

Seminar on Borrowings

Topic: Credit Ratings

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Agenda of the Session



Credit Rating Agencies

CRISIL

- **S&P**

CARE

- **Widely held company**

ICRA

- **Moody's group**

INDIA RATINGS

- **Fitch Group**

ACUTE

- **SIDBI etc.**

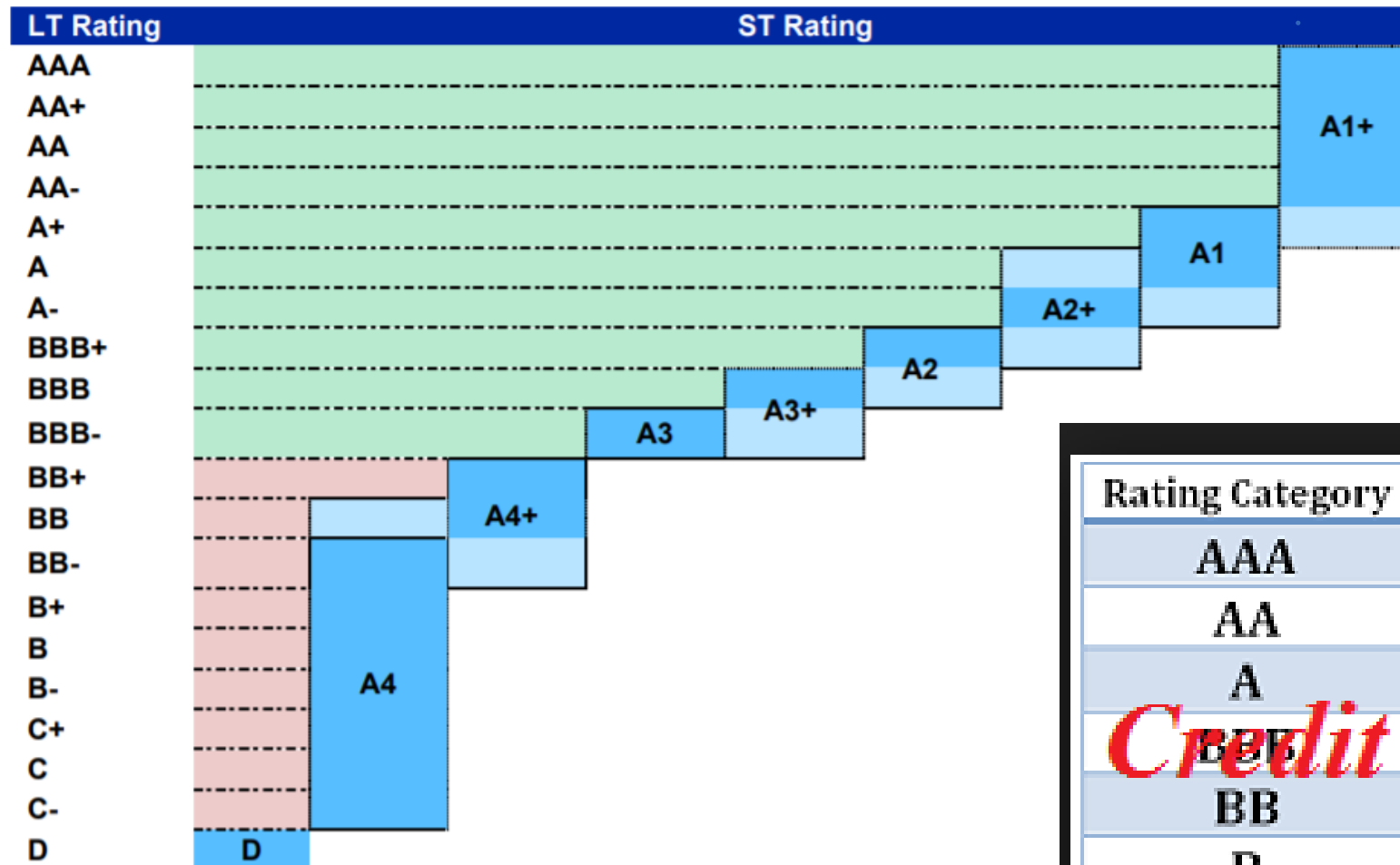
INFOMERICS

