

FAQs ON CREDIT RATING

1. What is the full form of CRA?

The full form of CRA is Credit Rating Agency.

2. What is a credit rating agency?

A credit rating agency is an entity which assesses the ability and willingness of the issuer company for timely payment of interest and principal on a debt instrument.

3. How is a rating denoted?

Rating is denoted by a simple alphanumeric symbol, for e.g. AA+, A-, etc.

4. Whether the issuer company is rated or the instrument?

The rating is assigned to a security or an instrument.

5. What does credit rating convey?

Credit rating is an assessment of the probability of default on payment of interest and principal on a debt instrument. It is not a recommendation to buy, sell or hold a debt instrument. Rating only provides an additional input to the investor and the investor is required to make his own independent and objective analysis before arriving at an investment decision.

6. How is credit rating done?

Ratings are based on a comprehensive evaluation of the strengths and weaknesses of the company fundamentals including financials along with an in-depth study of the industry as well as macro-economic, regulatory and political environment.

7. What do the various rating symbols mean?

Each rating symbol is an alphanumeric representation of the probability of degree of repayment risk associated with debt instruments.

8. Are rating symbols the same across all types of debt instruments?

No. Rating symbols may vary depending on the type of debt instrument, as for example long term or short term.

9. What do the “+” and “-” sign indicate in a rating?

Plus and minus symbols are used to indicate finer distinctions within a rating category. The minus symbol associated with ratings has no negative

connotations. In fact, ratings in a higher rating category such as 'AA-' are stronger than ratings in a lower rating category such as 'A+'.

10. What are investment and speculative grade ratings?

An investment grade rating signifies the rating agency's belief that the rated instrument is likely to meet its payment obligations. In the Indian context, debt instruments rated 'BBB' and above are classified as investment grade ratings. Instruments that are rated 'BB' and below are classified as speculative grade category ratings in which the ability to meet the payment obligations is considered to be "speculative". Instruments rated in the speculative grade are considered to carry materially higher risk and a higher probability of default compared to instruments rated in the investment grade.

11. Who pays for the credit rating?

In India, the issuer company pays for the credit rating.

12. Who regulates rating agencies?

Credit rating agencies are regulated by SEBI. The SEBI (Credit Rating Agencies) Regulations, 1999 govern the credit rating agencies and provide for eligibility criteria for registration of credit rating agencies, monitoring and review of ratings, requirements for a proper rating process, avoidance of conflict of interest and inspection of rating agencies by SEBI, amongst other things.

13. Does SEBI have a role in the rating exercise?

No. SEBI does not play any role in the assessment made by the rating agency. The rating is intended to be an independent, unbiased and professional opinion of the rating agency.

14. Is rating a one time exercise?

No. To protect the interest of investors, SEBI has mandated that every credit rating agency shall, during the lifetime of the securities rated by it, continuously monitor the rating of such securities and carry out periodic reviews of all published ratings.

15. Why do ratings change?

Rating is an opinion based on information available at a point in time with the rating agency and expectations made on the basis of such information by the agency. However, information can change significantly over time causing the rated instruments performance to deviate from the earlier expectations thereby affecting the future repayment abilities and thus, requiring the rating to be altered.

16. What does a rating downgrade indicate?

Rating is monitored throughout the life of the instrument. A downgrade in the rating indicates that the risk of default of the instrument is higher than what was earlier predicted.

17. What kind of responsibility or accountability will attach to a rating agency if an investor, who makes his investment decision on the basis of its rating, incurs a loss on the investment?

A credit rating is a professional opinion given after studying all available information at a particular point of time. Nevertheless, such opinions may prove wrong in the context of subsequent events. There is no contract between an investor and a rating agency and the investor is free to accept or reject the opinion of the agency.

18. Do agencies rating small and medium enterprises, mutual funds, banks, non-banking financial institutions, insurance providers, infrastructure entities, etc. also fall under the regulatory purview of SEBI?

No, SEBI regulates only the agencies which are engaged in the business of rating securities offered by way of public or rights issue.

19. From where can the credit ratings of instruments be obtained?

Credit ratings assigned by the credit rating agencies to various instruments are made available by the agencies through press releases and on their respective websites. The same are also available in the prospectus or the offer document of the issuer company and in media advertisements.

20. What are the common factors that are taken into account while awarding the credit rating?

Each credit rating agency may have its own set of criteria and different weightage for each component for assigning the ratings. Some of the common factors that may be taken into consideration for credit rating are Issuer Company's operational efficiency, level of technological development, financials, competence and effectiveness of management, past record of debt servicing, etc.

21. How can an investor know if a credit rating agency has changed its rating?

The credit rating agencies are required to continuously monitor the ratings assigned by them to a particular instrument. In case of any changes in the ratings so assigned, the agencies are required to disclose the same through press releases and on their respective websites.

22. What are the measures taken by SEBI in strengthening credit rating?

SEBI has, from time to time, taken several steps to strengthen the process of credit rating. SEBI directives require the credit rating agencies to be transparent and disclose to the public the information which may have a material bearing on the

ratings, any sources of conflicts of interest while undertaking the rating exercise, rating methodology, rationale of the ratings, etc.

23. Why there are not common symbols for credit ratings of all agencies?

The credit rating agencies do not have common symbols because they use different rating methodologies and have different factors bearing different weightage.

24. Which are the Credit rating agencies registered with SEBI?

Name of the rating agency	Information
Credit Analysis & Research Ltd. (CARE)	4th Floor, Godrej Coliseum Somaiya Hospital Road Off Eastern Express Highway Sion (East) Mumbai-400022 http://www.careratings.com
ICRA Ltd.	1105, Kailash Building, 11th Floor 26, Kasturba Gandhi Marg New Delhi-110 001 http://www.icra.in
CRISIL Ltd.	CRISIL House 121-122 Andheri Kurla Road Andheri (East) Mumbai-400093 http://www.crisil.com
Fitch Ratings India Pvt.Ltd.	Apeejay House, 6th Floor 3, Dinshaw Vachha Road Churchgate Mumbai-400020 http://www.fitchindia.com
Brickwork Ratings India Pvt.Ltd.	#39/2, Sagar Complex, 2nd Floor Bannerghatta Road Near Diary Circle Bangalore-560029 http://www.brickworkratings.com

**SME Rating Agency of India Ltd.
(SMERA)**

Unit No. 102, First Floor, Sumer
Plaza, Marol Maroshi Road, Marol,
Andheri (East), Mumbai - 400 059.

www.smera.in