indicates an expected downgrade in the credit ratings in the medium term on account of expected negative impact on the credit risk profile of the entity in the medium term.

Beneficiaries of Credit Rating

- Investors
- Issuers
- Financial market regulators
- Financial Intermediaries

How INVESTORS benefit from Credit Rating

- Provides superior information about entity
- Objective indicator for risk guidelines
- Basis for proper risk- return trade off
- Provides related risk assessment
- Tool for portfolio monitoring
- Provides credit research support

How ISSUERS benefit from Credit Rating

- Wider access to capital
 - Help alternatives to grants, revenue volatility
 - Provide capital for new projects without effecting the financial health of ULBs
- Enables stable access to non-domestic financial markets
- Reduces borrowing costs
 - Benefit of capital market player in higher rating category
 - Open avenues for short term and long term requirement
- Caters to efficient new issuance (financial instruments)
- Provides financing flexibility

How REGULATORS benefit from Credit Rating

- Assignment of risk weightage to advances as per Basel-II accord
- Regulates eligibility of some issuers to offer new debt securities
- Monitors financial soundness of entities
- Promotes efficiency in the securities market

How FINANCIAL INTERMEDIARIES benefit from Credit Rating

- Provides useful input in decisions relating to: lending and investments
 - Pricing of lending
 - Returns on investments
 - Placement of lending and investments

Process of Credit Rating

- Request for information (incl. operational details)
- Rating Note Preparation
- Plant/Site visit
- Management meeting & discussion
- Completion of Rating Note and submission to Quality Control Team (QCT)
- Modifications as per the QCT observations
- Submission of rating note to Rating Committee Meeting (RCM)
- Presentation of case in RCM
- Assignment of rating by RCM

Process of Credit Rating (contd.)

- Communication of ratings awarded as per prescribed format
- If not acceptable – Option to Represent
- Receipt of Rating Acceptance (in case of new rating)
- Issue Rating Letter & Press Release (PR) as per prescribed format
- Issue of Rating Rationale (RR)
- Forwarding of PR and RR for publication on CARE's website (in-house publication team)
- On-going review of the outstanding ratings

Process of Credit Rating (contd.)

- **CARE's Technical Approach and Methodology for Rating ULBs**

- A. Economic factors**

- Nature of local economy;
- Local employment and income characteristics;
- Development indicators and current availability of urban services.

- A. Legal set-up**

- Borrowing powers and limits;
- Pending litigation's or disputes;
- Powers of taxation;
- Powers to levy user charges;
- Actual control over revenue sources considering the political implications of tax and user charge hikes;
- Collection enforcement mechanisms under the Act and restrictions on operations

Process of Credit Rating (contd.)

A. Administrative factors

- Organizational structure;
- Division of responsibilities between the Administrative and Political wings;
- Quality and continuity of management, extent of delegation;
- Depth of management; extent of delegation;
- Tax billing, collection and enforcement mechanism;
- Track record in project implementation;
- Degree of autonomy enjoyed by the local body;
- Management Information System;
- Industrial relations.

Process of Credit Rating (contd.)

A. Accounting and Auditing Practices

- Systems of accounting
- Industrial relations.
- Nature and quality of audit.

A. Debt Factors

- Composition of current debt burden;
- Interest and debt service coverage ratios;
- Past debt service performance;
- Evaluation of credit enhancement mechanisms, if any;
- Commitments/encumbrances on cash flows;
- Degree of reliance on short-term borrowings;
- Maturity matching profile;
- Recourse available to lenders, in case of default, as per the Act.

Process of Credit Rating (contd.)

Financial Indicators

- Fiscal data on the issuer;
- Budgetary and planning processes;
- Tax base and past trends;
- Composition and timing of revenue and expenditure, past trends;
- Trends in tax rates and user charges;
- Extent of cost recovery on various urban services;
- Financial flexibility to meet unforeseen contingencies;
- Revenue surplus/deficit;
- Extent of State budgetary support;
- Operating and collection efficiency;
- Sources and allocation of capital expenditure, trends;

Extent of borrowings, if any, from non-governmental sources and the degree of compliance with the credit discipline imposed by such lenders.

Process of Credit Rating (contd.)

