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This rating methodology updates and supersedes ICRA’s earlier methodology document, published in December 2023. While this version incorporates a few modifications, ICRA’s overall approach towards rating non-banking financial companies (NBFCs)<sup>1</sup> remains materially similar. This document does not include an exhaustive discussion of all the rating factors that ICRA’s analysis considers but provides an overall perspective on the considerations that are usually the most important. While it provides an overview of the salient rating considerations, for more details, readers may refer to the other cross-sector methodologies<sup>2</sup> available on ICRA’s website.

### Overview

NBFCs play an important role in the Indian financial market. While the Reserve Bank of India (RBI) regulates NBFCs and banks, there are a few significant differences in the regulatory treatment. NBFCs have relatively greater flexibility in their governance structure and operational matters and can take exposures independent of priority sector targets and statutory reserve requirements. However, at the same time, there are regulatory restrictions on the range of services (like transaction services/cash credit lines, etc) that can be provided by NBFCs and on their funding options (such as access to the call money market, savings and current accounts, etc). NBFCs typically extend the following types of loans.

- Vehicle loans (for purchase of commercial vehicles (CVs), cars, tractors, two-wheelers, three-wheelers, etc) and construction equipment loans
- Personal/education/other consumer loans
- Loan against gold jewellery
- Microfinance
- Loan against property
- Loan against shares and mutual funds/initial public offering (IPO) financing
- Corporate loans
- Business and small and medium enterprise (SME) loans
- Real estate loans/construction finance
- Infrastructure loans
- Project finance loans
- Home loans

<sup>1</sup> Reference made to NBFCs, henceforth in this document, can be construed as a reference made to all categories of NBFCs as per the RBI, including NBFC-investment and credit company (NBFC-ICC), NBFC-infrastructure finance company (NBFC-IFC), NBFC-core investment company (NBFC-CIC), NBFC-infrastructure debt fund (NBFC-IDF), NBFC-microfinance institution (NBFC-MFI), housing finance companies (HFCs), NBFC-non-operative financial holding company (NBFC-NOFHC), mortgage guarantee company (MGC), NBFC-peer to peer lending platform (NBFC-P2P) and NBFC-Factors, unless stated otherwise. For NBFC-CICs, the methodology on ‘Investment Companies’ is applied if the entity is assessed on a standalone basis

<sup>2</sup> In various instances, ICRA’s analysis is guided by considerations that are not specific to a given sector but find relevance across sectors. Examples of such considerations include how parent or group support impact an entity’s rating, approach to consolidation, the impact of structural features or explicit third-party support on an entity’s rating, approach to assess investment companies and so on. Methodology documents that describe ICRA’s approach towards such cross-sector analytical considerations are available on ICRA’s website [www.icra.in](http://www.icra.in)

For rating an NBFC, ICRA assesses its business risk, ownership, management risk and financial risk to evaluate the level and stability of the NBFC's future financial performance under various scenarios, as required. The ratings are determined on a going concern basis rather than on a mere assessment of the assets and the debt levels on a particular date. The broad parameters for assessing an NBFC's business and financial risks are presented below and discussed in the sections that follow.

### Business Risk Assessment

- Business Profile
- Operating Environment

### Financial Risk Assessment

- Profitability
- Liquidity and Financial Flexibility
- Capital Adequacy
- Asset Quality

### Management Risk

### Ownership/Parentage

An NBFC with strong business and management credentials, effective credit and risk control policies, and consistent financial performance is viewed more favourably than an entity with similar or even stronger financial metrics but a moderate business profile. Consequently, greater emphasis is placed on evaluating the company's business risk, management quality, and risk control framework relative to its financial risk assessment. For instance, in a benign environment, an NBFC operating in riskier segments such as personal or unsecured loans may exhibit high profitability, but such performance may not be sustainable across business cycles. ICRA broadly applies the same methodology to assess the risk profiles of other entities in the lending business like trusts, cooperative societies, nidhi companies, asset reconstruction companies (ARCs), etc.

