

Bulletin: 35

The Rating Process

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India Ratings (Ind-Ra) provides forward-looking credit opinions that reflect its expectations of credit behavior over a range of scenarios as indicated by its ratings. To achieve its objectives, Ind-Ra follows standardized procedures, as described in this report, to ensure a consistent approach in the conduct of its rating processes. Ind-Ra does not structure transactions or give corporate restructuring or policy advice to Issuers, rated entities or their agents. Ind-Ra doesn't provide indicative ratings without having a written agreement in place. Additional information related to structured finance is included in **Appendix A**. For purposes of this report, an "issuer" denotes an issuer, rated entity or transaction.

Start of the Ratings Process: The rating process begins when an arranger, issuer, sponsor, or underwriter contacts a member of Ind-Ra's Business Relationship Management (BRM) group with a request to engage India Ratings.

Assignment of the Analytical Team

At the start of the rating process, both a primary analyst and a secondary analyst are assigned to each Issuer or transaction, by their Manager. This team is responsible for completing the analysis necessary to bring the initial credit rating(s) to committee. Subsequently, the team is responsible for the ongoing monitoring of the rating, except for point-in-time ratings or where monitoring responsibility has been transferred from one or both of these analysts to one or more dedicated surveillance analysts.

Manager's Role: The manager leading the relevant product group will assign a primary and secondary analyst (if required tertiary) to lead the analysis, formulate a rating recommendation and continue surveillance of the rating.

Structured Finance Ratings: For structured finance, once an initial rating is assigned, surveillance may be transferred to a dedicated surveillance analyst, although for some assets, day-to-day surveillance activities may remain with the primary analyst.

Analyst Role: Ind-Ra analysts conduct their analyses in a manner consistent with Ind-Ra's rating process and published criteria applicable to the particular entity, transaction type, asset class, region or sector. Analysts and committee members are required to consider relevant qualitative and quantitative factors as defined in applicable criteria and methodologies.

Analysts may rotate coverage responsibility over time as deemed appropriate by analytical group managers in accordance with applicable laws and regulations.

Information Used to Determine a Rating

The rating process incorporates information provided directly by the rated issuer, arranger, sponsor or other third party. This may include background data, forecasts, risk reports or factual feedback on proposed analytical research and other communications. In most cases, issuer management participates in the ratings process via in-person management and treasury meetings, on-site visits, teleconferences and other correspondence. In addition analysts consider macroeconomic conditions, market events and any other factors deemed relevant, such as information from an issuer's peers or provided by other analytical groups within Ind-Ra. The analytical team conducting the analysis will determine if sufficient information is available to recommend a view on creditworthiness of the issuer. Collectively, the rating committee will also consider whether there is sufficient information to support a rating. If Ind-Ra believes that the information available, both public and private, is insufficient to form a rating opinion, no credit rating will be assigned. Basic minimum information requirements for Issuers in Corporate Finance, Infrastructure Finance, Public Finance, Structure Finance and Financial Institutions verticals form a part of Ind-Ra's Rating Process Manual and the same is reviewed periodically, typically annually, to incorporate changing business and economic environment.

Ind-Ra. relies on information it receives from sources believed to be credible. Ind-Ra conducts a reasonable investigation of data accuracy and obtains reasonable verification of that information from independent sources such as bankers and auditors. Issuers (or arrangers/sponsors) may choose not to share certain information with external parties, including rating agencies, at any time. While Ind-Ra expects that each participating issuer in the rating process, or its agents, will supply promptly all information relevant for evaluating both the ratings of the issuer and all relevant securities, Ind-Ra neither has, nor would it seek, the right to compel the disclosure of information by any issuer or any agents of the issuer.

Non-Cooperation by Issuers

It is possible that some of the issuers may stop cooperating/participating in the rating process after the initial rating is assigned. Ind-Ra's policy on as to what constitutes non-cooperation is available on its website. Reference to SEBI is also be made regarding suppression of information by the Issuer/non-cooperation by the Issuer.