- **Initially Individually promoted**

BRICKWORKS

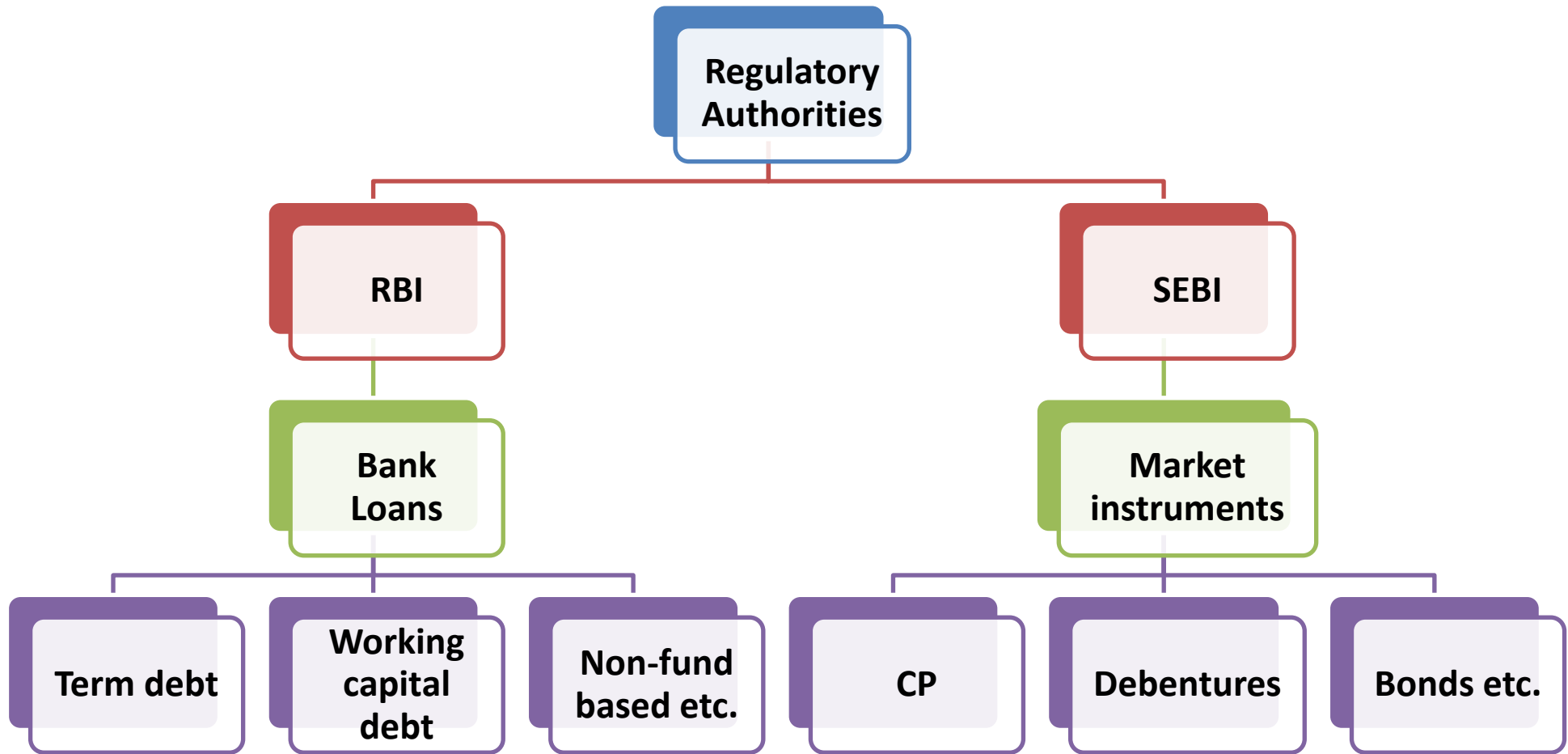
- **Initially Individually promoted**

Credit Ratings Symbols (mapping of LT and ST)



Rating Category	Description
AAA	Highest Safety
AA	High Safety
A	Adequate Safety
BBB	Moderate Safety
BB	Inadequate Safety
B	High Risk
C	Substantial Risk
D	Default

