How are you rated?
Does it impact your business?

29th Regional Conference, WIRC of ICAI

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CGM, CARE Ratings

CARE Ratings
Professional Risk Opinion

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- **Concept of Credit Rating**
  - What is Credit Rating & its Characteristics
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- **Benefits of ratings to issuers**
- **Benefits of ratings to investors**
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What is Credit Rating?

“Would you lend your money to this…?”

This is an age-old question asked by lenders, investors and credit analysts all over the world as a test of one’s decision to commit funds.

*The reasoning is that if someone is willing to **invest** their **own money**, then they **must** have conducted **full due diligence**, **vetted all assumptions** and **verified the facts**.*

Credit rating is the opinion of the rating agency on the relative ability of the issuer of a debt instrument for timely servicing of maturing debt obligations.

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Characteristics of credit ratings

Credit Ratings are expressions of opinion about credit risk

Unlike some other professional opinions, such as those provided by brokerage houses, credit rating opinions, even while prognostic in nature, are not recommendations to buy, sell or hold any securities or lend to any borrower.

Credit Ratings are forward looking and continually evolving

Ratings are not static. Rating opinions may change if the credit quality of an issue or issuer alters in ways that were not expected at the time a rating was assigned.

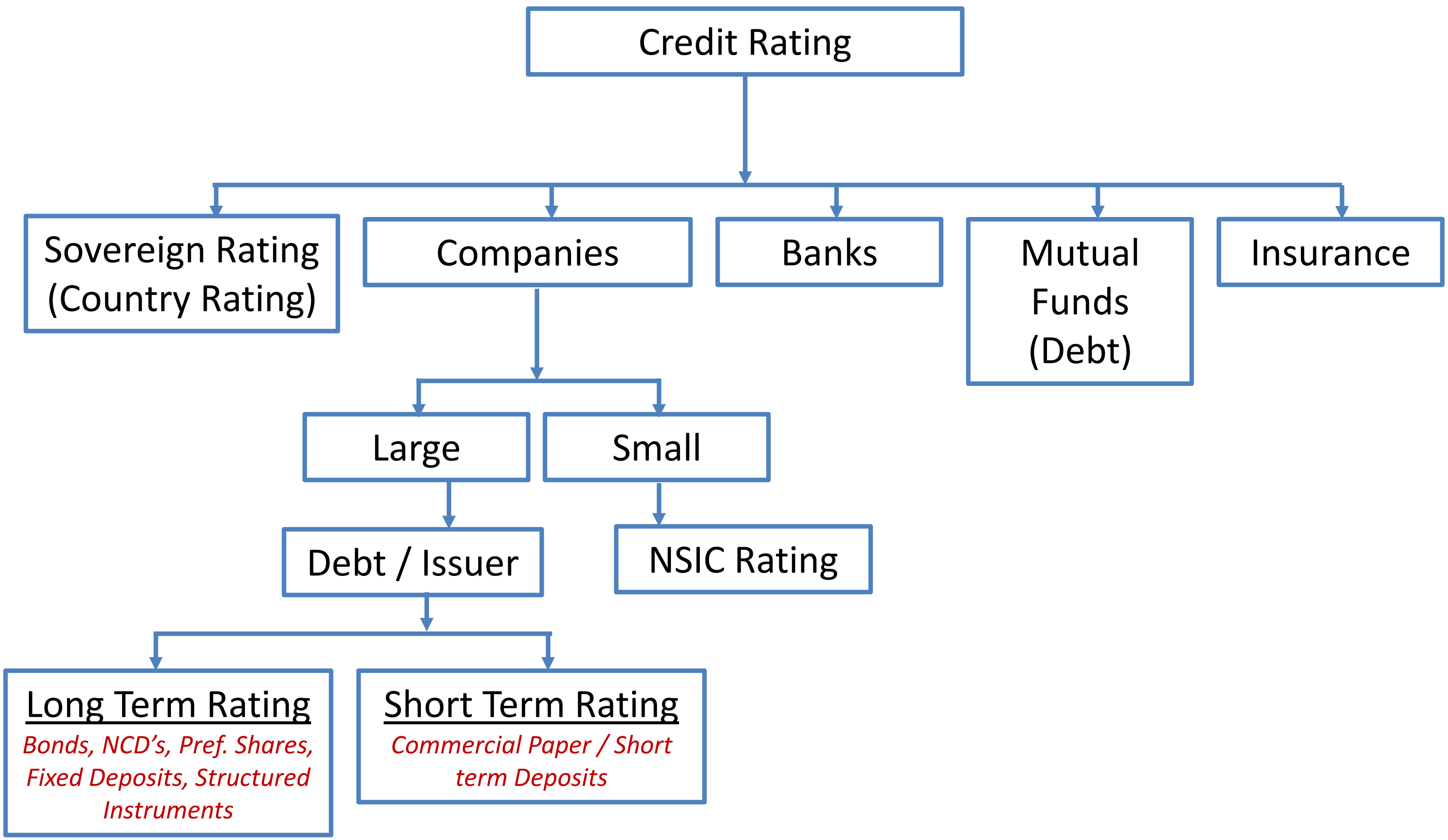
Credit Ratings do not indicate investment merit

Credit ratings are not intended to indicate the value, suitability, or merit of an investment. While credit quality is an important consideration in evaluating an investment, it cannot serve as the sole indicator of investment merit.

Credit Ratings Are Not Absolute Measures of Default Probability

Credit ratings are not exact measures of the probability that a certain issuer or issue will, indeed, default but are, instead, expressions of the relative credit risk of rated issuers and debt instruments. Ordinality of ratings only indicates relative risk of default.

Credit Rating



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Rating Scale – (Sovereign, Debt)

Long Term Ratings	
Symbol	**Key Terms in Definitions**
CARE AAA	Highest degree of safety - Lowest credit risk
CARE AA	High degree of safety - Very low credit risk
CARE A	Adequate degree of safety - Low credit risk
CARE BBB	Moderate degree of safety - Moderate credit risk
CARE BB	Moderate risk of default
CARE B	High risk of default
CARE C	Very high risk of default
CARE D	Instruments are in default or are expected to be in default soon

Investment Grade

Short Term Ratings	
Symbol	**Key Terms in Definitions**
CARE A1	Very strong degree of safety - Lowest credit risk
CARE A2	Strong degree of safety - Low credit risk
CARE A3	Moderate degree of safety - Higher risk as against instruments rated in the two higher categories
CARE A4	Minimal degree of safety - High credit risk and are susceptible to default
CARE D	Instruments with this rating are in default or expected to be in default on maturity

