

## Annexure A

### Average one-year transition rates<sup>#</sup> for long-term ratings<sup>1</sup> for the last 5-Financial year period (April 2019 to March 2024)

Rating Category	AAA	AA	A	BBB	BB	B	C	D
AAA	98.78%	0.97%	0.00%	0.00%	0.08%	0.08%	0.00%	0.08%^
AA	3.13%	95.21%	1.34%	0.04%	0.12%	0.04%	0.00%	0.12%^
A	0.24%	4.24%	93.23%	2.12%	0.10%	0.02%	0.00%	0.05%
BBB	0.00%	0.03%	4.34%	91.81%	3.42%	0.08%	0.06%	0.25%
BB	0.00%	0.00%	0.01%	4.35%	89.91%	2.89%	0.00%	2.83%
B	0.00%	0.05%	0.05%	0.00%	9.99%	78.69%	0.25%	10.97%
C	0.00%	0.00%	0.00%	0.00%	1.96%	25.49%	33.33%	39.22%

<sup>^</sup>On account of one default in fiscal 2020 that occurred due to an unexpected legal event

<sup>^^</sup>Since fiscal 2020, there have been three defaults. These were due to an unexpected legal event (fiscal 2020), Covid-19 pandemic (fiscal 2021) and an operational issue (fiscal 2024).

With respect to the operational issue in fiscal 2024, while the issuer serviced 97.6% of the amount due on time, a system glitch led to a one-day delay in the remaining 2.4% of the payment. If this operational issue related default were to be excluded, the average one-year transition from AA category to D would have been 0.08% instead of 0.12%.

<sup>#</sup>Excluding ratings that have been withdrawn or ratings of non-cooperative issuers during the financial year, in line with methodology prescribed by SEBI

## Annexure B

### Rating transition rates for dataset limited to credit ratings of listed debt securities<sup>2</sup> (excluding ratings that have been withdrawn or ratings of non-cooperative issuers during the financial year)

Rating Category	AAA	AA	A	BBB	BB	B	C	D
AAA	98.75%	1.04%	0.00%	0.00%	0.21%	0.00%	0.00%	0.00%
AA	2.34%	95.32%	1.98%	0.00%	0.00%	0.00%	0.00%	0.36%
A	0.00%	11.64%	86.30%	0.68%	0.68%	0.68%	0.00%	0.00%
BBB	0.00%	0.00%	6.67%	88.89%	4.44%	0.00%	0.00%	0.00%
BB	0.00%	0.00%	0.00%	7.14%	71.43%	14.29%	0.00%	7.14%
B	0.00%	0.00%	0.00%	0.00%	0.00%	75.00%	12.50%	12.50%
C	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	50.00%	50.00%

<sup>1</sup> During fiscals 2023 and 2024, a few bank loan ratings with 'CE' suffix were migrated to ratings without 'CE' suffix, solely in line with regulatory guidance issued to all CRAs. There was no change in the underlying credit profiles, and therefore such rating migrations are not a part of the transition rates computation and disclosure.

<sup>2</sup> Includes proposed to be listed debt securities

### Annexure C

#### Rating transition rates for dataset limited to credit ratings of listed debt securities<sup>2</sup>(including ratings that have been withdrawn or ratings of non-cooperative issuers during the financial year)

Rating Category	AAA	AA	A	BBB	BB	B	C	D	W
AAA	90.27%	0.95%	0.00%	0.00%	0.38%	0.00%	0.00%	0.00%	8.40%
AA	2.06%	83.99%	1.74%	0.00%	0.00%	0.00%	0.00%	0.32%	11.89%
A	0.00%	9.77%	72.41%	0.57%	0.57%	0.57%	0.00%	0.00%	16.09%
BBB	0.00%	0.00%	5.26%	70.18%	5.26%	0.00%	0.00%	0.00%	19.30%
BB	0.00%	0.00%	0.00%	2.94%	41.18%	17.65%	0.00%	2.94%	35.29%
B	0.00%	0.00%	0.00%	0.00%	0.00%	41.18%	11.76%	23.53%	23.53%
C	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	33.33%	50.00%	16.67%

W – Withdrawn

Notes to the disclosures:

1. Due to constraints on consistent availability of the data on listing of debt securities, the computation of transition rates limited to credit ratings of securities that are listed/ proposed to be listed has been done on a best-efforts basis. For obtaining data on listed debt securities, CRISIL Ratings has relied on listing data from depositories, exchanges, and third-party databases especially for the initial period, and data on listed ISINs maintained by CRISIL Ratings for the past few years.
2. Annexure A captures transition rates for all instruments, while Annexures B and C pertain to transition rates for listed debt securities. In line with standard practice, the sample is updated with addition of recent cohorts and removal of earlier cohorts. Stability rate is a universally accepted metric used by investors and other key stakeholders alike for evaluating the performance of a credit rating agency (CRA). Stability rates represent the percentage of ratings that remain within the same category by the end of the year. Hence for ratings to be reliable, a CRA should have high stability rates especially at higher rating categories. As can be seen from the Annexures above, stability rates computed on a dataset limited to credit ratings of listed debt securities appear to be much lower than stability rates computed on a dataset that includes all instruments, especially at the lower rating categories; this is because the former suffer from low sample sizes. The sample size of rated listed debt securities is only a fraction of the total rated universe as is clear from the following table which captures the sample size of listed debt securities across rating categories as a proportion of the total rated universe. While listed debt securities are relatively more prevalent in higher rating categories such as AAA and AA, the sample size gets sharply and nearly secularly truncated at lower rating categories (going as low as ~1/600th) as there are scarcely any issuances in India for securities rated in lower rating categories. Further, the few ratings for listed debt securities at lower categories are mostly ratings in transition to default. Even a few rating transitions in these rating categories with insignificant sample set of listed debt securities leads to inflated transition rates (and correspondingly low, underestimated stability rates).

Approximate sample size of listed debt securities as a proportion of total rated universe for all instruments, for each rating category	
AAA	1/3 <sup>rd</sup>
AA	1/4 <sup>th</sup>
A	1/30 <sup>th</sup>
BBB	1/200 <sup>th</sup>
BB	1/600 <sup>th</sup>
B	1/500 <sup>th</sup>
C	1/30 <sup>th</sup>

**How to read the above table?** In BBB category, the sample size of listed debt securities is ~1/200<sup>th</sup> of that for all instruments. Hence, while the stability rate for the CRISIL Ratings' listed securities portfolio for BBB category is 88.89% (Annexure B), the overall stability rate is 91.81% (Annexure A). **Clearly, computation of transition rates solely based on listed debt securities (or any single instrument class) is not representative of the transition rates of ratings assigned to Indian corporates. Annexure A captures transition rates for all instruments and better represents the quality of a CRA's ratings.**

3. In line with disclosure requirement, Annexure C presents transition rates which are not adjusted for withdrawals – withdrawals are shown separately. Such representation tends to underestimate the stability rates. For instance, 72.41% stability rate for A category in Annexure C, does not factor 16.09% ratings withdrawn in that category. Hence, stability rate of 72.41% looks optically lower on a base of 100. However, it would be higher if viewed on a base of 83.91 instead of 100 (after adjusting for 16.09% of withdrawals in A category). This is reflected in Annexure B, which displays a stability rate of 86.30%, as it considers withdrawals in its calculation. Nevertheless, as emphasized in point number 2 earlier, Annexure A, which encompasses transition rates for all instruments after accounting for withdrawals and non-cooperative issuers, better represents the quality of a CRA's ratings.