Regulation on Credit Rating Agencies



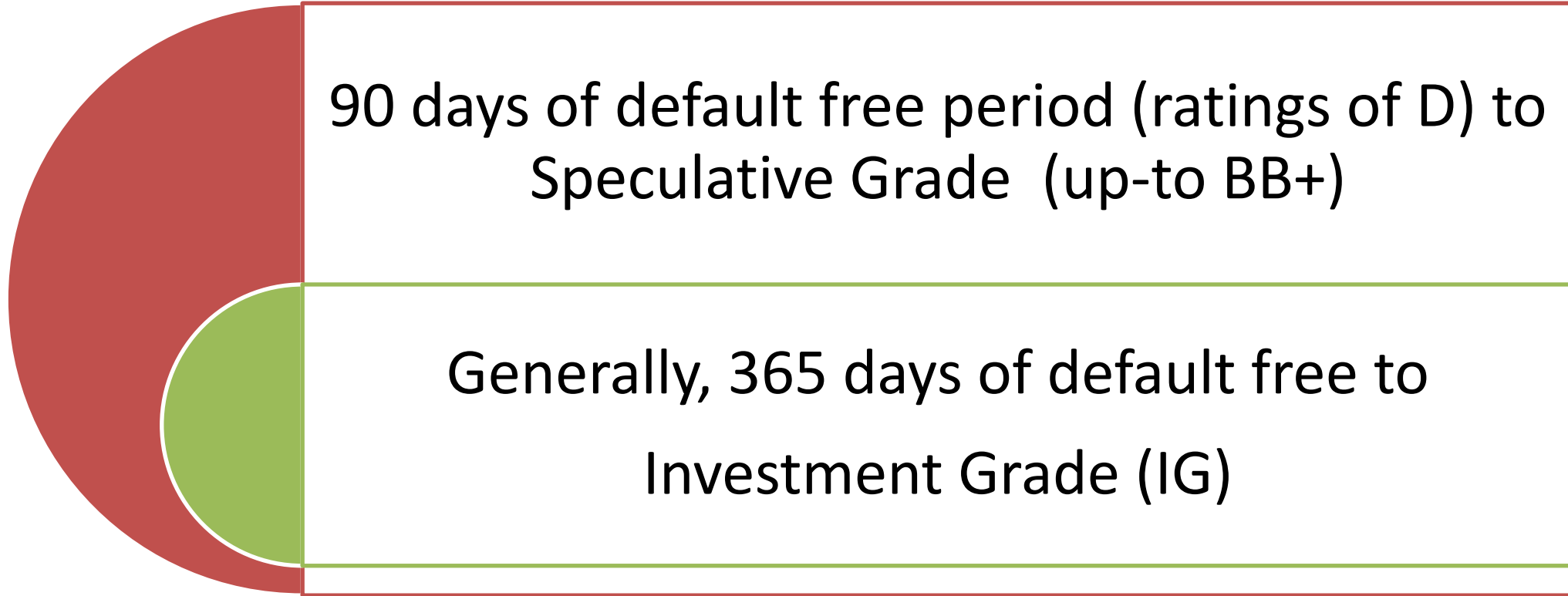
Default Ratings Vs. NPA (Non Performing Assets)

NPA: Non Performing Assets
Overdue for more than 90 days

Credit ratings of “D”

- *Term Loans*: A delay of **one day** even of one