

Policy on Provisional Ratings

India Ratings' (Ind-Ra) Policy on Provisional Ratings is compliant with Securities and Exchange Board of India (SEBI) circular dated 27 April 2021 on "Standardizing and Strengthening Policies on Provisional Rating by Credit Rating Agencies (CRAs) for Debt Instruments" and various clarifications received from SEBI on the circular.

1. Assignment of Provisional Ratings

Where a rating is prefixed as [Provisional], it indicates that the rating has been assigned based on the agency's expectations regarding the final documentation or certain steps pending, typically based upon a review of the draft documentation provided by the issuer.

A rating may be assigned as provisional, when it is contingent upon occurrence of the following steps or execution of following documents, as applicable:

- a. execution of a letter of comfort, corporate guarantee, or other forms of explicit third-party support;
- b. execution of documents such as debenture trust deed/ debenture trustee agreement, legal agreements/ opinions, representations and warranties, final term sheet;
- c. assignment of loan pools or finalisation of cash flow escrow arrangements;
- d. setting up of a debt service reserve account;
- e. opening of an escrow account; or
- f. For a proposed Real Estate Investment Trust (REIT) or Infrastructure Investment Trust (InvIT), pending formation of a trust - only after receipt of SEBI Registration. However, the process of obtaining rating may commence at the stage of the sponsor filing with SEBI for the registration of the Trust, subject to declaration from the sponsor to this effect being submitted to the credit rating agency.

Provisional ratings are not conditional upon the receipt of further analytical information. By the time a provisional rating is assigned to a transaction, no change is anticipated to that opinion other than in exceptional circumstances. While provisional ratings typically convert to final ratings within a short time, determined by timing of transaction closure, in the period between assignment of a provisional rating and a final rating, provisional ratings may be raised, lowered or placed on Rating Watch or withdrawn, as with final ratings.

Ind-Ra shall not assign a rating, including provisional rating, for an issuer evaluating strategic decisions, such as funding mix for a project, acquisition, debt restructuring, scenario-analysis in loan refinancing, etc. For the sake of clarity, Ind-Ra will continue assigning ratings to any debt instruments/ issuer even in aforesaid situations, provided this does not involve scenario-based ratings.

2. Validity Period

A. Issued Instruments

- a. The provisional rating shall be converted into a final rating within 90 days from the date of issuance of the debt instrument. The final rating assigned after the end of 90 days shall be consistent with the available documents or completed steps, as applicable. In case of REIT / InvIT, the validity period shall be computed from the completion of fund raising and the issuance of units.
- b. An extension of 90 days may be granted on a case-to-case basis by the rating committee(s), based on confirmation from the issuer that the pending steps/ execution to documentation will be completed before the extended validity period. At the end of the extended validity period, the outstanding provisional rating will be necessarily converted to a final rating, by factoring in the status of the pending steps/ execution to documentation. Such ratings may be different from the outstanding provisional ratings.
- c. No provisional rating will be assigned to a debt instrument upon the expiry of 180 days from the date of its issuance. In such cases, only a final rating can be assigned.

B. Proposed Instruments

- a. For proposed instruments, i.e. those instruments which are yet to be issued, the provisional rating will be reviewed as per scheduled rating review or earlier based on continuous surveillance.
- b. The provisional rating will be reviewed immediately in case of any material changes in the terms of the proposed instrument and a revised rating will accordingly be published.

3. Disclosures

A rating action commentary (RAC) would include the following disclosures while assigning provisional ratings:

- a. Pending steps/ documentation considered while assigning provisional rating
- b. Risks associated with the provisional nature of the credit rating, including risk factors that are present in the absence of completed documentation / steps
- c. Rating that would have been assigned in the absence of the pending steps/ documentation considered while assigning provisional rating. In cases where the absence of said steps/ documentation would not result in any rating being assigned by Ind-Ra (for instance, in case of provisional rating for REIT/ InvIT pending formation of trust or for structure finance ratings), the same shall be specified in the RAC.
- d. While assigning provisional rating to a debt instrument proposed to be issued, the RAC shall specify that in case the debt instrument is subsequently issued, the provisional rating would have to be converted into final rating as per the validity period.
- e. While assigning provisional rating to an issued debt instrument, the RAC shall specify the rating and timeline implications as per the validity period.
- f. In case of provisional ratings for [REIT/INVIT]
 - I. the broad details of the assets that are proposed to be held by the REIT/ InvIT, the proposed capital structure, etc.
 - II. Ind-Ra has received an undertaking from the sponsor stating that the key assumptions (relating to the assets, capital structure, etc.) are in consonance with the details filed by the sponsor with SEBI.
 - III. In case of a change in provisional rating due to a change in the aforesaid key assumptions, the RAC shall state that the rating is based on a declaration from the issuer that similar changes have been made in the filing with SEBI.

4. Unaccepted Provisional Ratings

In case a provisional rating assigned is not accepted by the issuer (or sponsor, in case of REITs/InvITs), then the following supplementary disclosures shall be provided in the “unaccepted ratings” on the website:

- a. the details of the steps taken for assigning the provisional rating. For instance, in case of REITs/ InvITs, such disclosure shall contain the broad details of the assets to be housed under the trust, the proposed capital structure, etc.
- b. the rating that would have been assigned in absence of the said steps/ documentation

5. Rating action in case of Material Changes to the Terms of the Transaction

In case of material changes in the terms of the transaction after the assignment of the provisional rating and post the completion of the issuance, Ind-Ra may withdraw the existing provisional rating and concurrently, assign a fresh final rating in the same RAC, based on the revised terms of the transaction. In case where issuance is yet to happen, Ind-Ra may also directly withdraw the rating based on issuer request, as the instrument is yet to be issued.

6. Applicability of the Policy

The Policy is applicable from 15 June 2021 for all new rating assignments. All existing provisional ratings will adhere to the revised policy before 31 December 2021.

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