Pre-Committee Process

If necessary, a transaction screening committee (TSC) may be held to determine whether a full rating process should proceed. A TSC is not itself a rating committee but is rather a cross disciplinary committee that provides an additional layer of review to consider certain rating proposals for new security, transaction or issuer types early in the rating process. Such proposals may have unique or complex features or characteristics that require a broader, interdisciplinary review to assess how certain credit risks should be considered. The primary purpose of the TSC is to determine the feasibility of assigning a rating to a new security.

Committees are selected from a designated pool of senior members of Ind-Ra's analytical groups and Credit Policy group typically ranging from three to seven in number. Typical features of transactions that may require additional scrutiny by TSC include, but are not limited to, those that:

- Lack economic substance or business purpose.
- Structures that consist of a new asset class or an asset class without an empirically based methodology or model.
- Present key ratings drivers related to extreme performance volatility or key rating drivers that may be non-credit-related and dominate rating analysis.
- Raise cross-group criteria issues or lack clear criteria or have overly complex structures that add unnecessary complexity.
- Appear designed or used primarily for questionable accounting, regulatory, or tax objectives, particularly when the transactions are executed at year end or at the end of a reporting period for the customer.
- Raise concerns the transaction sponsor will report or disclose the transaction in its public filings or financial statements in a manner that is materially misleading or inconsistent with the substance of the transaction or applicable regulatory or accounting requirements.
- Involve circular transfers of risk between the transaction sponsor and other transaction or related parties that lack economic substance or business purpose;
- Involve oral or undocumented agreements that, when taken into account, would have a material impact on the regulatory, tax, or accounting treatment of the related transaction or the client's disclosure obligations.
- Have material economic terms that are inconsistent with market norms (e.g., deep "in the money" options or historical rate rollovers).
- Provide the financial institution with compensation that appears substantially disproportionate to the services provided or investment made by the financial institution or to the credit, market, or operational risk assumed by the institution.

If a transaction structure raises questions, analysts are encouraged to consult with CPG and/or the Legal department to consider a TSC.

TSCs may also be convened at any time during the analytical process in the event risks arise that appear unique or complex during the course of rating analysis, but they are typically convened early in the ratings process after transactions are proposed and before rating work has commenced.

The Committee Process

Ratings are assigned and reviewed through a committee process. Once information has been collected and the issuer analyzed in accordance with Ind-Ra's criteria and methodologies, the primary analyst makes a rating recommendation and documents his/her analysis and rationale in a committee package. Committees consider the information and rating recommendations presented in the committee package and discuss the primary analyst's recommendation. Voting members are chosen based on relevant experience, with seniority and experience thresholds incorporated into Ind-Ra's committee quorum requirements. The minimum committee size for

credit rating decisions is generally four analysts, although committees often include more members. Committees include:

- A chair who moderates the committee and ensures that it is conducted in accordance with Ind-Ra's policies and procedures.
- At least two independent member from outside the immediate asset class, subsector or geographic area of the entity under review and who does not have a reporting relationship with the Committee Chair, since peer analysis (on a transaction or entity basis) is a central element of the rating committee's discussion.

The rating committee considers the relevant quantitative and qualitative issues, as defined in Ind-Ra's established criteria and methodologies, to arrive at the rating that most appropriately reflects both current conditions and prospective performance. A rating committee may adjust the application of the criteria to reflect the risks of a specific transaction or entity. Such adjustments are called variations. All variations will be disclosed in the respective rating action commentaries, including their impact on the rating where appropriate.

A variation can be approved by a ratings committee where the risk, feature, or other factor that is relevant to the assignment of a rating and the methodology applied to it are both included within the scope of the criteria. If the committee agrees on a proposed rating and also agrees that the information supporting that rating decision is sufficient and robust, a rating is assigned. Variations are expected to be rare. If at any point the Variation is no longer considered unique to one or a limited number of transactions or issuers, then the criteria should be updated so that the Variation is no longer required.

Committee decisions are reached by majority and summary of key issues discussed are recorded, in addition to recording of rating appeal or a dissent if any. In the event that the chairperson determines that further analysis or information is required before the committee can move to vote, the committee will be suspended to allow this material to be gathered. Analysts maintain a dialogue with the participating issuer during and following the rating process to resolve any outstanding issues and to request additional information, where applicable, in continuing with monitoring activity.

Analysts must refer Ind-Ra's Confidentiality, Conflicts of Interest and Securities Trading Policy for additional information on when a recusal from all analytical discussions on an Issuers or transaction is required.