rupee principal or interest from the scheduled repayment date
- *CC Limits*: Continuously overdrawn for more than 30 days

Curing period



Collateral / Security



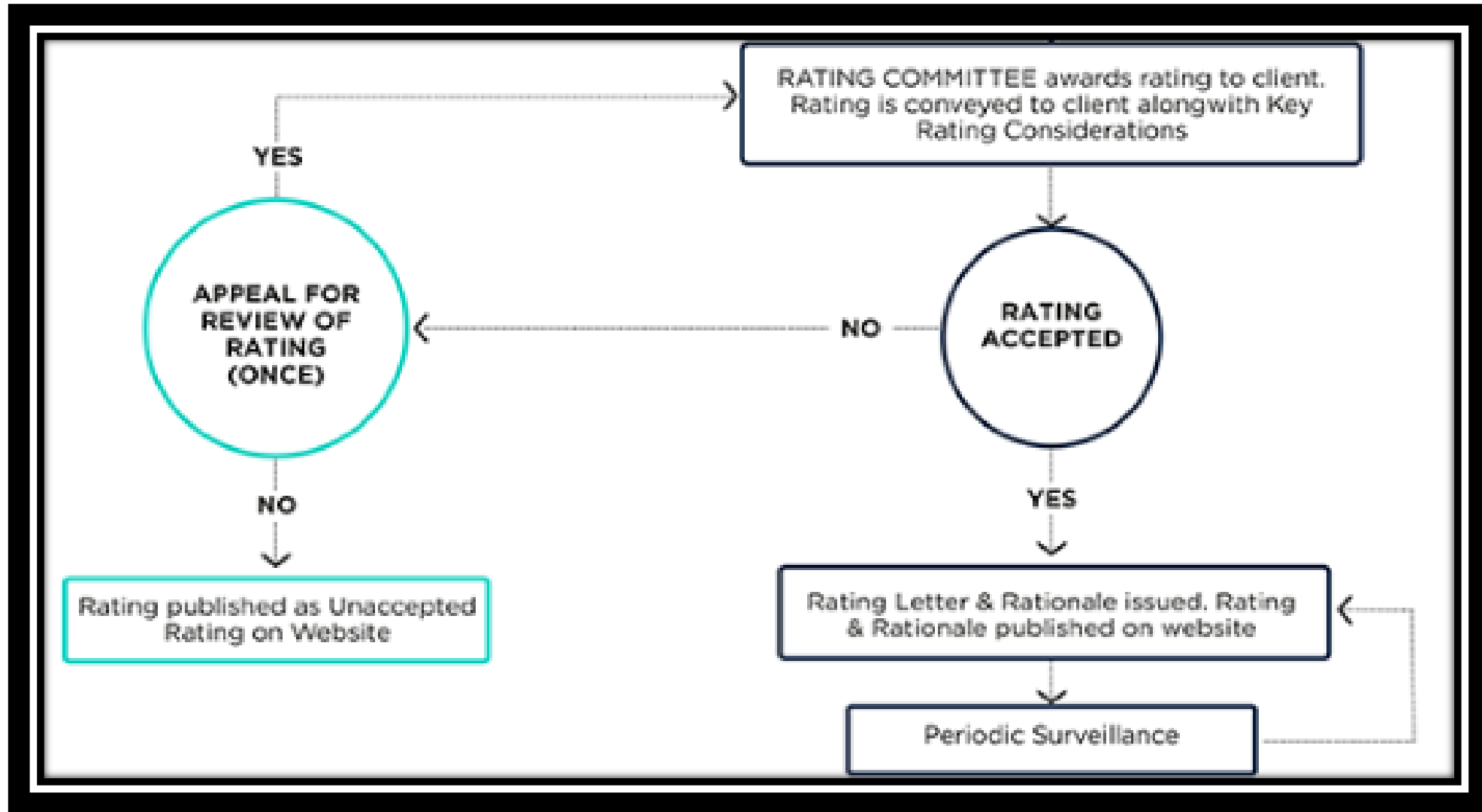
No weightage of collateral / security in credit ratings