Investment Grade

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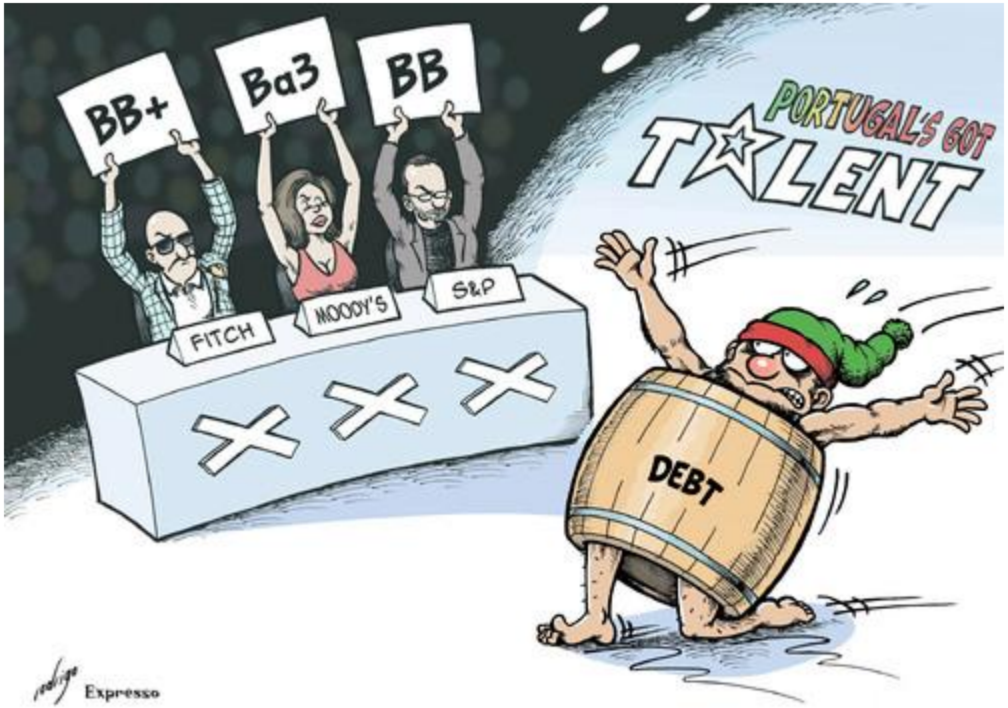
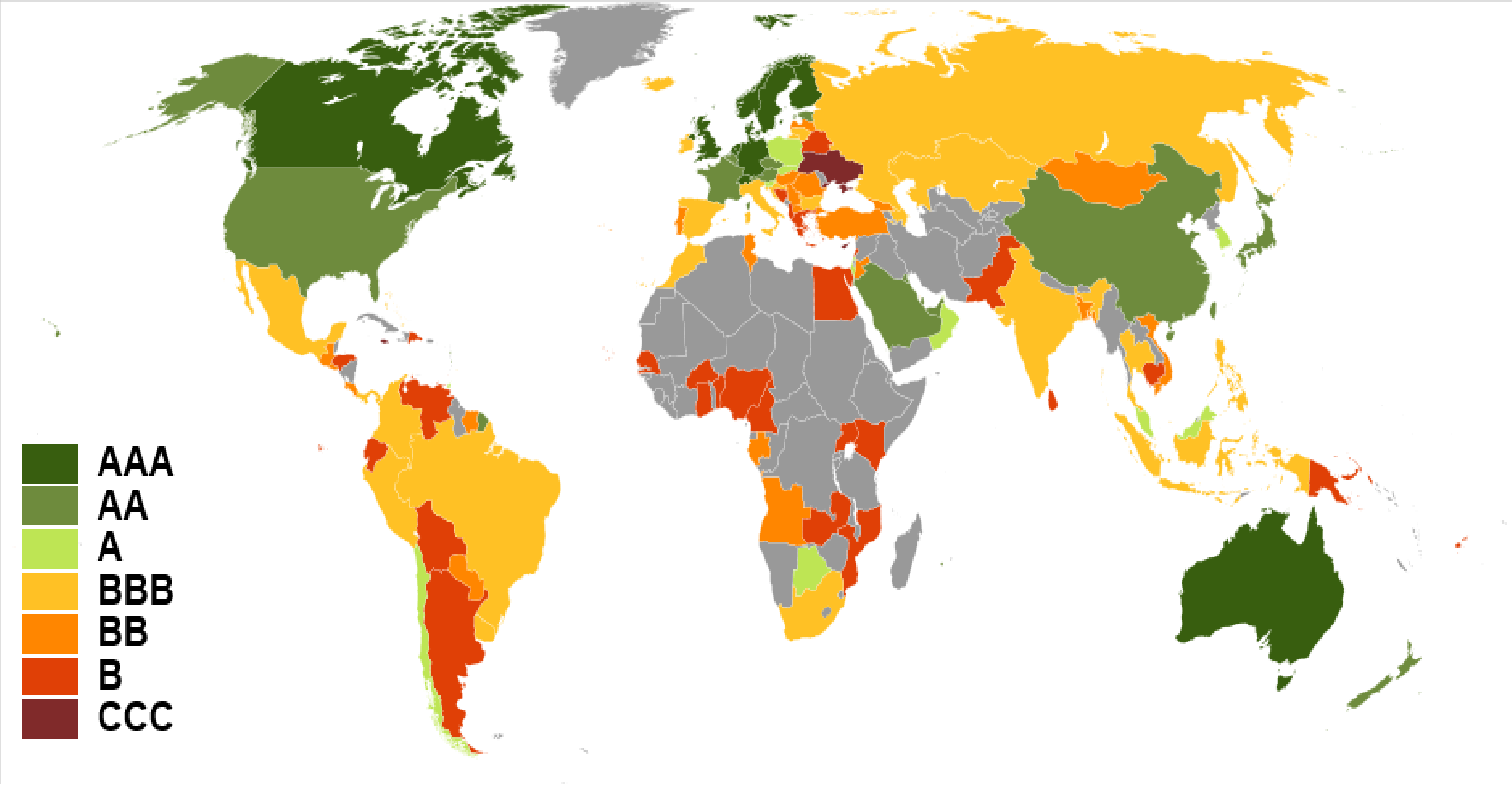
Sovereign Rating



A **sovereign credit rating** is the credit rating of a sovereign entity, i.e., a national government. The sovereign credit rating indicates the risk level of the investing environment of a country and is used by investors looking to invest abroad. It takes political and country risk into account.

World countries by Standard & Poor's Foreign Rating in August 2014



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Benefits of Sovereign Rating

Country		Standard & Poor's		Fitch Ratings		Moody's Ratings	
Brazil		BBB-	Stable	BBB	Stable	Baa2	Stable
Russia		BBB	Negative	BBB	Negative	Baa2	Negative
India		BBB-	Stable	BBB-	Stable	Baa3	Stable
China		A+	Stable	A+	Stable	Aa3	Stable

- Helps in accessing the funding in international debt market
- To attract foreign direct investment
- Improves investors confidence for investments made in a country