Issuer Notification and Rating Dissemination

Once the committee concludes, the outcome is communicated to the issuer or, where applicable, its arranger/sponsor. The issuer notification requirements is subject to certain exceptions where necessary and appropriate i) to address time-sensitive, event driven rating actions - for example, in response to the public announcement of an issuer debt default. In such cases, issuer notification is given as soon as practical after publication of the rating, ii) to address bulk rating action reviews, iii) to address cases where Ind-Ra does not have an appropriate contact (e.g. certain non-participating issuers), and iv) to address rating actions taken on existing dependent ratings - for example, rating actions taken on bank letter-of-credit enhanced debt following a bank rating action.

In communicating the rating to the issuer (or arranger/sponsor), the primary analyst explains the key ratings drivers and sensitivities to these drivers to facilitate the issuer's understanding of the principal grounds on which the rating is based, as well as the sensitivity and potential volatility of the rating. Typically, analysts use a draft rating action commentary (or a draft presale report in structured finance), which includes the committee's ratings decisions, to convey this information. The primary analyst provides the issuer (or arranger/sponsor) with the opportunity to review Ind-Ra's rating action commentary (or presale report) prior to publication to allow the issuer (or arranger/sponsor) to check for factual accuracy and the presence of non-public information.

Ind-Ra evaluates any feedback or comments from issuers but nevertheless retains full editorial control over its commentaries. Ind-Ra typically aims to publish rating actions on existing public ratings by the end of the next two to five business days following the conclusion of the committee, unless the rating is subject to appeal or subject to other constraints, such as credit rating agency regulations governing the timing of rating announcements. Ind-Ra also aims to publish new public ratings within thirty days of assignment.

Notification is generally provided to issuers in writing at least 24 hours before publication of the rating decision. If the issuer provides feedback within the notification period that it has no outstanding comments, the rating may be published before waiting for the specific notification period to elapse. The primary analyst records the issuer's response status in Ind-Ra's publishing application before a rating action commentary is released. However, if the issuer provides verbal feedback, the primary analyst will contact the issuer representative in writing to confirm the nature of his/her feedback and that the rating will be published.

All rating actions for new including unaccepted or existing publicly rated issuers are published on Ind-Ra's website and, as appropriate, are simultaneously released to major newswire services. These rating action commentaries provide a rationale for the rating decision based on the key ratings drivers and sensitivities, liquidity indicator, instruments rated, rating history and identify the criteria applied in the rating process. Any exceptions to Ind-Ra's published criteria that occurred in determining the rating are clearly disclosed and explained in the commentary. In cases of non-cooperation by issuers' with any other credit rating agency, status of such non-cooperation is disclosed in Ind-Ra's commentaries.

The timing of publication reflects the important balance between allowing sufficient time for the issuer to review the rating rationale for factual accuracy and the presence of confidential information and requirements of the users of ratings for timely and objective opinions. In addition to Ind-Ra's published rating action commentaries, a credit report may be published about issuers individually or by industry and made available to subscribers on India Ratings' website.

Differences of Opinion

An issuer may request an appeal, referred to as an external appeal, of a rating decision. Appeals will only be granted when an issuer provides new or additional information in a timely manner that Ind-Ra believes is relevant to the rating. Where an appeal review is deemed

appropriate, a new committee is convened to reconsider the rating decision in light of the new information. This committee is composed of one third of independent members (people not having any pecuniary relationship with Ind-Ra or any of its employees). Ind-Ra completes the appeal review of ratings within regulatory timelines governing rating announcements, barring a few approved exceptions.

Appendix B (see flow chart, page 15) illustrates the credit rating and appeal process.

Surveillance of Ratings

Ind-Ra's ratings are typically monitored on an ongoing basis and the review process is a continuous one. Monitored ratings are subject to regular scheduled reviews by a rating committee every twelve to fifteen months although the review frequency may vary if deemed appropriate by Ind-Ra or where required by applicable law. Point-in-time ratings are not monitored on an ongoing basis. Analysts will convene a committee promptly to review the rating instead of waiting for the next review if a business, financial, economic, operational or other development can reasonably be expected to result in a rating action for example, operational or fiscal deterioration, an acquisition, a divestiture or the announcement of a major share repurchase may trigger an immediate rating review. Ind-Ra's surveillance process incorporates the use of market indicators such as share prices, bond spreads, etc. where available and a broader array of financial information, systemic risk and operational risk analyses. Ind-Ra continues to develop tools appropriate to the surveillance task.