Credit ratings are based on Industry / Business / Financials etc.

Ratings Process

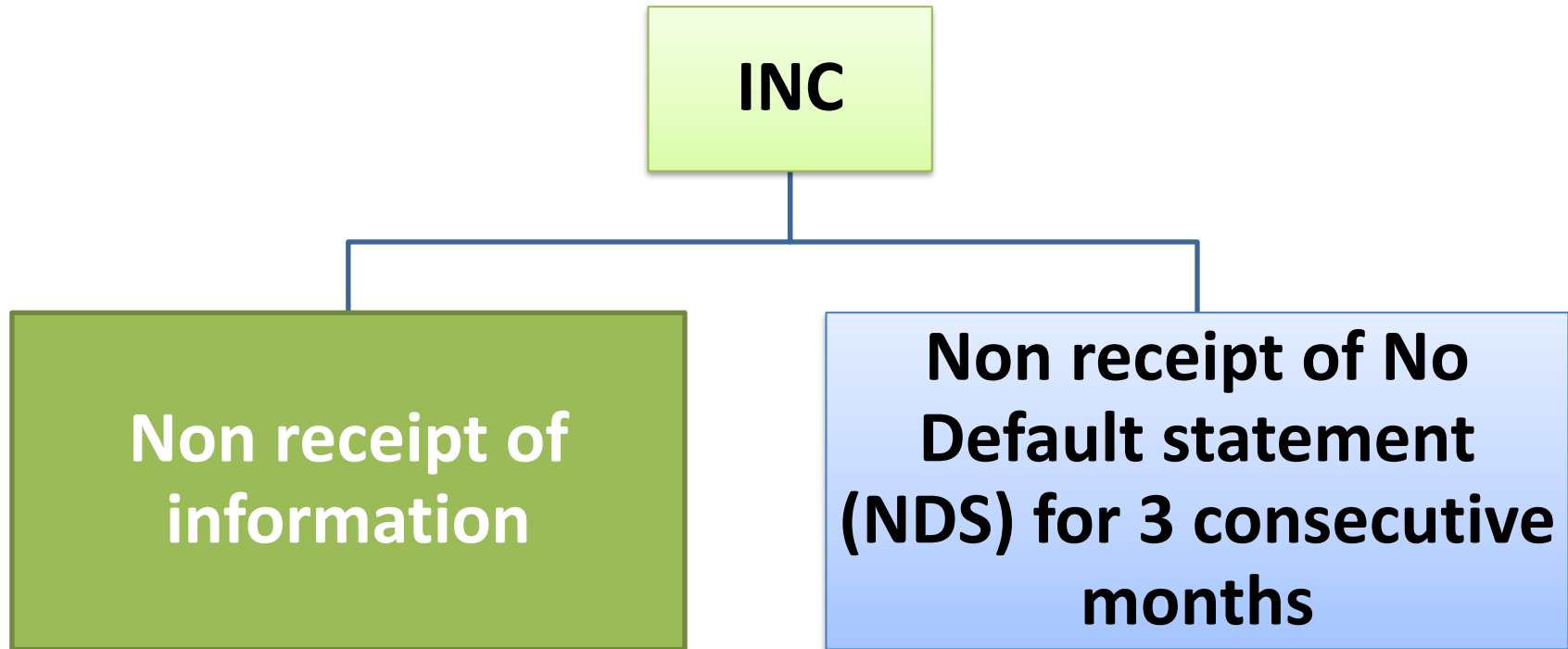
Acceptance, Non- Acceptance and Appeal

Ratings Process: Acceptance, Non- Acceptance and Appeal



Issuer Non-Cooperating (INC)

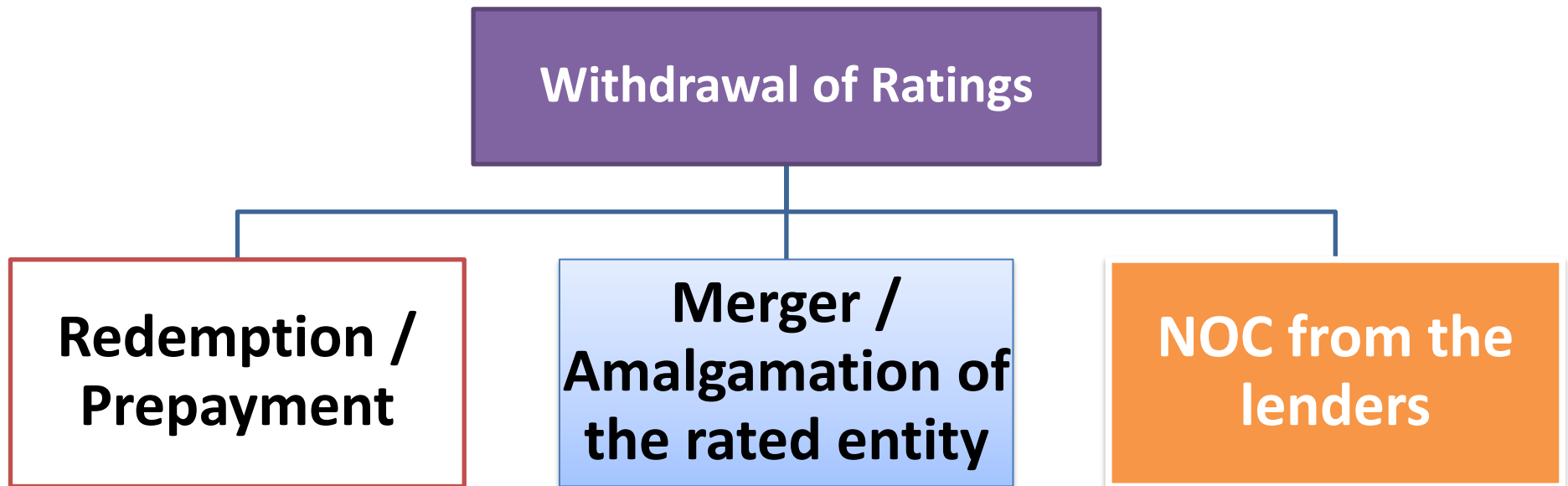
Issuer Non-Cooperating (INC)



Ratings gets downgraded to sub-investment grade in case of INC for 6 or more months

Withdrawal of Ratings

Withdrawal of Ratings



Rating Outlook: 'Positive', 'Stable' or 'Negative'

Outlook

Positive outlook
indicates :

- Expected upgrade in the medium term

Negative outlook
indicates :

- Expected downgrade in the medium term

Stable outlook
indicates :

- Expected stability (or retention)

Outlook is assigned only on long term Credit Ratings

Arriving at a Ratings

Arriving at a Ratings

Ratings are done for the debt instruments and not the entity

Analysis of the company is done to arrive at a ratings

Arriving at a Rating

There's no mathematical formula to arrive at a ratings

Credit Ratings are done for the debt instruments and not the company

Credit ratings is the culmination of following factors:

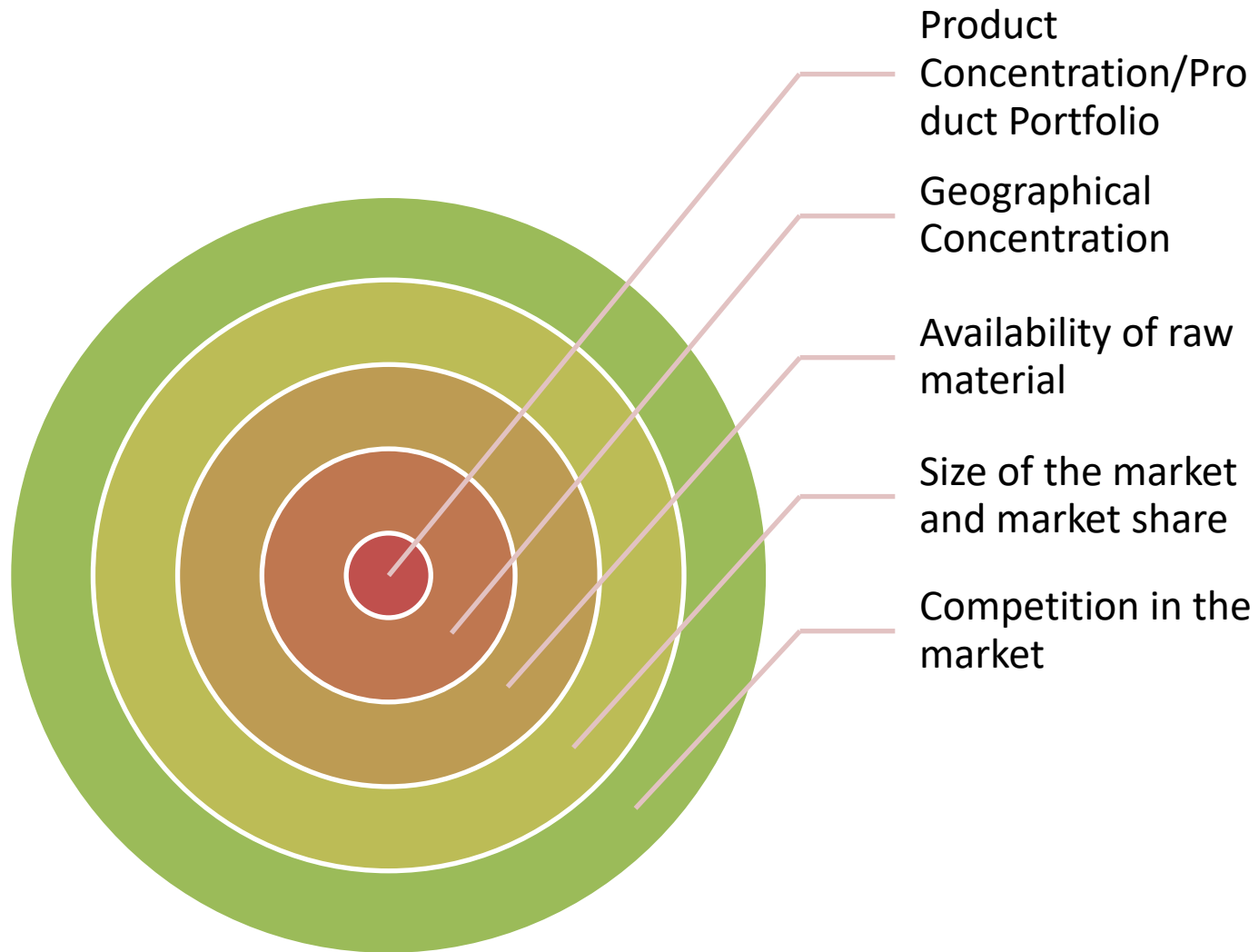


Scoring Model

S. No.	Categories	Weight
1	Business Risk Parameters	20
2	Financial Risk Parameters	20
3	Project Risk Parameters	15
4	Management Risk Parameters	15
5	Size of the entity	15
	Total	100

Above is an example

Business Risk



Financial Parameters

Sales and Profitability growth



EBITDA Margins



PAT Margins



DE, Overall Gearing



Total Outside Liabilities/ Total tangible networth



Interest Coverage Ratio



Debt Service Coverage Ratio (DSCR)