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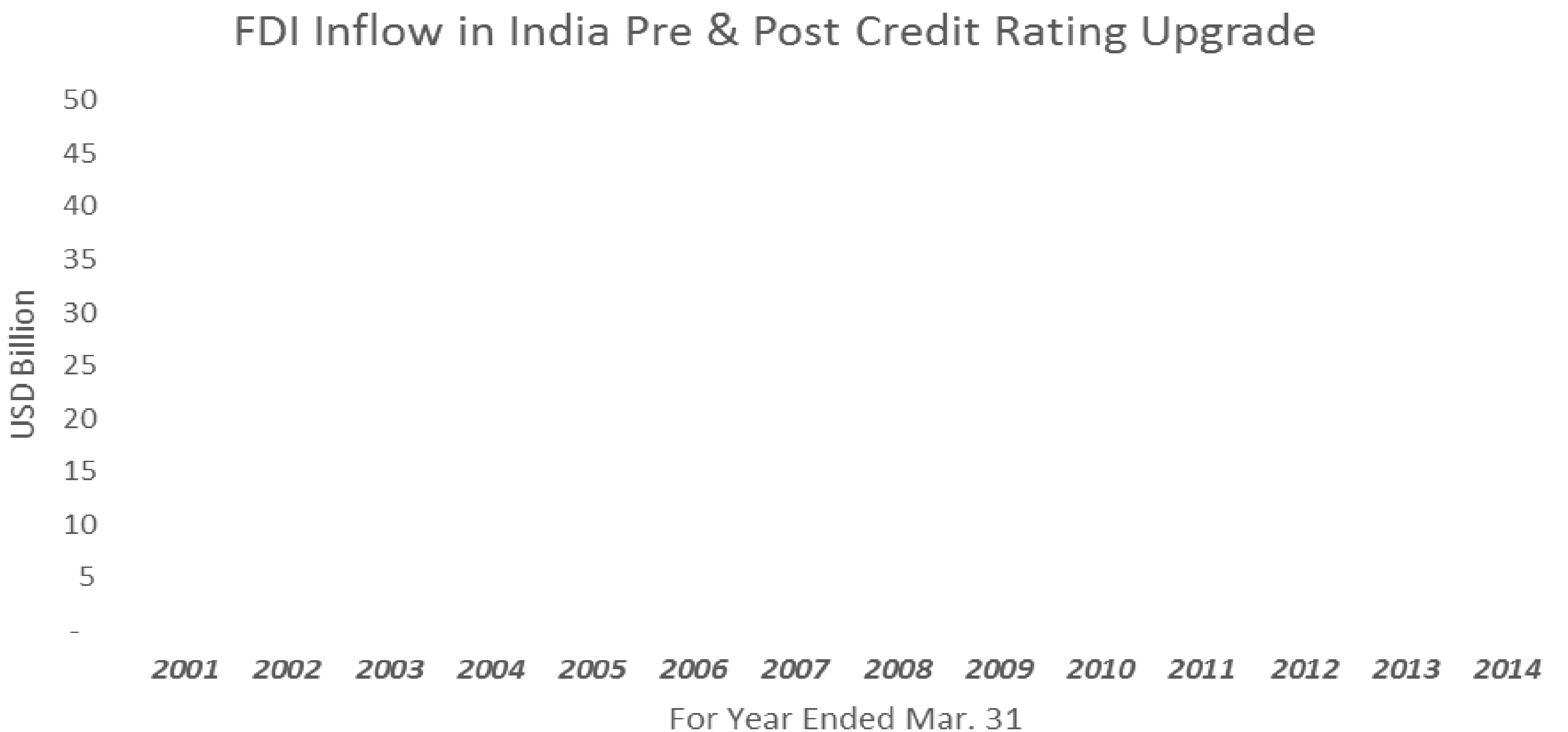
The Impact of Sovereign Rating on FDI Flows in India



Total FDI: Equity inflows + Re-invested earning & Other capital
Equity: Equity Inflows only

Source: Dept. of Industrial Policy and Promotion; CARE Ratings

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- Fitch Upgraded India's Rating to Min Investment grade in **Aug. 2006**; S&P upgraded in **Jan. 2007**
- Outlook was revised to **'Negative' In Apr. 2012**
- Outlook was again revised to **'Stable' in Sep. 2014**

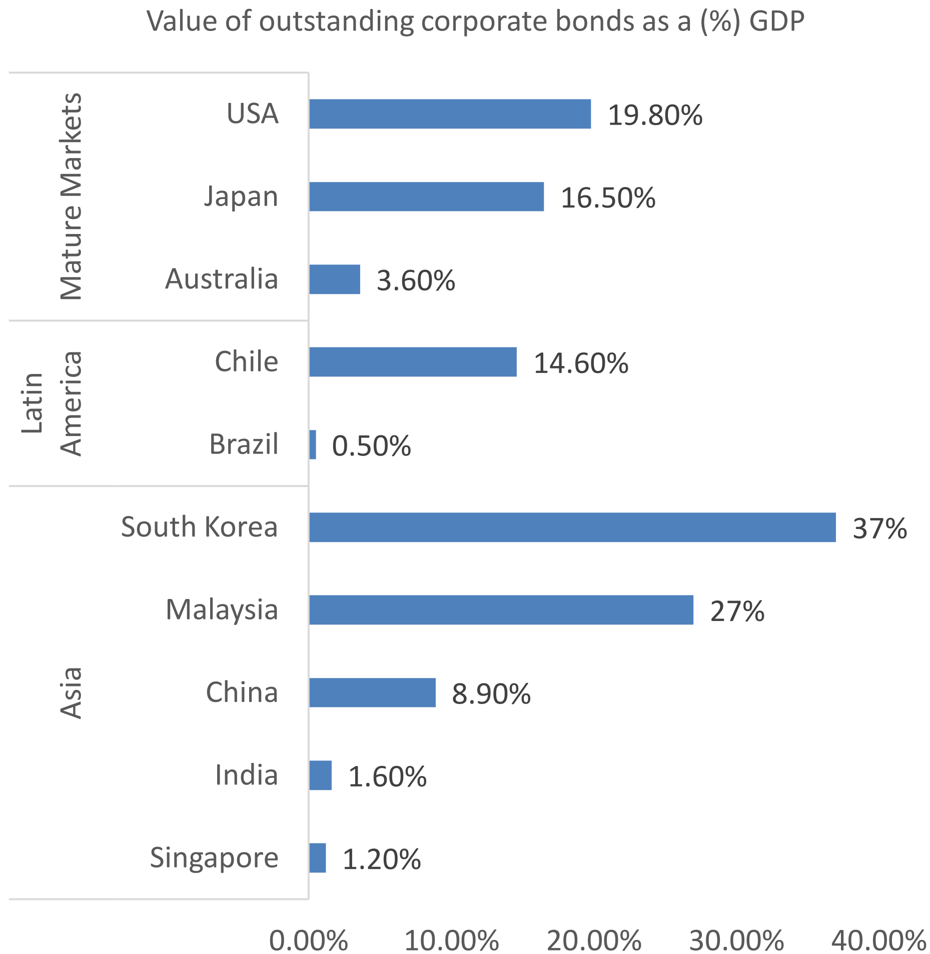
Debt Market - Challenges

Low penetration of bond markets / limited retail participation

- The value of outstanding corporate bonds as a percentage of GDP is low in India, reflecting the lack of depth in corporate bond market.

Bond issuances dominated by the financial sector

- Close to 70 percent of the bond issuances is done by banks and financial institutions, which have significant presence of public sector banks. The issuance segmentation shows a bias towards the financial sector which is heavily regulated.



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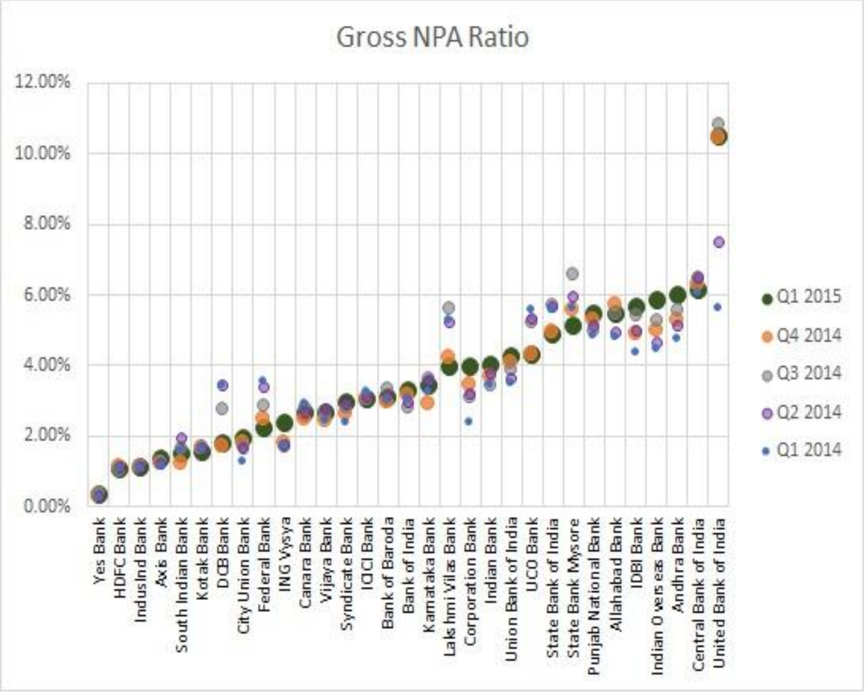
Role of Credit Rating – Debt Market