Peer analysis is another surveillance method that is used primarily to assess the relative performance of comparable corporate entities and financial institutions over time. Peer groups are created based on similar fundamentals and rating levels, among other factors. Results of Ind-Ra's peer analysis are included in research such as Ratings Navigator, a peer comparison tool used by the Corporate and Financial Institutions groups, which provides a graphical representation of key rating drivers against peer expectations for a given rating category.

Scenarios for structured finance are generally based on quantitative metrics. In addition, ratings performance will be monitored with surveillance techniques to evaluate the impact of stress scenarios on multiple transactions. Such tools will typically track data from surveillance reports provided by the trustee and compare the information against original and stressed expectations to "flag" transactions where performance has diverged from established parameters.

Base and Stress Cases

Ratings reflect Ind-Ra's forward looking views of future performance based on historical performance through various economic cycles. Ind-Ra typically analyses credit characteristics under several scenarios to determine the likelihood that current ratings expectations will be met and, if not, the extent of the change. Scenarios include a base case that reflects Ind-Ra's current outlook and stress cases. Stress cases include the probability of deteriorating credit metrics, the degree of flexibility in adjusting to a stress scenario and the impact a stress case would have on ratings. Stress cases are based on historical events that are outside normal

business cycles. Event risk is not considered in most ratings, and as a result, ratings may change due to a merger, acquisition, sudden weather changes or political events that alter expected financial performance in the near term.

Timing of the Process

The time required to assign a new rating varies and will partly depend on the time required by the issuer (or arranger/sponsor) to respond to information requests from Ind-Ra if information is not publicly available, as well as the time it takes the issuer to review Ind-Ra's draft Rating Action Commentary for factual errors and the presence of non-public information.

Depending on the sector and type of credit analysis involved, Ind-Ra typically assumes a time frame of four to eight weeks to provide a full corporate, financial institution, public finance or structured finance rating.

Rating Withdrawals

Ind-Ra does not withdraw a rating, except in some limited circumstances as provided by regulations.

Quality Standards for Ratings

Ind-Ra's Ratings Sub-Committee of the Board has the responsibility with respect to oversight and approval of Credit Rating Policies & Procedures. The Rating Committees report to the Chief Rating Officer who in turn reports to the Ratings Sub-Committee.

To ensure the quality of its product, common processes apply in assigning ratings to entities within all Ind-Ra offices, irrespective of size or location. Methodologies for each of its businesses are generally constructed on a national basis.

All published criteria reports, available on Ind-Ra's website, are reviewed and approved prior to use by a Peer Review Committee (PRC) at least once in three years and proposals to amend criteria between annual reviews are required to be approved by PRC. The PRC is an independent forum that evaluates the sufficiency, transparency and rigor of criteria for credit ratings. Ind-Ra operates two independent groups to enhance quality standards, the Credit Policy group (CPG) and Legal & Compliance group. Together these groups ensure that Ind-Ra's credit ratings criteria, policies and procedures are consistently executed, that ratings are comparable across the firm and that the firm complies with applicable laws and regulations.

CPG is a central group with a cross-sector mandate to identify sustained shifts in risk profiles, review the performance of Ind-Ra's ratings and respond to complaints relating to the rating process. CPG independently ensures objectivity in the rating process. The Legal & Compliance group identifies and provides advice on compliance risks facing Ind-Ra, creates a control environment to ensure compliance with laws, regulations, guidelines and specifications relevant to Ind-Ra's business and monitors employee activity to ensure effectiveness of controls, including those to mitigate conflicts of interest. Policies with respect to managing

conflicts of interest, gifts and confidentiality are made available on its website for users of ratings assigned by Ind-Ra.

Criteria Reports Defined

Criteria reports describe Ind-Ra's analytical methodology used to assign ratings. The application of consistent criteria facilitates the comparability of Ind-Ra's ratings across regions and sectors.