## Business Risk

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### Business Profile

ICRA's analysis of an NBFC's business profile involves the assessment of its product offerings, asset mix, geographical presence, size of the franchise/portfolio, track record of operations, responsiveness to market change and the envisaged pace of growth.

#### Product Mix and Riskiness





The target asset segments and the overall asset mix indicate the lender's risk appetite. NBFCs lend to various asset segments, namely vehicle finance, equipment finance, mortgage, business loans, corporate loans, infrastructure loans, real estate loans, microfinance, loan against shares, gold loans, personal loans, consumer loans, etc, while HFCs generally extend home loans, loan against property and construction finance loans. Product riskiness is evaluated based on a confluence of factors, namely the prevailing operating environment, historical and recent trends in the asset quality, loan granularity, strength of the loan security and recoverability in case of overdue build-up or default. NBFCs typically cater to non-salaried customers and small businesses, with either limited credit history or lower loan eligibility from other larger lending institutions. For instance, NBFCs with a high share of unsecured credit to borrowers, who have limited credit history, are expected to be more vulnerable in case of any adverse changes in the business or operating environment. Also, higher dependence on a single asset segment is deemed riskier as any unforeseen changes in the market or regulatory dynamics could impact the performance of those NBFCs. This analysis incorporates ICRA's assessment of the NBFC's assets and its performance through business cycles.

**Track Record, Responsiveness to Market Changes and Sustainability**

The track record of operations is evaluated in the context of completed loan cycles. Thus, while a 6-8 year-old two-wheeler finance company and/or microfinance loan company is considered to have a reasonable track record (typical loan tenure of 2-4 years), a mortgage finance company of the same vintage would be said to have a moderate track record (typical loan tenure of 12-15 years). An NBFC’s ability to respond to market changes by way of changing its lending norms, sourcing strategies, yields, etc, while ensuring that loan pricing remains commensurate with the risks is key for business sustenance. A diversified geographical presence and product offering not only reduces concentration risk but also enhances the competitive position of an NBFC. NBFCs, which are in the early phases of expansion into new products and geographies, generally face higher credit-related challenges and become monitorable from a rating perspective. Size too has a bearing on an NBFC’s competitive position. Larger NBFCs generally operate across multiple states and have greater product diversity. They also have higher financial flexibility in terms of pricing their loans as well as fund raising.

Optimal portfolio growth is important for business sustainability. While aggressive portfolio growth is more likely to reflect as a risk because of a possible leniency/dilution in the underwriting norms over a period, slower growth vis-à-vis the industry level could indicate a weakened competitive profile.

**Summary of Salient Business Risk Factors**

	Strongest		Weakest
<b>Assets under management (AUM)</b>	More than Rs. 75,000 crore		Less than Rs. 5,000 crore
<b>Product mix and riskiness</b>	Housing loans Largest product (or asset class) less than 20% of AUM		Unsecured loans, real estate financing, security receipts, etc Largest product accounting for more than 90% of AUM
<b>Geographical diversification</b>	Concentration in single state <15%		Concentration in single state >80%
<b>Track record (loan tenor and vintage in newer asset segments are factored in)</b>	>15 years; established track record of market responsiveness		<3 years; no track record to establish market responsiveness

**Operating Environment**

The operating environment has a bearing on an NBFC’s credit rating as it can materially impact its growth prospects and asset quality. For assessing the operating environment, ICRA looks at the overall economic conditions including liquidity conditions, interest rate cycle, outlook for credit growth, prospects of the NBFC industry (including the competitive intensity), headwinds faced by specific asset classes, and the regulatory environment. The intensity of competition also has a bearing on an NBFC’s credit profile as it can change its growth prospects, earnings and management strategy.