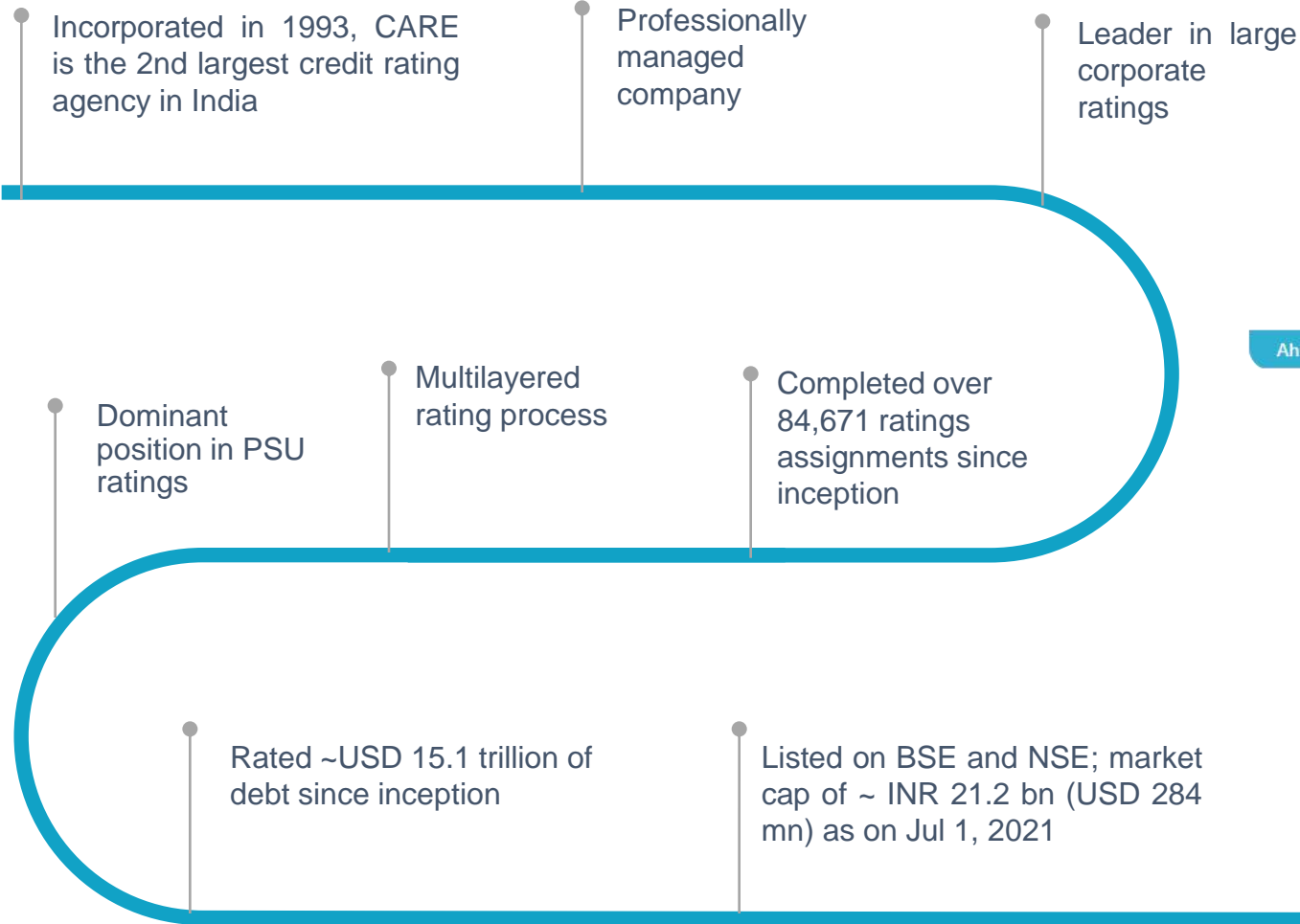
A. Finances of state government

- Trends of revenue surplus/deficit, revenue deficit/Gross Fiscal Deficit;
- Interest payment/Revenue expenditure; Debt servicing/Gross transfers;
- Non-development exp./Aggregate disbursement; Tax revenues/Revenue exp.;
- Gross transfers/Aggregate disbursements;
- Trends in overall deficits and Gross Fiscal Deficits.