Ind-Ra's criteria are designed to be used in conjunction with experienced analytical judgment exercised through individual analysts and the committee process. The combination of transparent criteria, analytical judgment applied on a transaction-by-transaction or issuer-by-issuer basis, and full disclosure via rating commentary strengthens Ind-Ra's rating process while assisting market participants in understanding the analysis behind our ratings. Readers may refer to Ind-Ra's publication titled 'Managing & Developing Criteria and Models', available on its website.

Ind-Ra's forward-looking ratings approach evaluates credit risks that could impact the future credit quality of a borrower or debt instrument. Criteria reports identify the credit factors considered in the rating process, prioritize those credit factors into key ratings drivers and describe the strengths and limitations of Ind-Ra's analysis.

Scope of Criteria Reports

Each criteria report specifies the scope and sector to which the criteria apply, including a definition of the entity or securities to which the criteria apply.

Explaining Rating Factors

Criteria identify and prioritize quantitative and qualitative credit factors relevant to each rating sectors and describe their relative importance by identifying key rating drivers. Ind-Ra updates criteria where new and significant factors emerge or previous drivers are no longer relevant. The relative importance of the rating factors identified is explained in each published rating action commentary.

Assumptions

Criteria reports define what critical factors are used to establish the assumptions on which a rating is based. Where multiple sensitivity analyses or forecasts are employed in the rating analysis, the criteria will describe in broad terms how these multiple analyses interact in the rating decision. Where a rating is exposed to a limited number of key variables, such as the performance of a static pool of assets, the criteria will describe how sensitivity analyses would be applied to these variables. When an expected case and stress case analysis are appropriate for a sector, both cases would be described in the report.

Limitations

Criteria reports describe limitations in the criteria used to assign a rating, unless the limitations are already included in the Ratings Definitions section on India Ratings' website.

Establishing Criteria and Methodologies

Rating criteria reports describe the methodology used in assigning ratings. Criteria are developed to be rigorous and systematic to maintain the high quality of Ind-Ra's ratings and their comparability across sectors. Criteria describe the key credit factors in a way that would allow a financial market professional to review the criteria, look at published rating reports and commentary and understand how Ind-Ra reached a given rating.

Models are tools that are often used to supplement qualitative ratings analysis. In many cases, quantitative models are developed to generate projections of the credit performance of issuers or issues under various scenarios, as defined by rating criteria. The rating of an issuer may not involve a model or may involve a single or multiple models. The importance of a model in generating rating opinions ranges from substantial to minor. Ratings are determined by committees and discussion. Rating criteria provide information on how model projections are used in the overall rating process.

Criteria Variations

Exceptions to Ind-Ra's criteria are not permitted. Variations in the application of criteria must be achieved through a change in scope by the criteria review process or an amended criteria assumption in the rating committee package for consideration by the rating committee.

A variation may only be applied and approved by a rating committee if the ratings variable and analytical methodology applied to it are both contemplated within the scope of the criteria. Variations must be disclosed in the press releases applying the variation and all ratings commentary as long as they exist.

Applying Criteria Changes

Any approved criteria, model or key rating assumption changes are applied to both the new and the existing portfolio of outstanding ratings. Rating Outlooks or Rating Watches are considered the means of indicating that a review is under way following a material change to applicable criteria. A review of the affected ratings will be completed within six months from the effective date of the criteria. Ind-Ra's policies with respect to placing rating on credit watch and assigning provisional ratings are available on its website.

Communicating Criteria

Credit rating criteria are publicly disclosed in full on India Ratings' website. Minor changes to criteria that reflect characteristics of a particular transaction are communicated in the rating action commentary for the respective transaction or rated entity. Criteria changes are effective immediately upon publication unless an alternative effective date is stated. While disclosing the revised criteria on the website, Ind-Ra also provides a reference/hyperlink to the previous criteria to enable investors to discern the changes made.

Fees

India Ratings has a dedicated BRM group that is responsible for managing the commercial aspects of issuer relationships. Ind-Ra's policy is that all discussions with issuers and intermediaries concerning rating fees and commercial matters be handled exclusively by its BRM team. In addition, references to any commercial aspect of Ind-Ra's relationship with issuers are similarly not permitted during any analytical discussion. Ind-Ra's Policy on general nature of compensation arrangements with rated entities is available on its website.

