



Rating of Corporates

RBI has prescribed that the capital requirements for banks, from 31.03.2008 onwards, shall depend on the borrowers' credit rating by external credit rating agencies. While the banks will be required to keep lower capital for higher rated borrowers, borrowers shall also derive certain benefits of rating by outside agency. Thus, it is a win-win situation for both.

RBI has authorized the following credit rating agencies for this purpose :

- Credit Analysis and Research Ltd. (CARE)
- CRISIL Limited
- FITCH India
- ICRA Limited.

Besides, following international credit rating agencies are also approved :

- FITCH
- Moody's
- Standard & Poor's

The rating is basically facility rating and is exclusive of any instrument specific rating obtained by a company.

The long-term rating is required for working capital facilities e.g. cash credit, LC, BG and term loans with repayment period above 12 months. Short-term rating is required for borrowing facilities enjoyed by a company up to 12 months.

The rating scale and corresponding risk weight for long term (above 12 months) and short term exposure is as under :

Long Terms Rating and associated risk weight	
Rating by the domestic Credit rating agencies	Standardised approach risk weight (%)
AAA	20
AA	30
A	50
BBB	100
BB & Below	150
Unrated	100

Short term rating and associated risk weight				
CARE	CRISIL	FITCH	ICRA	RISK Weight %
PR1+	P1+	F1+	A1+	20
PR1	P1	F1	A1	30
PR2	P2	F2	A2	50
PR3	P3	F3	A3	100
PR4 & PR5	P4 & P5	B, C, D	A4/A5	150

Benefits for customers

- Credit Rating reflects the risk level of a borrower. Banks may consider giving preferential treatment by way of additional marks in their own internal rating.
- Lower capital requirements by a bank may translate into lower pricing and other benefits,
- The rating will enable the corporates to understand the risks inherent in their business. It will also enable them to identify areas for improvement for securing a higher rating and plan better for future.
- A credit rating by an approved external rating agency shall provide a competitive edge to the corporates for negotiating better terms and conditions.