



## ICRA Rating Feature

# ICRA's Policy on Rating Outlook and Rating Watch

## Rating Outlook and Rating Watch

ICRA's Credit Ratings are a symbolic representation of its opinion on the relative credit risk associated with the debt instrument being rated by it. The opinion is arrived at following an evaluation of the Rated Entity's business and financial risks, its likely cash flows, and the adequacy of such cash flows vis-à-vis the debt servicing obligations. Apart from taking into consideration the various quantitative parameters, the rating approach also lays emphasis on qualitative aspects like management quality, integrity and reliability of information flow and the strength of group linkages (if any).

### What is a Rating Outlook and what does it convey?

While ICRA's Credit Ratings are forward-looking opinions on the relative credit risk associated with a rated debt instrument as represented by an appropriate symbol on the relevant rating scale, a rating outlook gives additional information to lenders, investors or other users about the expected direction of rating movement in the near to medium term (typically six months to two years). The rating outlooks assigned by ICRA fall into four categories: Stable, Positive, Negative, No Outlook.

- » A "Stable" outlook indicates a low likelihood of rating change in the near to medium term
- » A "Positive" outlook indicates a high likelihood of an upward rating revision in the near to medium term
- » A "Negative" outlook indicates a high likelihood of a downward rating revision in the near to medium term

However, a "Positive" or a "Negative" outlook does not imply that the rating would necessarily be upgraded or downgraded in the future. All that the rating outlook points to, without being a necessary precursor to a rating change, is the likely direction in which the ratings may move in the near to medium term. This additional information may help investors distinguish among Rated Entities or debt instruments having the same Credit Rating but different rating outlooks.

### What is a Rating Watch and what does it convey?

ICRA may place a Credit Rating on "Watch" when there is an unanticipated event, the credit implications of which are either unclear or not fully ascertainable immediately. Such events include a proposed change in ownership control, a merger, a demerger, an acquisition or a sudden regulatory development. ICRA utilizes the period for which a Credit Rating remains on "Watch" to monitor the ongoing developments and gather additional information so as to assess whether and to what extent the existing Credit Rating may have to be revised. ICRA designates the Credit Ratings placed on "Watch" in the following three ways:

- » Credit Rating placed under 'Watch with Positive Implications' indicates that once the credit uncertainty gets resolved, the Credit Rating is more likely to be upgraded (Special symbol '%' is used to denote this)
- » Credit Rating placed under 'Watch with Negative Implications' indicates that once the credit uncertainty gets resolved, the Credit Rating is more likely to be downgraded (Special symbol '@' is used to denote this)
- » Credit Rating placed under 'Watch with Developing Implications' indicates that once the credit uncertainty gets resolved, the Credit Rating may either be upgraded, downgraded or reaffirmed (Special symbol '&' is used to denote this)

Compared with a "Positive" or a "Negative" rating outlook, the resolution of a rating "Watch" typically happens in a shorter time span. And similar to rating outlooks, a Credit Rating placed on "Watch with Positive Implications" or on "Watch with Negative Implications" does not imply that the Credit Rating would necessarily be upgraded or downgraded in the future; nor is placing any rating on "Watch" necessarily a precursor to a Credit Rating change. A Credit Rating "Watch" is applicable to all debt

instruments regardless of the rating level and including those instruments that are rated on the short-term scale.

## Defined Terms

### Credit Rating

A Credit Rating is an opinion on the relative credit risk of the issuer/ borrower/ instrument / borrowing limit expressed in the form of standard symbols or in any other standardised manner, assigned by ICRA and used by the issuer of instrument/ debt obligation, to comply with the requirements specified under regulations.

### Credit Rating Action

A Credit Rating Action is any one of the items below:

1. the assignment of a Credit Rating to a Rated Entity or obligation, including subsequent Credit Ratings;
2. a change in a Credit Rating (i.e., upgrade or downgrade);
3. placing a Credit Rating on review or watch or changing the direction of an existing review;
4. the assignment or change in an outlook associated with a Rated Entity or one or more Credit Ratings;
5. an affirmation of a Credit Rating; and
6. a withdrawal of a Credit Rating.

### ICRA

ICRA Limited under this policy shall be referred to as "ICRA" as that term is used throughout this policy.

### Rated Entity (ies)

A Rated Entity means any entity rated by ICRA or any entity that issues instrument/ raises debt obligations rated by ICRA or any entity that is seeking a Credit Rating from ICRA.



**ICRA Limited**

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