

# Assigning Corporate Ratings to Issuers in Restructuring

Guidance for Users

Special Report

## Initial Ratings

Ratings may be initiated at any rating level, including the default category 'IND D'. While the vast majority of new ratings are assigned on Outlook Stable, in line with the large majority of existing ratings on Stable Outlook at any given time, new ratings may also be initiated with a directional (Positive, Negative or Evolving) Rating Watch or Outlook.

India Ratings is asked on occasion to assign initial ratings to companies that are in the process of accessing the bond markets for the first time to address their refinancing needs.

In some cases, these companies' profiles will be materially affected by the success or failure of the proposed bond issue. The general principle can be applied anywhere in the rating scale where the magnitude of an immediate credit challenge is meaningful.

## Assigning Initial Ratings to Issuers Engaged in Restructuring

The approach India Ratings takes for such cases will be guided by the following considerations, where, for the sake of simplicity, two potential rating outcomes exist, depending on the success of the proposed bond issue:

**Higher Initial Rating:** An issuer may be rated at the higher level, on Rating Watch Negative pending resolution of the challenge (e.g. completion of refinancing), where the issuer's rating is otherwise stable and a successful resolution of this issue is the only material weakness, and where the company has a tenable alternative source of funding (e.g. India Ratings believes there are strong prospects that bank lending could be sourced).

As a litmus test, the agency would be able to positively answer the question: "Had the issuer already been assigned ratings in a previous year, would the company have been rated at the higher level, and moved to Rating Watch pending the refinancing?"

**Lower Initial Rating:** An issuer may be initially rated at the lower level, and placed on Rating Watch Positive/Evolving pending resolution of the challenge (e.g. completion of the refinancing), where the issuer is trending up from a weaker profile – from a liquidity or a financial performance perspective – and resolution is expected shortly.

Using the same litmus test, had ratings been assigned the previous year, the agency would most likely have rated such an issuer at the lower level, and then moved to Rating Watch Positive/Evolving when the company announced a plan to put the operations or capital structure on a more stable footing.

**Exceptions to Refinancing Assumptions:** Rarely, an issuer may be initially rated at the higher level on a Stable Outlook, with the comment that successful completion of the bond is necessary to maintain the rating level. This would apply only where execution risk is unusually and exceptionally low on the refinancing – e.g. through some form of forward sale agreement or committed underwriting of the bond, or where the company has firm parental support that commits the parent to make good on funding if a bond sale fails.

## Related Criteria

[Corporate Rating Methodology \(September 2012\)](#)

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