A. Project Viability

- Constitution of the project as a departmental project or an SPV;
- Sources and uses of funds for project being financed;
- Analysis of projected revenues and expenditure for the tenure of the instrument as well as the underlying assumptions;
- Revenue flow pattern from the project and extent of cost recovery;
- Committed budgetary support and other credit enhancement measures;
- Sensitivity analyses to user charge hikes, cost of borrowing etc.;
- Evaluation of credit enhancement measures, if any.

About CARE



Key Management Team



Ajay Mahajan, MD and CEO

- Over 30 years of experience in the financial market
- Bank of America - MD and Country Head - Global Markets Group
- Built India's first 100% foreign owned NBFC to do primary dealership and credit fixed income
- Part of top management team since inception of YES Bank in 2004
- Built UBS's maiden branch in India in 2008
- Key role in conversion of IDFC from infrastructure focused lender to a multi product, multi segment Commercial Bank



Sachin Gupta, ED and CRO

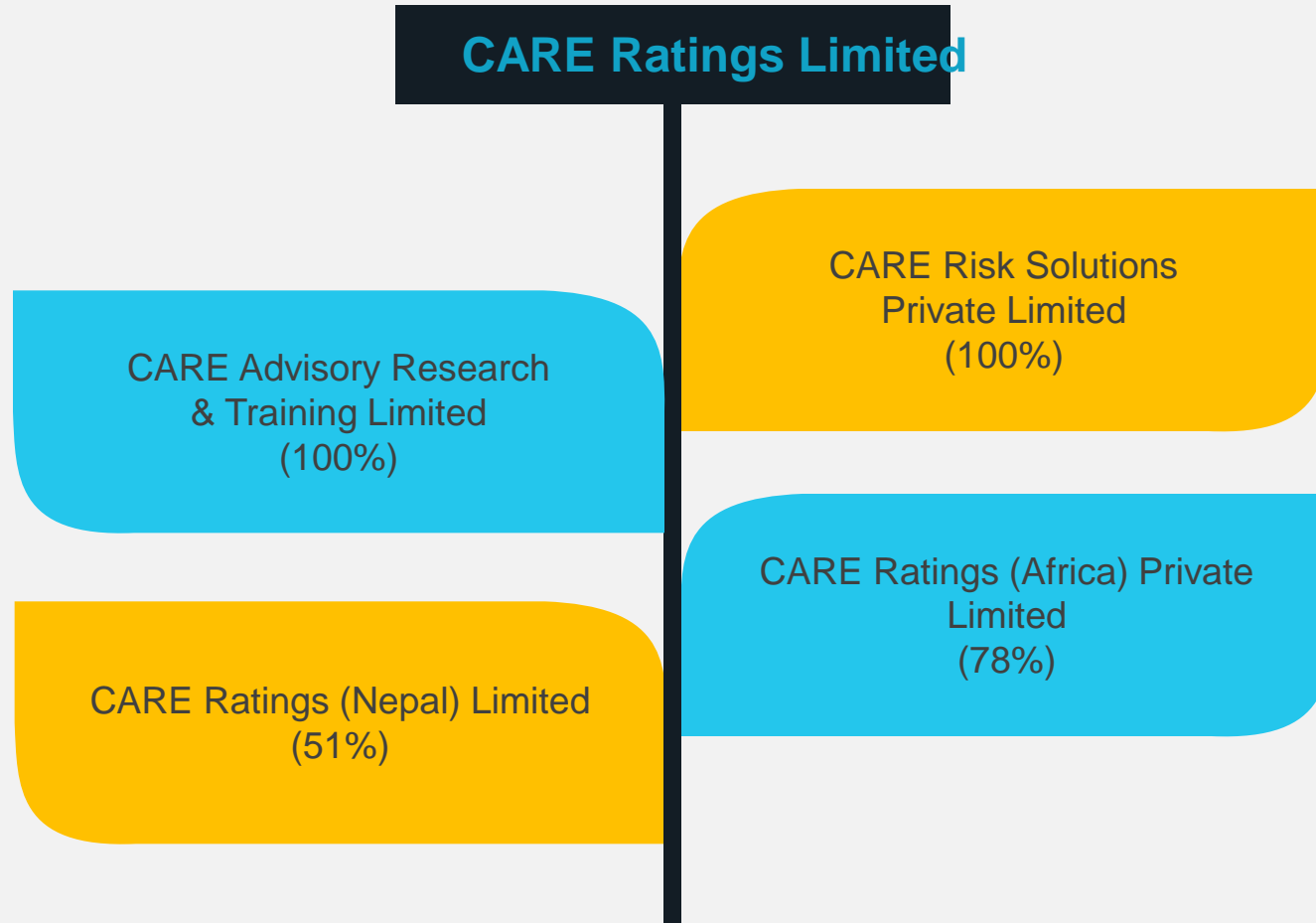
- 21 years of leadership experience across credit rating business
- Worked at Crisil as Senior Director
- BE Civil from Delhi College of Engineering, MBA Finance - FMS
- CFA, FRM