ICRA’s assessment of the regulatory system involves the evaluation of the extent of regulatory supervision and the changes in response to the macroenvironment, key norms (such as provisioning, capital adequacy, liquidity, risk weights) and prospective regulatory changes. Regulatory changes can adversely impact the performance of an NBFC in the near term, impacting the sectoral growth or earnings, but are generally favourable in the longer term for the sector's sustainability and for improving its resilience to unfavourable market developments/movements. The RBI has implemented scale-based regulations for NBFCs according to which they have been classified into top, upper, middle, and base layers. Entities in the top and upper layers are subjected to relatively tighter regulations and supervision compared with the middle and base layer NBFCs.

## Financial Risk Assessment

### Profitability

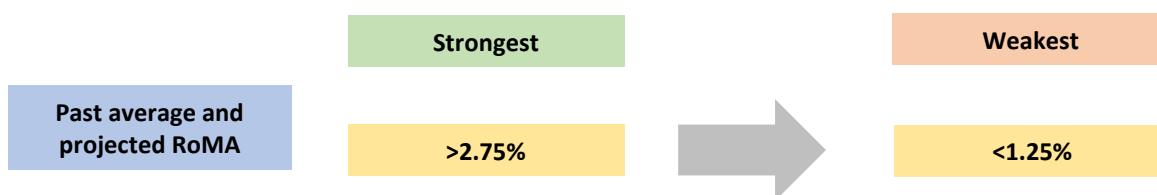
An NBFC’s ability to generate adequate returns is important from the perspective of its shareholders and debtholders, and to support its growth plans. The purpose of ICRA’s evaluation here is to assess the level of the future earnings of the NBFC concerned, which is undertaken by looking closely at the building blocks of profitability, viz. interest spreads, fee income, operating expenses, and credit costs. ICRA also analyses the NBFC’s historical performance for stability and diversity of earnings and to understand the impact of the various market, regulatory, operational and business risks on the earnings.

The evaluation of an NBFC’s profitability starts with the interest spreads (yields minus cost of funds) and the likely trajectory of the same in the light of changes in the operating, regulatory and funding environment, and the NBFC’s own business/growth strategy. It is important for an NBFC to manage its interest rate risk (arising from the share of fixed versus floating rate assets and liabilities, investment book repricing risk, etc) as this could impact its future profitability. The NBFC’s ability to complement its interest income with fee income is also assessed. Sizeable fee income provides some diversification to the income stream, which can improve the resilience of earnings. Profitability is also impacted by one-time income (such as upfront gains on asset derecognition, income from sale of assets/investments etc.). Other than assessing the income stream, ICRA evaluates the NBFC’s operating efficiency (operating expenses in relation to average managed assets, and cost-to-income ratio). ICRA also analyses the components of the NBFC’s credit costs (provisions and write-offs) and future credit costs are estimated on the basis of the company’s asset quality profile to arrive at the projected net profitability<sup>3</sup>.

Leverage plays a crucial role in the earnings performance of NBFCs and is assessed in relation to its asset profile. For the same level of leverage, an entity with a better risk/asset profile is viewed favourably vis-à-vis an entity with a higher risk/asset profile. ICRA notes that the leverage is expected to increase as the company grows and this could put pressure on the margins. Assuming that the credit cost remains stable, entities could witness a moderation in their earnings performance unless the benefits of scale improve commensurately to offset the margin pressure on account of the higher leverage.

### Profitability Metrics

[Indicative Metrics<sup>4</sup>]



RoMA: Return on average managed assets

<sup>3</sup> Profit after tax (PAT) as a percentage of average total managed assets

<sup>4</sup> The indicative financial metrics mentioned here and elsewhere in the document are intended to provide a broad overview to the readers regarding what ICRA generally considers as ‘relatively strong’ or ‘relatively weak’ metrics. It is, however, possible that an entity has relatively weaker metrics on one or more financial parameters, but its credit risk is assessed to be low because of other mitigating factors, including (but not limited to) stronger metrics on other financial parameters, a healthy business risk profile, strong financial flexibility or a strong promoter group that is willing to extend distress support to the entity

### Liquidity and Financial Flexibility

It is important for an NBFC to maintain a favourable liquidity profile for the smooth functioning of its business (fresh asset creation) and for honouring its debt commitments in a timely manner.

