

Policy for placing ratings on rating watch

At India Ratings' (Ind-Ra), Rating Watches and Outlooks form part of the Credit Rating and indicate the likely direction of the rating.

1. Rating Watch

Rating Watches indicate that there is a heightened probability of a rating change and the likely direction of such a change. These are designated as "**Positive**", indicating a potential upgrade, "**Negative**", for a potential downgrade, or "Evolving", if ratings may be raised, lowered or affirmed. However, ratings that are not on Rating Watch can be raised or lowered without being placed on Rating Watch first, if circumstances warrant such an action.

A Rating Watch is typically event-driven and, as such, it is generally resolved over a relatively short period. The event driving the Watch may be either anticipated or have already occurred, but in both cases, the exact rating implications remain undetermined. The Watch period is typically used to gather further information and/or subject the information to further analysis. Additionally, a Watch may be used where the rating implications are already clear, but where a triggering event (e.g. shareholder or regulatory approval) exists. The Watch will typically extend to cover the period until the triggering event is resolved or its outcome is predictable with a high enough degree of certainty to permit resolution of the Watch. If a Rating Watch has been in place for six months, typically it is reviewed by a rating committee and a Rating Action Commentary (RAC) is published. Thereafter, the Rating Watch is reviewed by a rating committee every three months until the Rating Watch is resolved. If ratings are placed on Rating Watch due to a merger/acquisition/sale and the RAC discloses that the consummation of the merger or the sale will or may take place subsequent to six months in the future, no rating committee is required to review Rating Watch after six months assuming there have been no material changes to the credit of the entities involved.

Rating Watches can be employed by all analytical groups and are applied to the ratings of individual entities and/or individual instruments. Watches are only applied selectively and can be assigned to any rating category. However, no rating watch is assigned to IND D category.

2. Rating Outlook

Rating Outlooks indicate the direction a rating is likely to move over a one to two year period. They reflect financial or other trends that have not yet reached the level that would trigger a rating action, but which may do so if such trends continue. The majority of Outlooks are generally Stable, which is consistent with the historical migration experience of ratings over a one to two year period. Positive or Negative rating Outlooks do not imply that a rating change is inevitable and, similarly, ratings with Stable Outlooks can be raised or lowered without a prior revision to the Outlook, if circumstances warrant such an action. Occasionally, where the fundamental trend has strong, conflicting elements of both positive and negative, the Rating Outlook may be described as Evolving. Outlooks are currently

applied on the long-term scale to all instruments/issuer ratings. Outlooks are not applied to ratings assigned on the short-term scale and are applied selectively to ratings in the IND C category. 'IND D category typically does not carry an Outlook. Ratings that have been placed on a rating watch also do not carry an Outlook.

Ind-Ra also provides outlooks for credit quality ratings of debt mutual fund schemes.

3. Deciding When to Assign Rating Watch or Outlook

Timing is informative but not critical to the choice of a Watch rather than an Outlook. A discrete event that is largely clear and the terms of which are defined, but which will not happen for more than six months – such as a lengthy regulatory approval process – would nonetheless likely see ratings placed on Watch rather than a revision to the Outlook.

An Outlook revision may, however, be deemed more appropriate where a series of potential event risks has been identified, none of which individually warrants a Watch but which cumulatively indicate heightened probability of a rating change over the following one to two years.

A revision to the Outlook may also be appropriate where a specific event has been identified, but where the conditions and implications of that event are largely unclear and subject to high execution risk over an extended period – for example a proposed, but politically controversial, privatization.

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