- Bridge the information asymmetry that exists between potential investors and the borrower
- Regulatory compliance – Bonds, NCD, CPs
- Assists to raise debt
- Continuous monitoring
- Boosting investors' confidence
- Increased liquidity in secondary market - Corporate bonds are heavily biased in favour of higher rated papers

Banking Sector – Challenges

- Controlling the rising NPA levels
- BASEL III Implementation
- Implementation of Government Schemes (Agri-credit, Janadhan yojana)
- Increased penetration
- Minimize CDR proposals, while expeditiously process the deserving ones



Computation of capital adequacy ratio (CAR)					
Long Term Ratings	AAA	AA	A	BBB	<BB+
Risk Weight (%)	20	30	50	100	150
Short Term Rating	A1+	A1	A2	A3	<A4+
Risk Weight (%)	20	30	50	100	150

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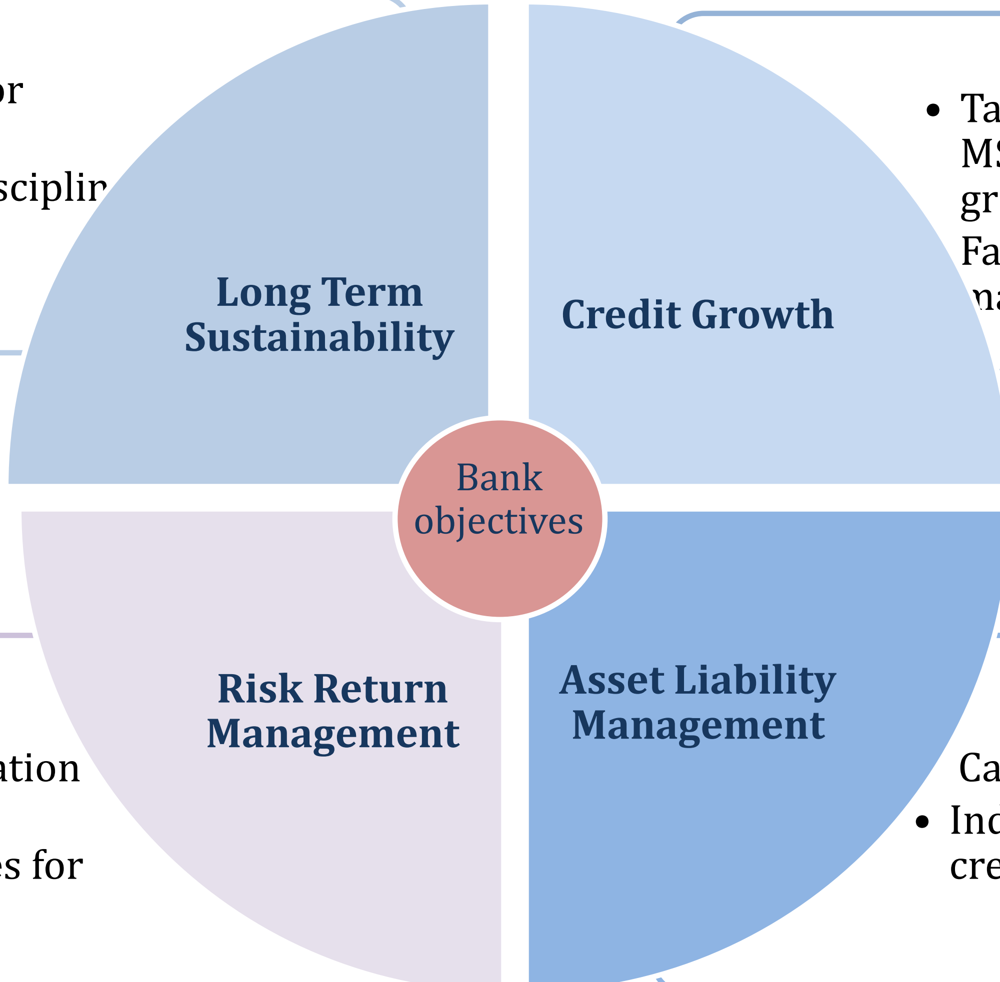
Benefits of Credit Rating to Banks

- Timely planning for riskier assets
- Better financial disciplin

- Tapping sectors like MSMEs falling under high growth trajectory
- Facilitates faster decision making



- Reducing information asymmetry
- High interest rates for high risk assets

- Capital adequacy norms
- Independent opinion on credit quality

Role of Credit Rating: Insurance

- **Claims Paying Ability (CPA) rating**
  - **Buyers of insurance cover: Aids existing as well as potential customers to evaluate the insurer's ability to service policy commitments as and when claims arise**
  - **Insurance/Reinsurance Company: Showcasing its financial strength and consequently, increase its business opportunities**
  - **Insurance Agents: Aids in selling insurance products**

Role of Credit Rating – Mutual Funds

- **Mutual Fund Ratings**
  - Credit Quality Rating
  - Capital Protection Oriented Scheme Ratings
  - Credit Rating of Bank Facilities of Mutual Funds
    - *Assist in product marketing*
    - *Building investor confidence through regular reviews*

- **Helps in product structuring though debt instrument rating, Bank facilities rating of companies, Banks, IPO grading etc.**
- **Management of portfolio with continuous monitoring of ratings of companies and instruments**
- **Industry Insights**

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NSIC - Rating

What is NSIC Rating

- In association with National Small Industries Corporation (NSIC), CARE rates MSEs on a special rating scale.
- Any enterprise registered in India as a micro or small enterprise can benefit from this rating.

Benefits

Tangible Benefits:

- 75% subsidy in rating fee by NSIC
- Facilitates quicker and cheaper bank finance for rated MSEs (Backed by circulars from Nationalized banks)
- Helps MSEs obtain leverage from the parties in the supply chain

Intangible Benefits:

- Self-benchmarking tool to reach next level of performance.
- Wider recognition & acceptance as the rating is published on website & bulletins
- Acts as marketing tool with banks and business partners to build credibility