For assessing an NBFC's liquidity profile, ICRA evaluates the maturity profile of its assets and liabilities, the resulting asset-liability maturity gaps and the availability of sanctioned and undrawn credit lines. ICRA's evaluation also focusses on the diversity of the NBFC's funding sources. A high share of short-tenure borrowings (<1 year) exposes entities to refinancing and interest rate risks during adverse market liquidity conditions, especially NBFCs offering relatively longer-tenure loans. Increase in dependence on short-term market borrowings beyond a certain level, depending on the credit profile of the entity, could adversely impact the liquidity profile.

The borrowing covenants agreed by the NBFCs with their lenders also have a bearing on their credit profile. Some covenants, especially financial covenants, might be close to the current performance levels and hence prone to a breach even with a minor deterioration in the operating environment. The breach of these covenants would warrant an increase in the borrowing rate or an early redemption, which could trigger cross-default clauses in some of the other borrowings. This would exert pressure on the overall liquidity profile. Therefore, entities/groups with a larger share of borrowings with strict covenants and with early/accelerated redemption clauses linked to these covenants are likely to face higher liquidity-related pressure as their ability to secure fresh funding in a weak operating environment would also be affected.

ICRA also assesses the financial flexibility of the NBFC based on its track record of raising adequate funds when required and other factors including strong sponsors and its market position, etc. The cost of funding also provides some insight into the financial flexibility of an NBFC. Entities with a wider lender base (number of lenders) and a diverse resource (banks, fund houses, other financial institutions, insurance entities, etc) profile are more likely to have competitive borrowing rates compared to entities with a concentrated resource or lender profiles. Further, these entities have better refinancing capabilities during a subdued liquidity environment.

## Capital Adequacy

An NBFC's capitalisation provides comfort to the debtholders as it gives the company the cushion to absorb asset-related shocks. Therefore, its adequacy is an important consideration for the rating exercise. As per RBI regulations for NBFCs, they have to adhere to a minimum prescribed Tier I capital percentage and capital adequacy requirements. Their ability to maintain adequate buffers over the regulatory capital adequacy requirements is considered for the assessment.

The riskiness of the product and granularity of the portfolio have a significant bearing on the amount of capital required for a healthy credit profile. The requirement of risk capital varies with the product concentration and riskiness of the product mix. The portfolio mix also has a bearing on the reported capital adequacy of NBFCs since the RBI-prescribed risk weights could vary across different asset classes and are subject to change by the RBI.

ICRA assesses the managed gearing (calculated after taking the off-balance sheet portfolio via direct assignment or co-lending as part of total borrowings) and/or adjusted gearing (calculated after adjusting the net worth for risk attributable to the off-balance sheet portfolio, like first loss default guarantee (FLDG), etc) to assess the capitalisation levels of the NBFC. ICRA makes adjustments for other intangibles like goodwill, etc as well while assessing gearing of an NBFC.

ICRA also analyses the incremental capital requirement, considering the growth plans, and it compares the computed capital requirement with the current capital position. Entities with higher growth rates vis-à-vis the levels that could be supported by internally generated cashflows are likely to witness some moderation in their capitalisation profiles. NBFCs, which provide visibility on maintaining a comfortable and risk-adjusted capital structure over the medium term, are viewed favourably. The risk-adjusted capital structure could vary depending on the target asset segment.