Current Ratio, Quick ratio



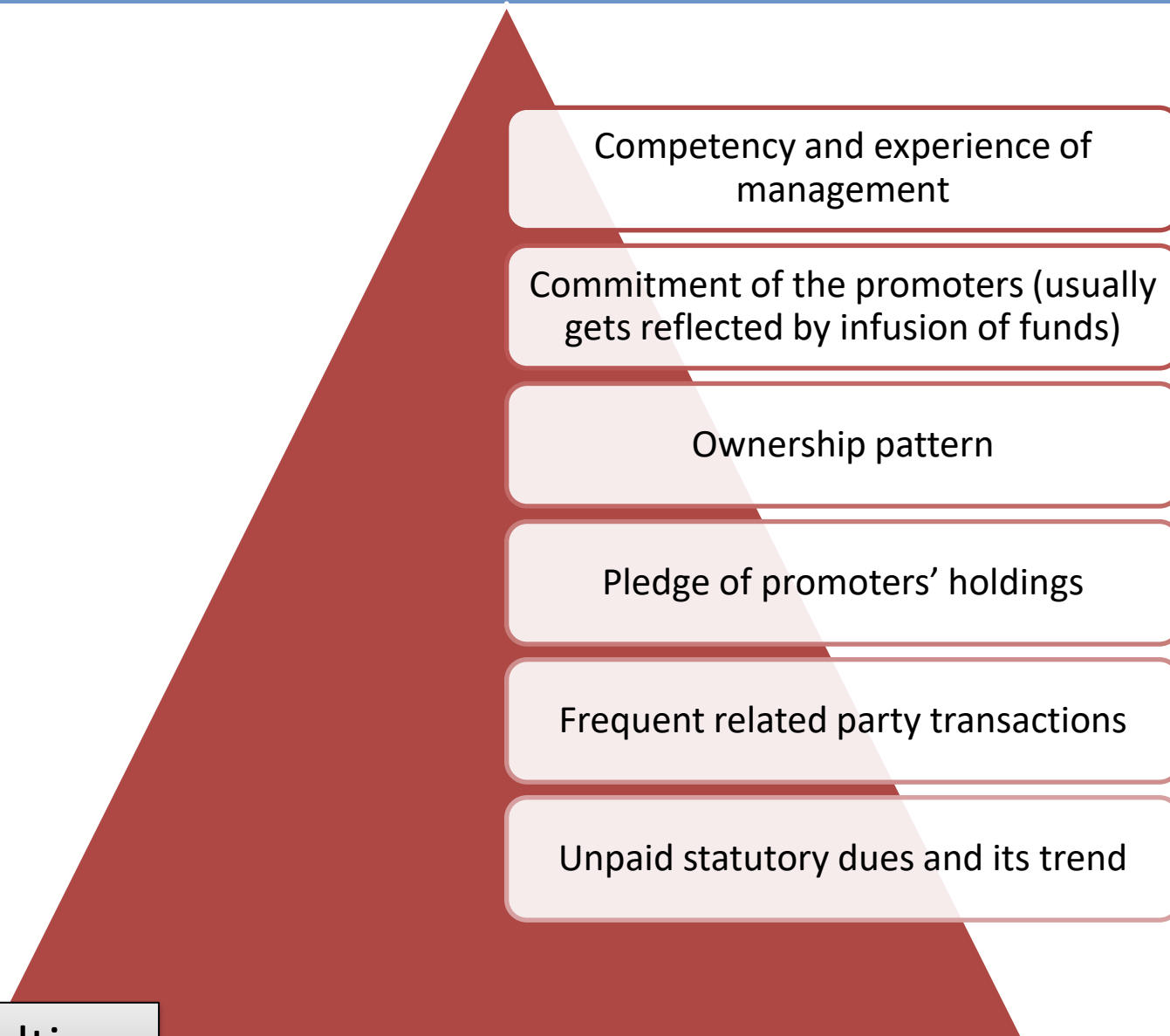
Working capital cycle (Cash conversion cycle)