NSIC – CARE Rating Scale

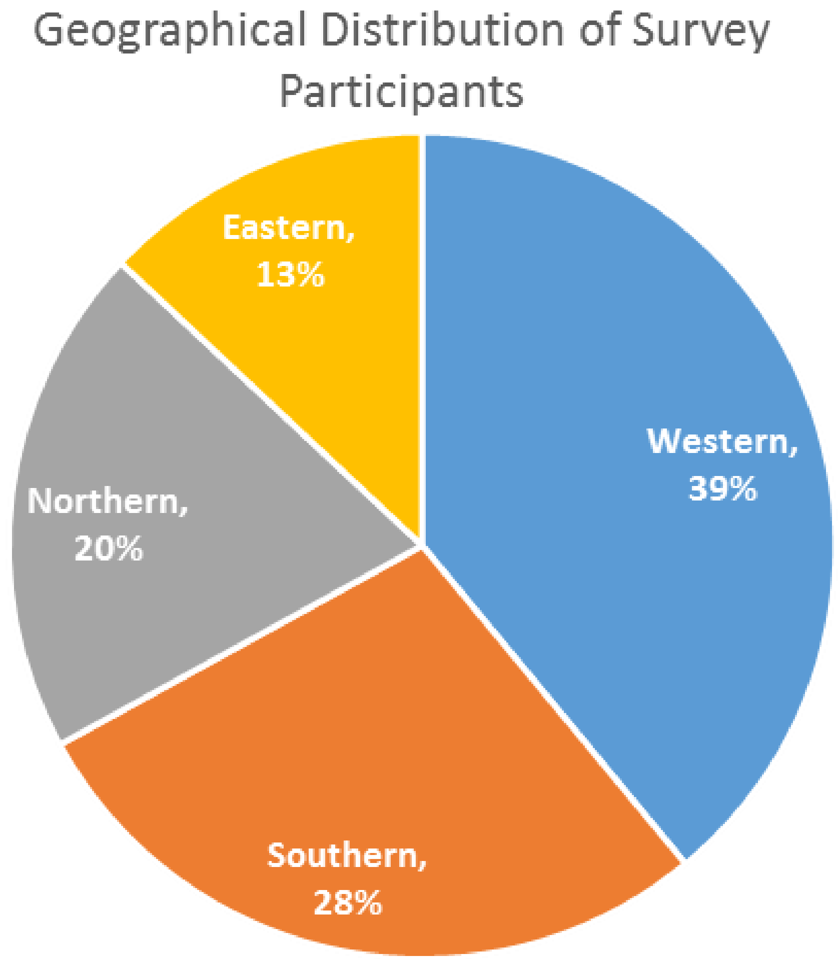
		Financial Strength		
		High	Moderate	Low
Performance Capability	Highest	SE 1A	SE 1B	SE 1C
	High	SE 2A	SE 1B	SE 1C
	Moderate	SE 3A	SE 3B	SE 3C
	Weak	SE 4A	SE 4B	SE 4C
	Poor	SE 5A	SE 5B	SE 5C

NSIC- CARE Ratings for MSEs will show the entity's position on two parameters:

1. ***Financial Strength (measured in A, B and C scales) and***
2. ***2. Performance Capability (measured in 1 to 5 scales).***

Key Benefits of NSIC Rating as per the CARE's customers Experience Survey

- Survey was undertaken by CARE Ratings during the two weeks period from May 1, 2014 to May 15, 2014.
- This is the third customer survey undertaken by CARE's SME Vertical.
- Respondents were asked to share the benefits they received after the assignment of CARE NSIC Rating.
- **Responses were received from 1,004 NSIC rated customers with participation rate of 98%**



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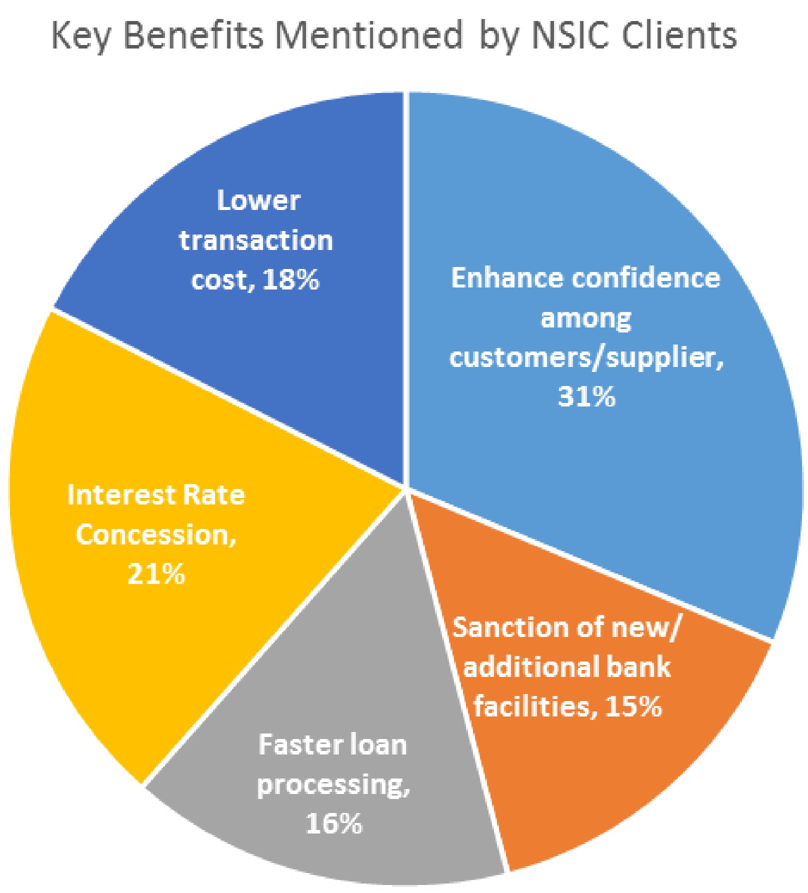
Findings / Conclusion of Survey

- Interest rate concession is one of the widely observed benefit (21% of the customers amongst those who got benefitted). *The special benefit on interest rate ranges from 25 bps to 100 bps depending on the rating outcome.*
- 15% of the customers were benefited in the form of sanction of additional/ new bank finance.
- 16% of the customers got transactional benefits as faster loan processing and lower transaction costs.
- 31% of the customers were able to improve their credibility with the suppliers and buyers.



Testimonials

Asian Roller Bearings

"This will help us to focus on our weakness and improve upon the areas which ultimately help us to serve our customers and other stake holders in better manner in long term."

Oasis Tradelink Ltd.

"With NSIC Ratings we were able to negotiate better rates with Bankers"

FRIDGE HOUSE

NSIC Rating: "Helped us in getting the interest rate reduced by 0.50% in Corporation Bank"

INTERJEWEL – A LIFE OF BRILLIANCE

NSIC Rating helped us in getting: "New term loan of Rs.5.0 crore"

ALSTONE

Alstone International

"Received following benefit

Sanction of new term loan of Rs.14 crore
Interest Rate concessions
Faster loan processing
Lower transaction cost"

CARE Ratings – Professional Risk Opinion

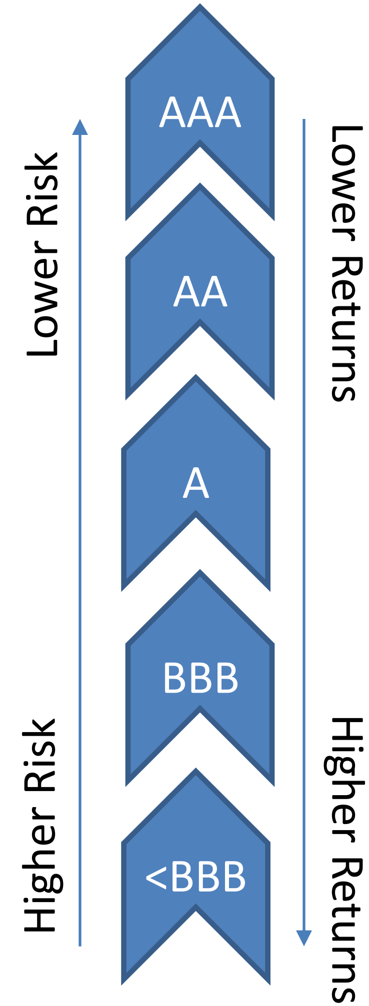
Benefits to Investors

Helps in Investment Decision

- Credit Rating of debt instrument provides idea to investor about credibility of Issuer and expected risk and rewards of investment.
- Investor can make informed decision based upon their risk appetite.