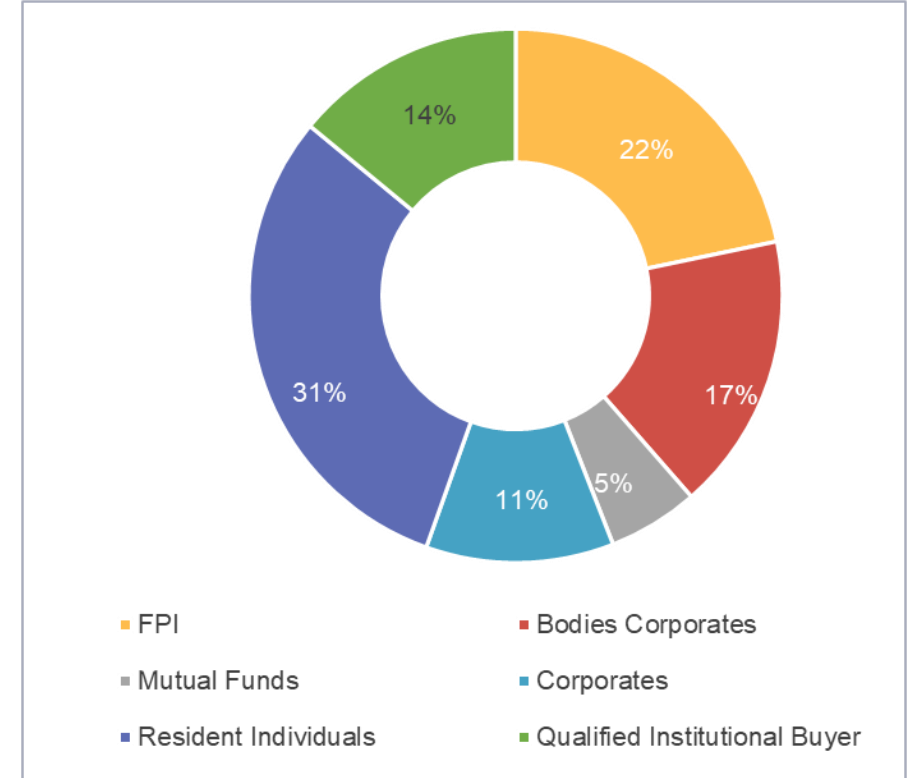
Mehul Pandya, ED

- 24 years of experience in ratings
- In-charge of CARE's business operations
- Key role in establishing CARE's rating subsidiaries overseas and make them profitable
- B.E; MBA; CFA

Group Structure & Key Share Holders



CARE's Shareholding is widely held (as on April, 2021)



CARE Ratings' Role in Indian Capital Market

Transparency -
Informed
decision

Helping issuer
manage costs

Unbiased credit
opinion

Educating
investors

Outlook on
industry
Economy and
Companies

Knowledge
sharing

Opening diverse funding avenues

A photograph of a business meeting with several people in suits gathered around a table. In the foreground, a person is pointing at a document with a pen. The document contains a bar chart and a pie chart. The entire image is overlaid with a semi-transparent blue filter.

Thank You