Frequently Asked Questions (FAQs) on credit ratings are available on India Ratings website.

Appendix A - Supplemental Information for Structured Finance

This appendix describes processes unique to structured finance and supplements information previously provided.

Information Used to Determine a Rating

Ind-Ra obtains preliminary pool information and transaction term sheets directly from the arranger, issuer or sponsor.

As part of the transaction analysis, Ind-Ra typically receives originator-specific historical performance data relevant to the securitized asset pool for the longer of the following: five years; or a period covering all phases of at least one economic cycle. If sufficient originator-specific information is not available, significant market wide historical performance data covering at least the same time frame may often provide proxy information. This would be the case, in particular, for asset classes where the originator information may provide a limited contribution to the expected asset performance.

For some asset classes, such as CMBS, Ind-Ra performs and relies on its own review for verifying certain underlying collateral information. The results of the review of the underlying pool, as well as the outcome of reasonable investigation into the information used in the analysis, are assessed and presented to the rating committee.

Information provided to Ind-Ra includes not only data on the underlying assets for the initial rating, but also information used to:

- Assess the asset-level data.
- Assess the quality and viability of parties to the transaction.
- Assess the financial and legal structure of the transaction.
- Assess if the legal opinions are consistent with and supportive of Ind-Ra's rating opinion.
- Assess the reasonableness of underlying performance assumptions.
- Assess the reasonableness and adequacy of the data received to maintain the ratings.

Asset Analysis

Ind-Ra incorporates the results from the information review of the asset pool into the credit analysis and loss determination, including a review of the pool's credit characteristics, risk factors, model output and performance history and trends of similar collateral.

The next step is usually an analysis of the financial structure of the transaction. This includes the payment priority and credit enhancement structure proposed by the arranger based on the feedback it received from Ind-Ra. For certain asset classes, the financial structure is provided early in the process and analyzed by Ind-Ra as part of the asset-level analysis, while, with other asset classes the financial structure is analyzed as a separate step and presented in subsequent committees. Specific issues such as those relating to the operational risk or transaction counterparties may also be addressed during the asset-level analysis or at a later

point in the review, depending on the availability of information. Because of the impact on the credit profile of the transaction, these risk factors are brought to committee before an “expects to rate” decision is reached.

Analyzing the Financial Structure

Ind-Ra analyzes the payment priority waterfall and credit enhancement structure provided by the arranger. For some asset classes, Ind-Ra may use cash flow models or internal models, to determine the adequacy of the credit enhancement structure using the default, recovery and/or loss expectations decided on by the asset analysis committee described above. Where applicable, prepayment, interest rate, default timing and stress scenario assumptions, as described in published asset-specific and global criteria, are also applied as inputs into the models. In addition, Ind-Ra conducts sensitivity analyses using defined stresses to key rating assumptions that would reduce the relevant rating by a significant degree. For example, sensitivities analyzed for a security could include scenarios that would cause the ratings to be reduced by one full category or to non-investment grade. The results of the cash flow and sensitivity analyses are presented to the rating committee.