Benefits of Rating Reviews

- Credit Rating Agencies (CRAs) regularly monitor the ratings assigned by them. Hence, in case of any major change in underlying assumptions considered at time of assigning the rating, agencies take up the review and factor the changes in the rating wherever warranted.



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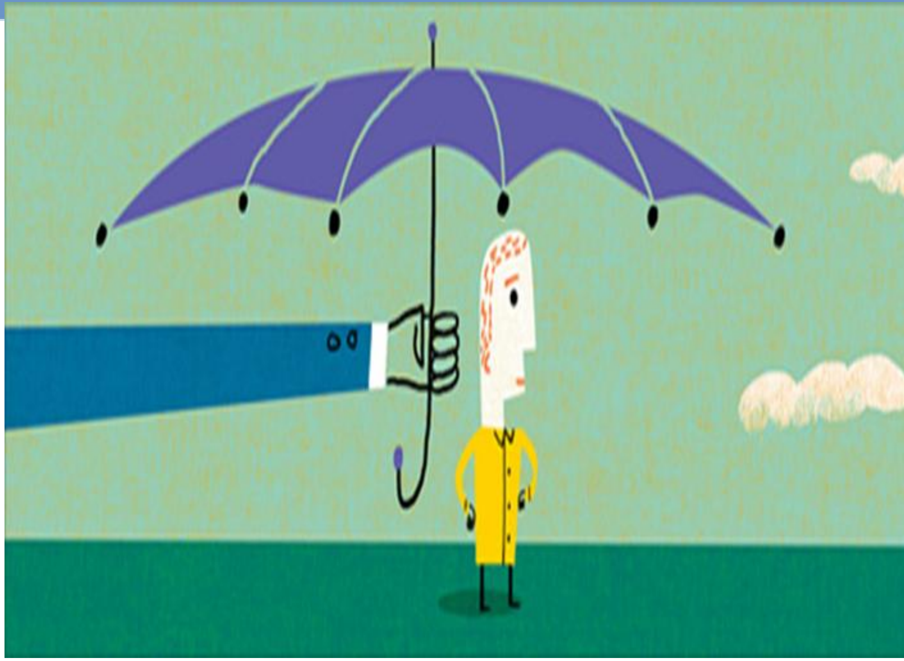
Benefits to Investors



Transparent / credible rating process

- Rating agency strictly follows the guidelines laid down by the regulators which includes:
  - Declaration of fee structure on the website
  - Avoidance / Mitigation of any conflict of interest for rating
  - Methodologies used for rating various industries are published on CRA's website
  - Accepted ratings to be published on website
  - All the subsequent rating changes are to be disseminated through website

Benefits to Investors (Contd.)

Easy Access to Analyst

- Apart from reasons for rating action, rating rationales on CRA's website also contain the name of analyst. Investor can clarify the doubts or seek clarification on rating action directly from analyst

Easy understandability / comparability of investment proposals

- Rating agency assigns the rating symbol to instruments that makes comparing the investment proposals easier for the investors
- Owing to wide spread usage of ratings, investor understands that, generally, AAA rated instrument has lower risk as compared to AA or single A rated instruments.

Benefits to Company

Lower Cost of Borrowing

- Companies that have high credit rating for their debt instruments will get funds at lower costs from the market. High rating will enable the company to offer low interest rates on fixed deposits, debentures and other debt securities.
- The investors will accept low interest rates because they prefer low risk instruments.

Wider Audience for Borrowing

- Better credit rating opens up avenues for funding from Banks, capital markets, mutual funds, private placement, PE investment etc.

Higher the rating Lower the cost of borrowing

Bond Issuances During 2014 (Jan – Nov)		
Ratings	No. of Instruments	Avg. Coupon Rate
AAA	339	9.33%
AA+	397	9.89%
AA	147	10.40%
AA-	70	11.61%
A+	7	11.24%
BBB+	1	11.80%
BB+	1	12.00%
BB	2	12.00%

Source: NSE - Corporate Bond Info Database
Note: Count of issuances presented are lower than actual issuances in 2014

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Benefits to Company (Contd.)

Improves corporate Image

- Credit rating helps to improve the corporate image of a company.
- High credit rating creates confidence and trust in the minds of the investors about the company.
- Also used as a tool for relative benchmarking with peers

Helps building better terms from both Suppliers and Customers

- Credit rating not only helps to develop a good image of the company among the investors, but also among the customers, dealers, suppliers, etc. High credit rating can act as a marketing tool to generate comfort level in customers, dealers, suppliers, etc.

Some of AAA / AA Rated entities	Rating
State Bank Of India	AAA
HDFC Ltd.	AAA
Rural Electrification Corp.Ltd.	AAA
Ultratech Cement Ltd.	AAA
Sundaram Finance Ltd.	AA+
Tata Motors Limited	AA+
Some of the entities where ratings were assigned / upgraded found greater investor / lender interest	
Shakti Pumps Ltd.	BBB to BBB+
PBM Polytex Ltd.	BBB+ to A-
Freshtrop Fruits Ltd.	Assigned A-

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Benefits to Company (Contd.)

Helps Stronger entities to tap Global Funds to cut debt, improve cash flow

- Sesa Sterlite Ltd have refinanced overseas loans this year at cost savings that range from 10-80 basis points. As per company they have saved as much as Rs.460 crore in finance cost by refinancing Rs.20,000 debt
- Bharti Airtel and OIL have managed to refinance shorter-term loans taken for funding acquisitions with longer-duration borrowings via bond sales.
- Reliance Industries borrowed $1.5 billion from a group of overseas banks for its telecom unit Reliance Jio Infocomm Ltd, at a cost saving of 65 bps

Name of Entity	Domestic Credit Ratings
Reliance Industries Ltd.	AAA (Stable) / A1+
ONGC Videsh Ltd.	AAA (Stable) / A1+
Sesa Sterlite Ltd	AA+ (Stable) / A1+
Bharti Airtel Ltd.	AA+ (Stable) / A1+

S&P has assigned Reliance Industries Ltd. 'BBB+' which is better than India's Sovereign rating mainly because company's large cash balance and most of the cash flows are linked to foreign currency

Benefits of Ratings to Regulators

- ***Helps in protecting the Interest of Investors***
  - CRA's follow the code of conduct laid by SEBI
  - Code of Conduct mandates CRA to disclose various information that can be used by investors for making informed decision
  - Code of conduct also mandates the CRA to disclosure information on conflict of interest.
- ***It acts as central credit information database for both regulator and Investor***
- ***Monitor the credit quality of sector through upgrades and down grade disclosures***

Who Rates the Raters

- One has to acquire requisite approvals/ license from SEBI and RBI to operate Credit Rating Agency.
- The performance of Rating Agency are continuously monitored by both RBI and SEBI statistical data regarding the rating movement and transaction have to be regularly submitted to both SEBI and RBI
- The data submitted to RBI / SEBI is published on all the credit rating's website so that investors at large can make their own decisions choosing the rating agency.

Data Submitted to SEBI and RBI on regular intervals. This data is publically available on CARE's website for general public / investors.