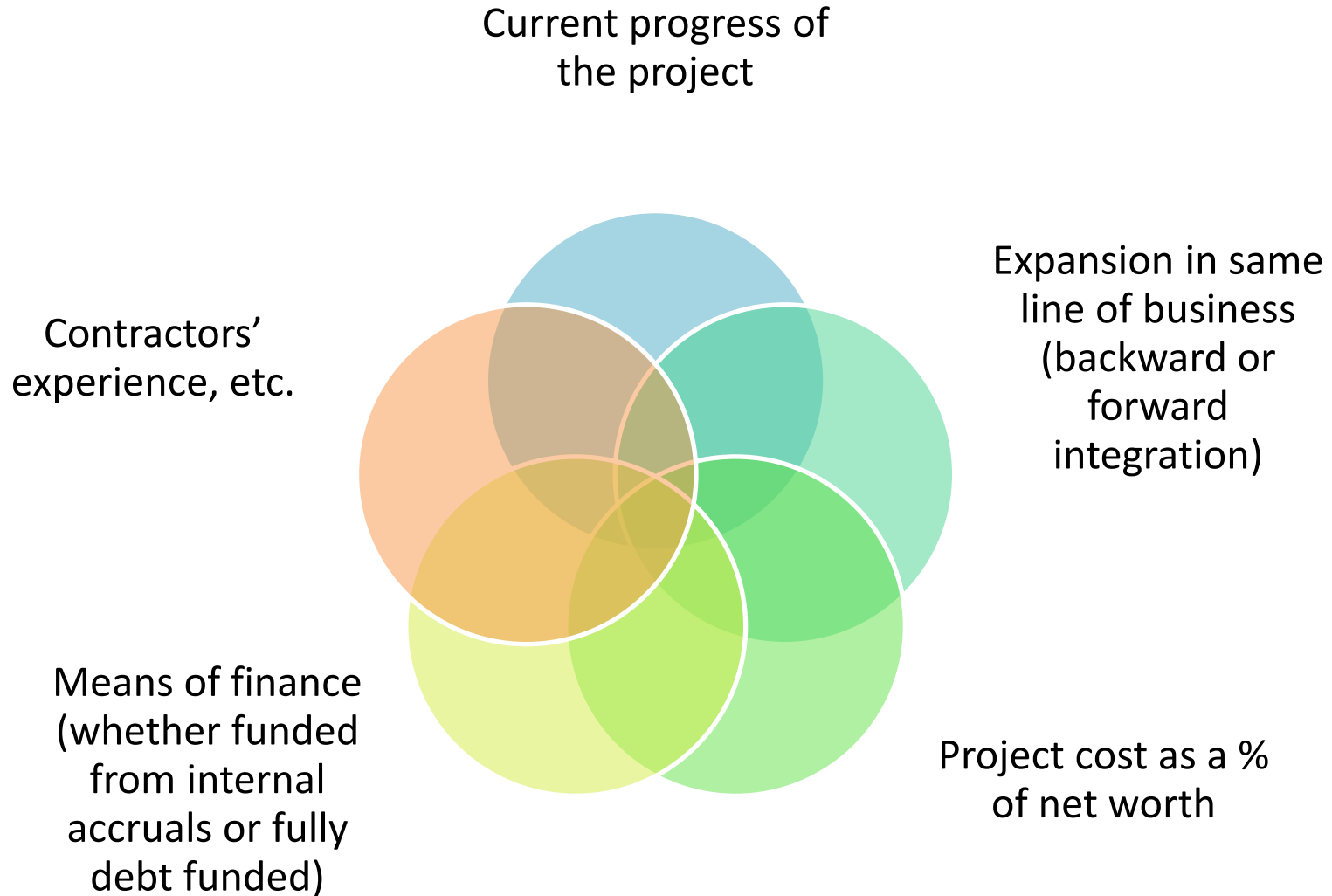
ROE, ROCE



Management Risk



Project Risk



Working Capital Utilisation

A key parameter to understand liquidity

Placing Credit Ratings on Watch

Criteria for placing Credit Ratings on Watch

Ratings under 'Credit Watch' is assigned along with

- "Positive",
- "Negative"
- "Developing"

Possible direction of the ratings consequent to the resolution of the credit watch event

Credit Watch

March 01, 2019

Ratings			
Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	568.57	CARE AA- (Double A Minus) (Credit watch with developing implications)	Placed on credit watch with developing implications
Short term Bank Facilities	60.00	CARE A1+ (A One Plus) (Credit watch with developing implications)	Placed on credit watch with developing implications
Total	628.57 (Rs. Six hundred twenty eight crore and fifty seven lakh only)		
Commercial Paper Issue^	100.00	CARE A1+ (A One Plus) (Credit watch with developing implications)	Placed on credit watch with developing implications

Central Pollution Control Board (CPCB) had certain observations on Zero liquid discharge system of one of the plants and directed for closure of operations

CARE has placed the ratings on 'Credit Watch with Developing Implications'

Removal of Credit Watch

August 13, 2019

Ratings			
Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long term Bank Facilities – Fund Based	568.57	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Removed from Credit Watch; Rating reaffirmed at CARE AA-; Stable (Double A Minus; Outlook: Stable)
Short term Bank Facilities – Non Fund Based	60.00	CARE A1+ (A One Plus)	Removed from Credit Watch; Rating reaffirmed at CARE A1+ (A One Plus)
Total Facilities	628.57 (Rs. Six hundred and twenty eight crore and fifty seven lakh only)		
Commercial Paper Issue^	100.00	CARE A1+ (A One Plus)	Removed from Credit Watch; Rating reaffirmed at CARE A1+ (A One Plus)

CPCB vide its letter dated August 06, 2019 has allowed the co. to restore its manufacturing production

Credit Watch

Events not envisaged earlier

- Likely to impact credit profile

Examples

- Announcement of M&A
- Demerger
- Change in regulatory framework

Rating watch indicates

- Probability of change and
- Likely direction of change

Credit Watch is warranted when

- Impact can't be assessed immediately
- Additional information necessary to evaluate

Debt Amount Rated
Vs.
Total Debt on the Balance Sheet



Thank you

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Alphas Konsulting; Credit Ratings Advisory
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