

CRISIL Ratings' Policy on Provisional ratings

CRISIL Ratings has revised its Policy on Provisional ratings and aligned it with the requirements of the SEBI Master Circular dated July 03, 2023 (erstwhile SEBI Circular dated April 27, 2021) and subsequent communication with the regulators. The revised policy applies to all debt instruments including securities, bank loan facilities, commercial papers etc. as well as to corporate credit ratings (CCR) with immediate effect from the date of this policy for new ratings and for existing outstanding ratings at the earliest but not later than December 31, 2021.

Applicability of 'Provisional' prefix

In instances where completion of certain steps / documentation are pending at the time of rating assignment and the rating is contingent upon occurrence of pending steps or execution of pending documents, CRISIL Ratings assigns provisional ratings to such instruments which are characterised by a prefix 'Provisional' to the rating symbol.

To elaborate, a prefix of 'Provisional' indicates that the rating centrally factors in the completion of the critical steps / documentation; without this, the rating would either have been different or not assigned *ab initio*.

CRISIL Ratings shall consider ratings as provisional when it is contingent upon occurrence of following steps or execution of following documents, as applicable:

- a) execution of 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 debt service reserve account;
- e) opening of 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 commence¹ 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.

The typical situations where CRISIL Ratings would assign provisional ratings while critical documentation are pending are for instruments / facilities backed by credit enhancement mechanisms such as guarantees and letters of comfort, debt backed by co-obligor structures, covered bonds, instruments with cash flow prioritizations through escrows, securitization transactions, and REITs/InvITs pending formation of trust. CRISIL Ratings shall not assign scenario-based ratings / advance ratings to issuers who are evaluating strategic decisions such as funding mix for a project, acquisition, debt restructuring, scenario-analysis in loan refinancing etc.

CRISIL Ratings may alternatively assign ratings without a 'Provisional' prefix in the above mentioned situations, where it deems that the credit profile is agnostic to completion of steps or execution of aforementioned documents.

¹ That is, the rating agreement may be signed, but provisional rating shall not be assigned at the rating committee nor communicated to the sponsor / issuer prior to receipt of SEBI registration.

Conversion of Provisional ratings to Final ratings

The provisional nature of such ratings is disclosed by CRISIL Ratings in its communications, including rating letter and rating rationale along with details of the necessary steps and/ or documentation that will be needed for conversion to a final rating. Once the relevant steps/documentation (as per expectations when the provisional ratings were assigned) are in place, the provisional rating is converted into final rating in line with the validity period for provisional ratings, as captured below.

When CRISIL Ratings assigns provisional ratings, its existing long-term and short-term rating symbols are prefixed with the term 'Provisional' for assigning such ratings. For example, 'Provisional CRISIL AAA (SO)' or 'Provisional CRISIL A1+ (SO)'. On conversion to final rating, the prefix 'Provisional' is removed. The final rating assigned after conversion of provisional rating shall be consistent with the available documents or completed steps, as applicable. To elaborate, CRISIL Ratings may reaffirm the rating, place it on watch or change the rating, before or at the time of converting the provisional rating to final rating, based on adequacy of the documentation or any other changes in credit profile.

Validity period for Provisional ratings

The provisional rating shall be converted into a final rating following receipt of transaction documents duly executed and/or confirmations on completion of pending steps, as applicable, within 90 days from the date of issuance of the instrument.

For provisional CCRs (typically sought by InvITs / REITs), the date of completion of the offer through which the REIT / InvIT completes its fund raise and issues units will be the date from which the validity period computation will begin, as the provisional rating is assigned to the issuer and not to any specific debt instrument.

The final rating assigned shall be consistent with the available documents or completed steps, as applicable. In case of pending steps / documentation at the end of 90 days from the date of issuance of instrument, CRISIL Ratings may grant extension of upto 90 days from the expiry of the above mentioned validity period, on a case to case basis.

A broad guidance on extension of validity period is provided below, even as the rating decision will be taken by the Rating Committee on a case to case basis.

1. In case of substantial progress in sharing of final documentation / steps and where the documentation received is in line with expectations, CRISIL Ratings may grant extension of the validity period of provisional rating for upto 90 days from the expiry of the above mentioned validity period.
2. In case partial / complete documentation received deviates significantly from the expectations, CRISIL Ratings may take appropriate rating action to alert investors on pending documentation and potential risk to credit profile. Such action may include placing the rating on watch or a rating/outlook change, depending on status of progress on a case to case basis. Simultaneously, CRISIL Ratings may also grant extension of the validity period of provisional rating for upto 90 days from the expiry of the above mentioned validity period, on a case to case basis.

Notwithstanding aforesaid guidance on conversion of provisional rating to final rating, in case of material other developments leading to change in credit profile, CRISIL Ratings may change the provisional rating, irrespective of the status of documentation / steps.

At the end of 180 days from the date of issuance of the instrument, an outstanding provisional rating shall necessarily be converted into final rating that is consistent with the available documents or completed steps, as applicable. CRISIL Ratings shall not assign any provisional ratings upon the expiry of 180 days from the date of issuance of the instrument.

To clarify, the abovementioned validity period of 90 days and extension of upto 90 days for conversion of provisional rating to final will apply only after the instrument is issued.

Additional / supplementary disclosure requirements for provisional ratings

In line with the requirements of the SEBI Master Circular dated July 03, 2023 (erstwhile SEBI circular dated April 27, 2021) on provisional ratings, additional / supplementary disclosure requirements shall apply for press release / rating rationale as well as unaccepted ratings comprising provisional ratings. These, among other things, shall include disclosure of rating that would have been assigned in absence of the pending steps/ documentation considered while assigning provisional rating, where applicable, as well as additional disclosure requirements for REITs / InvITs.

Withdrawal of Provisional Rating

In case there are material changes in the terms of the transaction and where the issuance is yet to happen, CRISIL Ratings may withdraw the provisional rating.

In case of material changes in terms of the transaction post the issuance of the instrument, CRISIL Ratings may withdraw the provisional rating and concurrently assign a fresh final rating in the same press release, on the basis of the revised terms of the transaction.

Please refer to CRISIL Ratings' Policy for withdrawal of ratings for other scenarios.

Last Updated: July 27, 2023