1. **List of all credit rating assigned**
2. **Movement in each Credit Rating**
3. **Movement credit rating from investment grade ratings to non investment grade**
4. **List of credit rating that has moved by one notch**
5. **History of all outstanding credit rating**
6. **List of defaults separately for each rating + default rages of last five years**

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About CARE

About CARE Ratings

Established in 1993 – Completed 20 yrs

Recognized by SEBI

Recognized by RBI as an ECAI

Follow best practices IOSCO and ACRAA Code of conduct

One of the leading credit rating agencies in India

Listed on Indian Stock Exchanges (BSE, NSE)

Founder member of ARC Ratings (International Rating Agency)

ISO certified (9001:2008)

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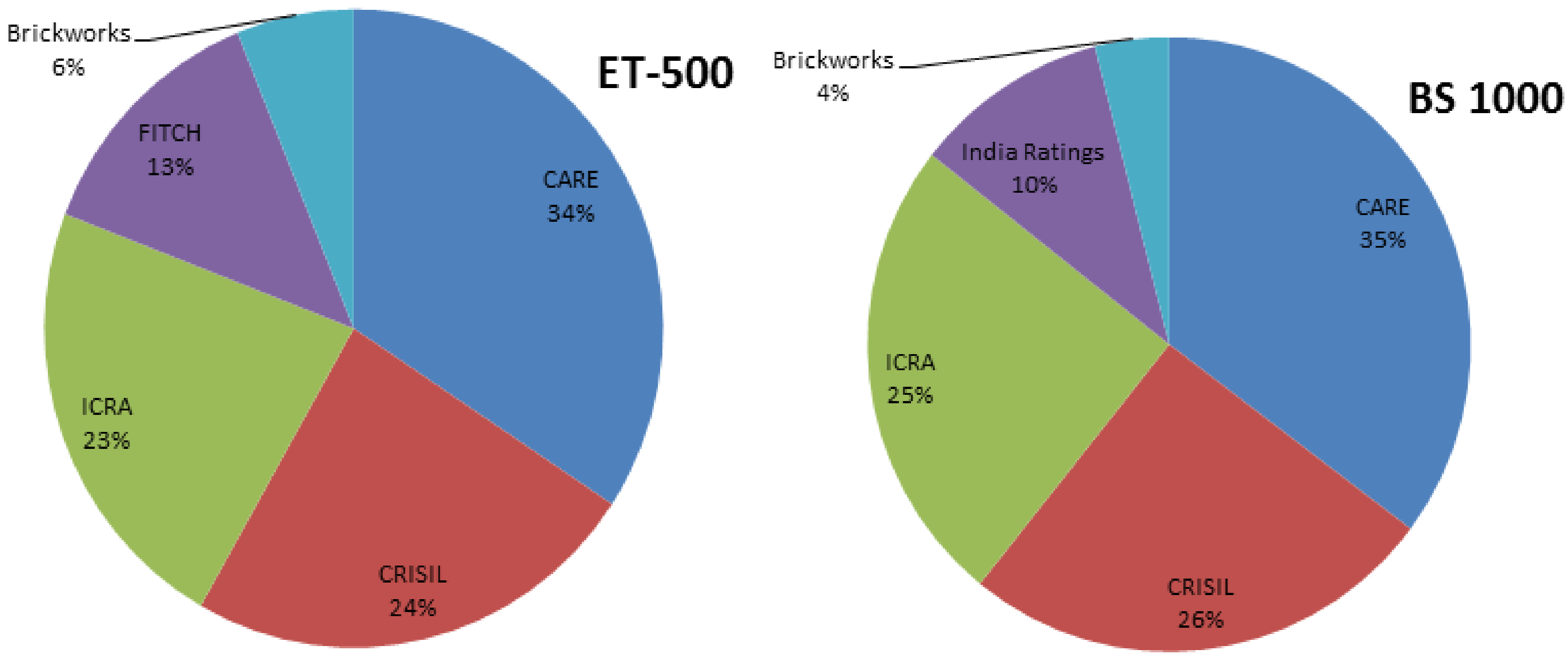
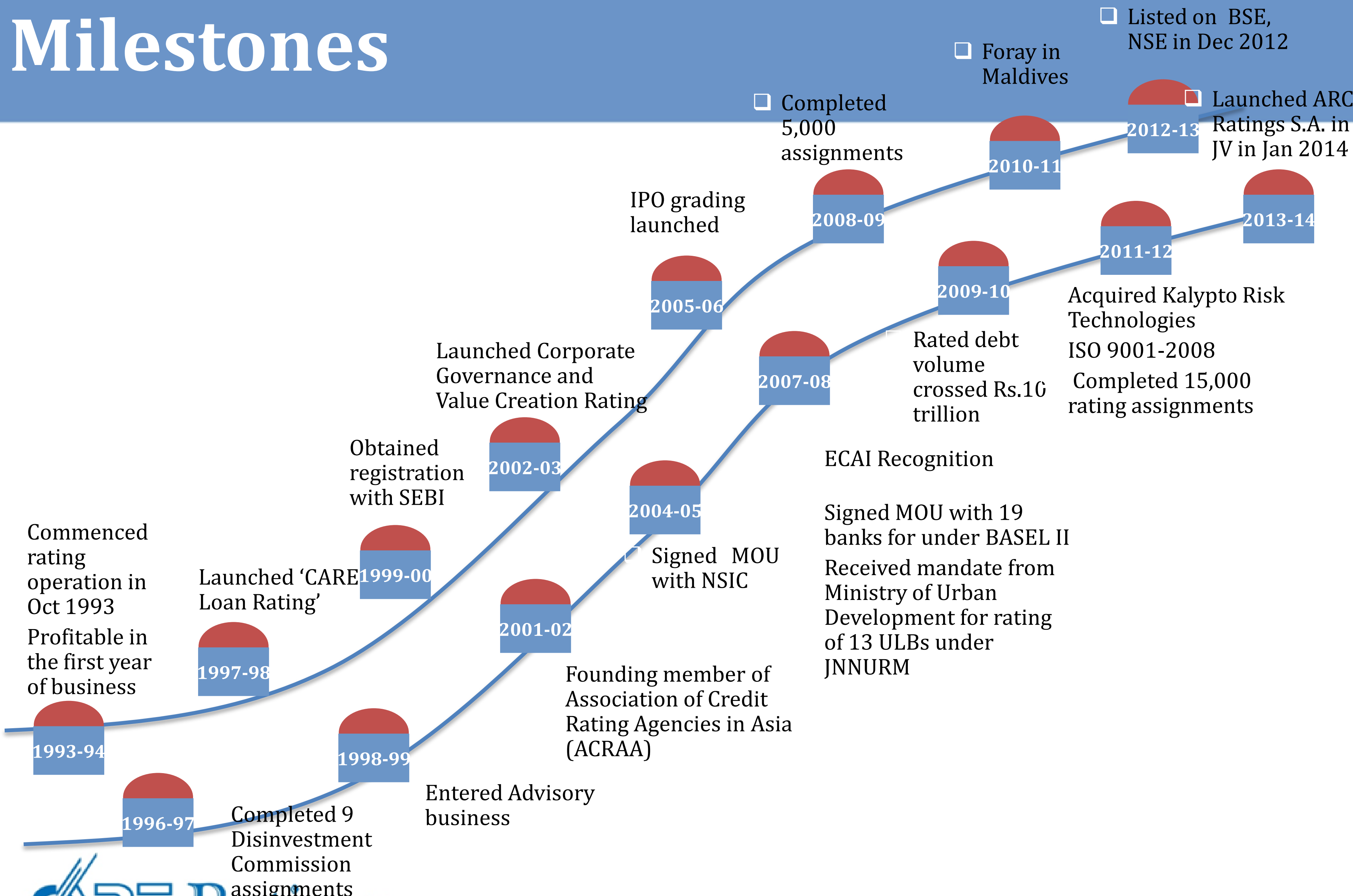
Significant Rating Coverage