ICRA typically notches down the rating of hybrid instruments, such as a perpetual debt programme, from the rating of the other long-term debt programmes of the NBFC. This reflects the lower seniority of these instruments, wherein an NBFC may defer the payment of interest on these instruments if:

- its capital-to-risk weighted assets ratio (CRAR) is below the minimum regulatory requirement prescribed by the RBI; or
- the impact of such payment results in the NBFC's CRAR falling below or remaining below the minimum regulatory requirement prescribed by the RBI

Interest may be paid with the prior approval of the RBI when the impact of such payment may result in a net loss or an increase in the net loss, provided the CRAR remains above the regulatory norm. The extent of rating notching could vary based on the likelihood of the deferment of payments, which depends on the extent of capital buffers available with the entity and the expected profitability trajectory.



**Asset Quality**

The assessment of the asset quality involves the evaluation of the gross NPA<sup>†</sup>/stage 3 percentage and credit costs (provision cost and loan write-offs). It also includes the evaluation of the stress (net of provisions) emerging from the loans and other exposures of the entity, which is compared in relation to the entity’s net worth.


Diversification is an important factor influencing an NBFC’s asset quality. Healthy levels of diversification (in the context of loan mix, credit risk, portfolio granularity, geographical presence, and borrower profile) can shield an NBFC from a downturn in any segment. At the same time, diversification into riskier segments may not improve resilience and can affect portfolio quality. However, an NBFC’s ability to manage diversification, especially in multiple businesses and/or new geographies, is an important factor, as is management depth and the ability to adopt the skills and techniques needed to run different businesses.

Comparing asset quality indicators across NBFCs operating in different asset classes may not yield meaningful results as the indicators can vary, depending on the asset class, the borrower profile and the accounting policy for write-offs. As NBFCs in the same asset class could also have different policies towards write-offs, ICRA assesses the asset quality gross of write-offs for a meaningful comparison. Further, pre-credit-cost profits in relation to credit costs provides insights into the buffer created by business profits on the incurred credit cost. For NBFCs with a high growth rate, a static pool and/or lagged analysis may be done, subject to availability, as this gives a meaningful estimate of the overdue and losses free from the distortions caused by a high growth rate.

**Summary of Salient Factors Considered for Asset Quality of Some Asset Classes (as example)**

90+ dpd (including one-year w/off)	Strongest		Weakest
NBFC-Retail loans*	<2.0%		>6.9%
HFCs	<1.5%		>5.5%

*\*Excluding microfinance entities; Dpd – Days past due; W/off – Write-offs*

Solvency	Strongest		Weakest
Net stressed assets/Net worth	<7.5%		>30%

<sup>†</sup> Non-performing assets

## Management Risk

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The quality of management, credit policies and risk management processes are important building blocks for an NBFC's credit risk profile. These are generally supplemented by comprehensive information technology (IT), management information system (MIS) and conservative accounting, etc, and provide a more holistic perspective on the ability of the NBFC to navigate across various business cycles.

### Management

The experience and stability of the senior management, the extent of reliance on the promoter/keyman for taking strategic decisions and presence of a second line of management provide insights on an NBFC's management quality. While this evaluation is largely qualitative, the management's track record serves as an important guide. Typically, a detailed discussion is held with the management of the NBFC to understand the business objectives, plans and strategies, and views on past performance, besides the outlook on the industry.

### Risk Management Systems, Credit Policies and Processes

The NBFC's credit and risk management policies are perused, wherever available. Some of the key underwriting norms such as loan-to-value ratio, fixed obligation to income ratio, nature of the security, etc, are evaluated, depending upon the asset profile. Adherence to accounting policies and regulatory guidelines while being consistent and conservative is viewed favourably. NBFCs are typically incorporated under the Companies Act and are required to follow the prescribed accounting standards. Further, the RBI has issued prudential norms for NBFCs. While evaluating an NBFC's accounting quality, ICRA reviews its accounting policies, notes to accounts, and auditor's comments. Adjustments, if required, are made in the reported financials for evaluating the key performance indicators and for comparison with peers. ICRA considers the control systems and processes of the NBFC while assessing the overall credit profile.