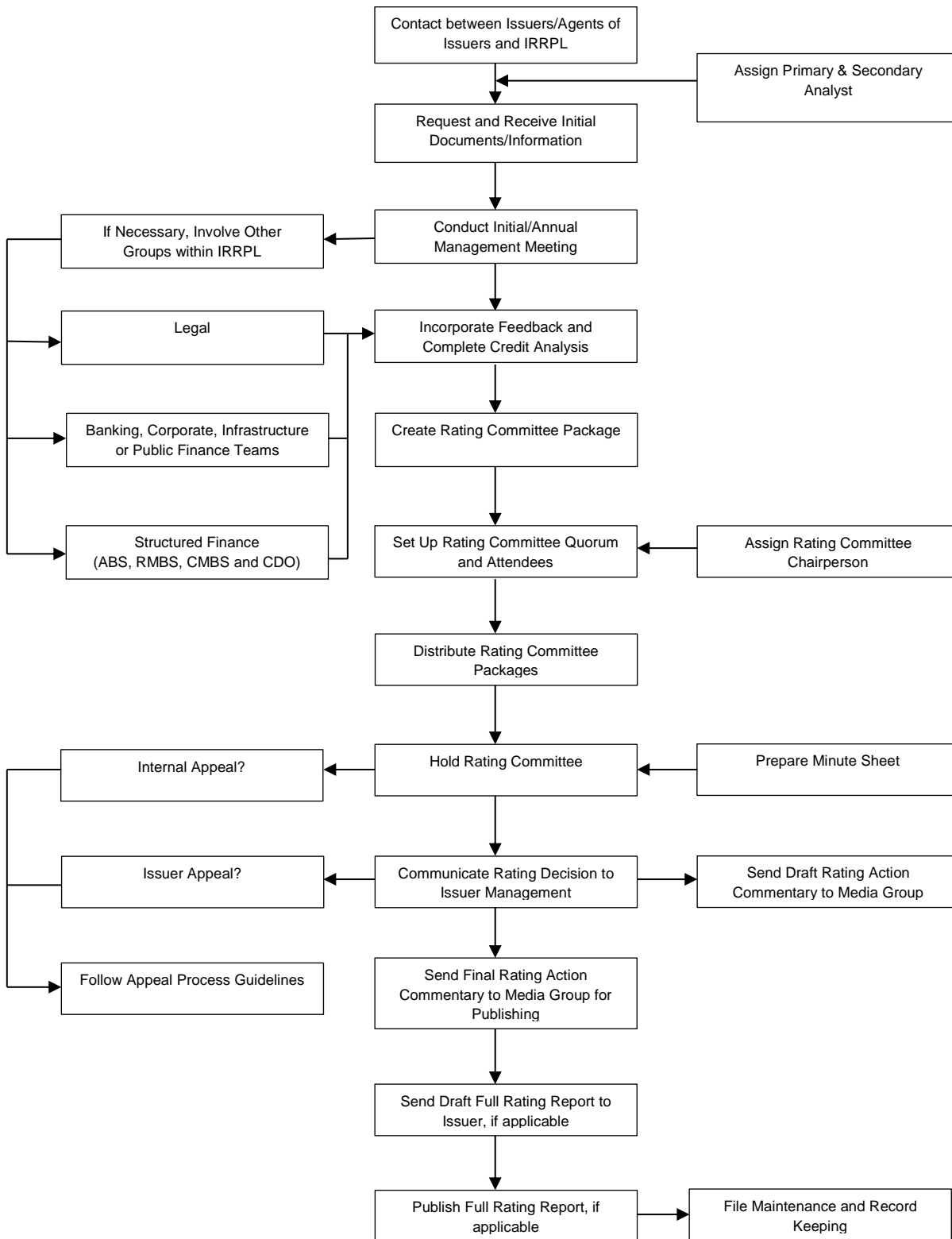
Assessing Operational Risk: Originator and Servicer Reviews

Ind-Ra conducts periodic originator and servicer reviews to provide a qualitative indication of the risk in structured finance transactions attributable to an originator level of risk management and disclosure and the quality of the servicer’s operations.

Ind-Ra’s originator reviews include periodic management meetings and disclosure of Ind-Ra’s opinion in presale and new issue reports. Each Ind-Ra analytical group globally, in conjunction with relevant internal sector/asset specialists, has developed detailed methodology for conducting originator reviews for each major asset class. The originator methodology is published either as part of the respective ratings criteria reports for each market and asset class or as separate criteria. In addition, a separate methodology, emphasizing different risk factors, may be developed for subsectors within a given asset class.

Ind-Ra’s servicer reviews and ratings provide an indication of servicers’ capabilities and include an evaluation and analysis of a number of key factors, including corporate stability, financial condition, management and staff experience, technological capabilities, policies and procedures, controls and historical servicing performance. Ind-Ra assesses the information gathered throughout the review process and incorporates the agency’s transaction surveillance data, as applicable, when performing its analysis. Based on its analysis and review of these key drivers, Ind-Ra will derive an opinion and may assign a servicer rating, which is separate and distinct from a credit rating and reflects the servicer’s operational strengths and weaknesses.

Appendix B - Credit Rating Process Flow Chart



**This flow chart is provided for illustrative purposes; timing and order of steps may vary.*

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