Largest market share of ET-500 and BS-1000 club of listed universe in India

Milestones



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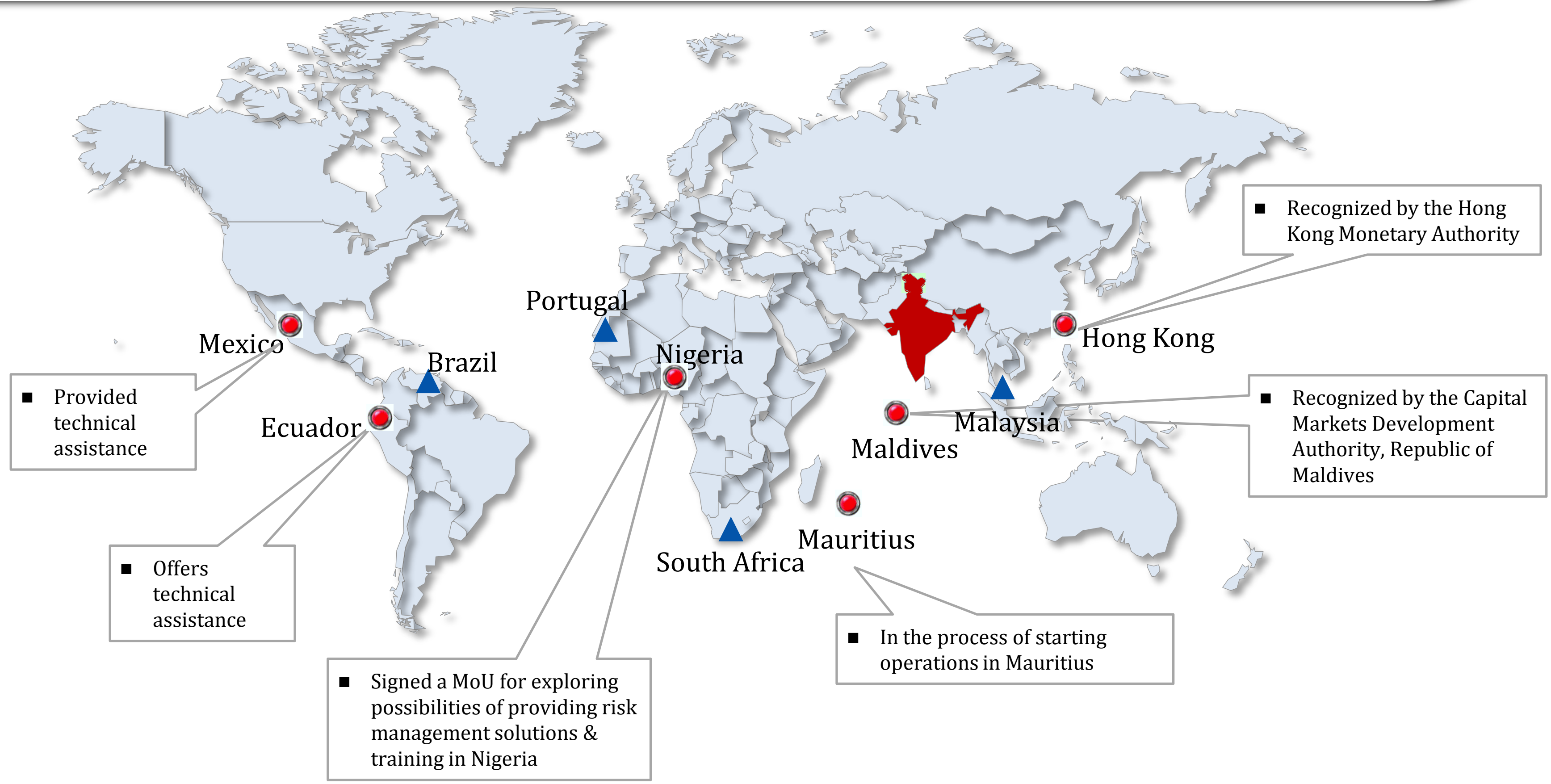
Global Footprint

Expanding international presence - only leading Indian rating company with global play



▲ The Company has along with four partners – one each from Malaysia, Brazil, Portugal and South Africa, launched international credit rating agency named ARC Ratings, SA, in London on January 16, 2014

Professional Risk Opinion

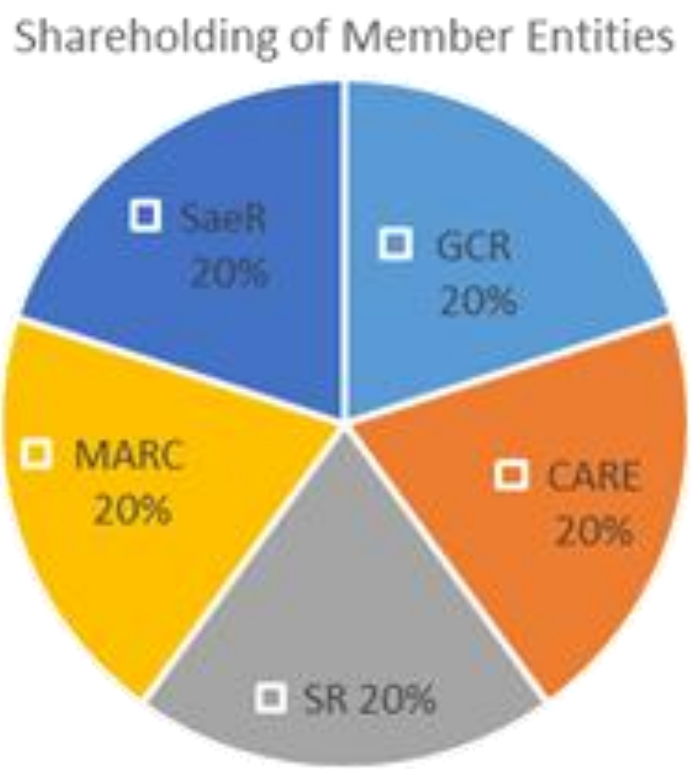
CARE's offerings

CARE Ratings

Ratings					Grading
Corporate	Financial Sector	Public Finance	MSME	Infrastructure Sector	▪ IPO ▪ Shipyard ▪ ESCO ▪ Educational institutions ▪ Maritime training institutes ▪ RESCO ▪ Construction companies ▪ Real estate star ▪ Equigrade ▪ SME fundamental ▪ Renewable Energy Companies/Projects
▪ Debt ▪ Bank loan ▪ Issuer ▪ Corporate governance	▪ Banks ▪ NBFCs ▪ Housing finance ▪ Insurance ▪ Mutual funds ▪ Securitization programmes	▪ Sub-sovereign entities ▪ ULBs	▪ NSIC – MSE rating ▪ SME rating ▪ Due Diligence ▪ Vendor Evaluation	▪ Power ▪ Roads ▪ Ports ▪ IDF	

ARC Ratings

- Founded by five Domestic Credit Rating Agencies (DCRAs) located in Asia, Africa, Europe, and Latin America
- ARC Ratings, S.A. (ARC Ratings) operates in in Europe through its head office located in London and branch office in Lisbon.
- Maximum ownership by any single country or single shareholder is capped at 25%. Hence, it does not represent interest of any country or any specific institution.
- Further, all the shareholders in entity are DCRA's in their own country. As a result, shareholders are not dependent upon the income from ARC to fund their operations.



Thank You