## Other Elements of Credit Risk Assessment

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### Ownership/Parentage

The risk profile of an NBFC, which is a part of a large corporate group or has an established promoter, can benefit from its strategic fit with the group or from the experience of the promoter. Over and above the standalone credit considerations, the likelihood of extraordinary support from the parent to an entity or the support that an NBFC is likely to extend to other group companies is factored in while assessing its credit profile. This process involves the assessment of the ability and willingness of the parent to extend support to the NBFC in addition to the evaluation of the NBFC's own fundamental credit strength.

ICRA also evaluates the NBFC's strategy and business plans along with various other stakeholder expectations from the company and the possible impact of the same on its overall credit profile, going forward. All credit ratings incorporate the assessment of the strengths/weaknesses arising from the issuer's status as a part of a group. Some of the other points that are assessed include:

- o Experience and commitment of the promoter in the line of business concerned
- o Attitude of the promoter to risk-taking and containment
- o Strength of the other companies belonging to the same group as the issuer
- o Ability and willingness of the group to support the issuer, if required; in this case, support means financial support from the parent, which is expected to be available to the entity, such as loans and equity, in times of credit or liquidity stress on the entity. If the parent/group's credit profile is relatively weaker than the rated entity, the entity's rating may be lower than what its standalone credit profile assessment would have merited. This is due to the possibility that the entity

may, at some point of time, be bound to extend financial support to its weaker parent or other group entities, possibly to the detriment of its own credit profile<sup>5</sup>

## Assessment of ESG Risks

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The assessment of environmental, social and governance (ESG) risks by ICRA involves a broad range of considerations that pertains to the sustainability of an entity with focus on aspects that can have a material impact on its credit quality. While the E&S risks tend to be sector-related as well as entity-specific and could be due to external factors such as regulations or demographic changes, the G risks are largely entity-driven. The impact of the E&S risks on an entity's credit profile tends to be asymmetric. If the ESG risks are material but unmitigated, these generally pull down the rating, but the ratings are usually not pushed up even when the ESG context is favourable.

### Environmental and Social Risks

While undertaking the credit assessment of entities, ICRA seeks to incorporate all relevant credit considerations into its rating decisions while taking a forward-looking view of the risks and mitigants. The relevant credit considerations include (sometimes obvious and sometimes imperceptible) E&S factors that could affect the rated entity. While ICRA's analytical approach does not explicitly disaggregate these risks to assess their impact on the rating, these risks are often assessed broadly. Further, it is not always feasible to fully or precisely disaggregate the sub-components of E&S risks while conducting the credit analysis as these considerations often tend to overlap.

While evaluating the E&S risks, ICRA's objective is to assess the direct and indirect risks that an entity faces and how it already is or intends to mitigate the impact of such risks on its credit profile. Given the service-oriented nature of the business of the entities under consideration, their direct exposure to environmental risks is not material. However, for exposure to environmentally sensitive segments, indirect transition risks exist for the lender due to changes in regulations or policies concerning those assets.

The financial services sector also faces risks from a social standpoint. Data breaches and cyberattacks could affect the large volume of customer data managed by such entities. ICRA evaluates the disclosures made by these companies outlining the key policies, processes, and investments made by them to mitigate the occurrence of such instances. Any material lapse on this front can result in substantive liabilities, fines or penalties and reputational impact. Moreover, the social impact of the entity's operations and business practices (instances of mis-selling, pricing and collection practices) on its target borrower segment and geographies is an important consideration.

### Governance Risks

A sound corporate governance structure should clearly delineate the roles and responsibilities of the board of directors and the management. The composition of an entity's board, its involvement in strategic decision making and the entity's compliance with the legal and regulatory requirements are factored in during credit assessments. ICRA also seeks to gain a qualitative understanding of the entity's commitment to follow transparent and credible practices, as reflected in the presentation of the financial statements, timeliness and depth of disclosures, consistency in communication and openness about sharing information during the rating process. Additionally, factors such as the complexity of the corporate group structure, related-party transactions, instances of financial support to group entities at the expense of debtholders, and any abrupt resignations of auditors or independent directors are evaluated.

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<sup>5</sup> For more details, readers may refer to the document titled, 'Rating Approach – Implicit Parent or Group Support', available on ICRA's website

### Key Assessment Factors for ARCs

ARCs acquire stressed assets from banks, NBFCs and financial institutions at pre-agreed terms and endeavour to resolve these assets through different methods. They are governed by the RBI and are registered under and follow the guidelines laid out under the SARFAESI Act, 2002 of the RBI.

The approach for rating ARCs is largely in accordance with the rating methodology for NBFCs, with similar broad parameters considered for the assessment of business and financial risks. Additionally, the rating approach includes the assessment of certain factors, which are distinctive of ARCs. For example, while evaluating the granularity of the assets under management (AUM), the ARC's acquisition policy in terms of preferred segments, transaction size, and its approach towards debt aggregation and co-investment are understood. Similarly, to assess an ARC's track record, ICRA considers its acquisitions as well as recovery/resolution performance over the years. The key parameters considered include the trend in acquisitions, redemption ratio (ratio of security receipts (SRs) redeemed to SRs issued), and recovery ratio (recovery to acquisition value). The goal is to assess these parameters at the overall AUM level as well as for the ARC's own share in the AUM.

The nature of the underlying assets (i.e. retail or wholesale) and the uncertainty associated with the resolution process can lead to variability in the ARC's cashflows. Thus, its ability to maintain adequate liquidity, given the lumpy nature of cashflows, remains critical to ensure smooth operations. To assess an ARC's financial flexibility, ICRA also evaluates its ability to mobilise funds from a diverse set of sources and at competitive rates. In this regard, as the nature of the assets to be offered as collateral poses a challenge in raising funds, an understanding of the borrowing ability of the entity is sought in terms of its potential drawing power, basis the nature and rating distribution of the underlying assets. Similarly, while evaluating the capitalisation profile of ARCs, the volatility of the cashflows and the relatively lower borrowing ability are factored in.

While assessing the asset quality of an ARC, ICRA considers the recovery rating profile of the AUM and the company's share of the AUM (i.e. SRs held by the ARC). For an ARC, the valuation of its assets and its fee income are linked to the recovery ratings of the SRs. Thus, any adverse movement in the recovery rating profile of the portfolio can have a bearing on the ARC's financial profile. As a part of the resolution process for the underlying assets, particularly corporate assets, an ARC may extend funding to its portfolio companies (i.e. the corporate debtors acquired by the ARC from banks against which SRs have been issued). The assessment of the asset quality would continue to factor in the asset quality of these loans (portfolio composition, concentration, gross SRs, SR provisions, etc) akin to the rating approach for NBFCs. ICRA's analysis also considers the recovery performance over the life of the SRs, the corresponding trend in fair valuation/impairments and the outlook for the same, besides observing the frequent modes of resolution/settlement adopted by the ARC. As the period for the realisation of assets acquired by ARCs can be extended up to eight years, the assessment of the vintage of the assets is imperative. The higher the vintage, more likely is the possibility of impairments/write-downs in the ensuing period, subject to the accounting policy adopted by the entity. Thus, the ability to ensure adequate and timely resolution is of paramount importance for the sustenance of a healthy performance.

### Summing Up

ICRA's credit ratings are a symbolic representation of its opinion on the relative credit risk associated with the entity and the instruments being rated. ICRA arrives at this opinion by conducting a detailed evaluation of the entity's business and financial risks and uses this to project its future financial performance in various scenarios. While several parameters are used to assess an NBFC's business, management and financial risks, an NBFC with a strong business and stable financial performance would be viewed more favourably than one with comparable or better financial numbers but with a weaker business profile.

**ANNEXURE**

**Summary of Rating Factors and an Example to Illustrate the Key Building Blocks of a Credit Rating**

Category	Sub-category	Strong			Comfortable			Adequate			Moderate			Weak		
Operating and business risk	Business risk profile															
	Management, lending process/policy and systems															
	Operating environment															
Financial risk	Profitability															
	Capitalisation															
	Asset quality															
		Superior			Strong			Adequate			Stretched			Poor		
Liquidity indicator	Liquidity															
		Enhance			Neutral			Hinder								
Parent support	Impact of parent support, if any, on the credit rating															

The above graphic is only for illustration purpose and does not represent a rating output from a formulaic model. The ratings assigned by ICRA are determined by the Rating Committees based on both quantitative and qualitative considerations.

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## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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## ICRA Limited

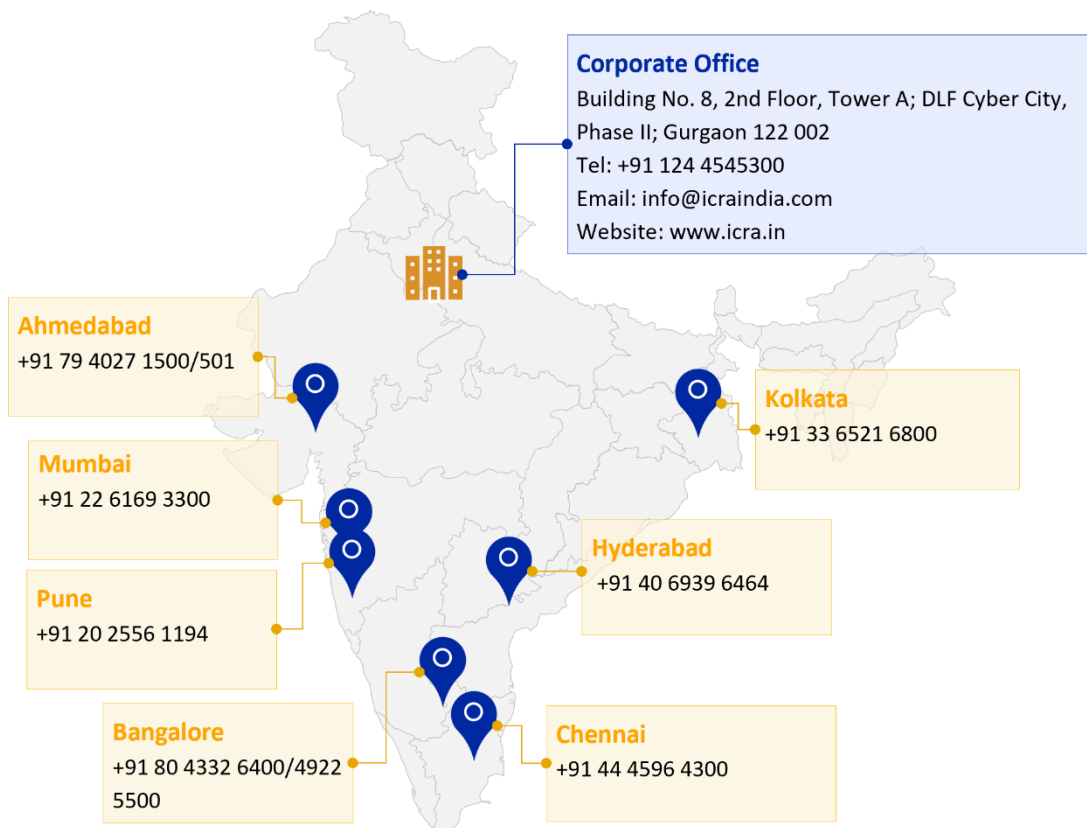


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### Branches



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