

CORRELATION BETWEEN SHORT AND LONG TERM RATING SCALE

What is Credit Rating?

A Credit Rating is an independent and objective OPINION on the ability and willingness of an obligor to make timely payments against financial obligations. This opinion is expressed in terms of rating symbols that have now come to be universally recognized.

Rating Scale

Medium to long-term credit ratings (a horizon of 2 to 3 years) range from 'AAA', reflecting the strongest credit quality, to 'C', reflecting the lowest. Long-term ratings from 'AA' to 'B' may be modified by the addition of a plus (+) or minus (-) sign to show the relative standing within the rating categories.

A short-term credit rating is an assessment of an issuer's credit quality with respect to an entity or an instrument considered short-term (up to 1 year). Short-term ratings range from 'A-1+' for the highest-quality obligations to 'C' for the lowest.

JCR-VIS breaks the spectrum of credit quality into two main segments: "Investment Grade" and "Speculative Grade". The medium to long term "Investment Grade" range has four categories i.e., 'AAA', 'AA', 'A' and 'BBB'. The medium to long term "Speculative Grade" range has five main categories i.e., 'BB', 'B', 'CCC', 'CC' and 'C'. The short term "Investment Grade" range has four main categories i.e., 'A-1+', 'A-1', 'A-2' and 'A-3'. The short term "Speculative Grade" range has two categories i.e., 'B' and 'C'.

If a company defaults on any obligation it is awarded a 'D' signifying that an event of default has occurred.

Correlation between Short and Long Term Rating Scale

The long and short term rating scales are linked to each other. However, given that there are fewer grades on the short term scale versus the long term scale, each short term rating is mapped on to several grades on the long term scale. For example, 'A-1+' generally corresponds to long term ratings from 'A+' to 'AAA'. The linkages of the long and short term rating scale are illustrated in the diagram overleaf. It may however be emphasized that these are only indicative in nature and there may be circumstances when these relationships may not hold.

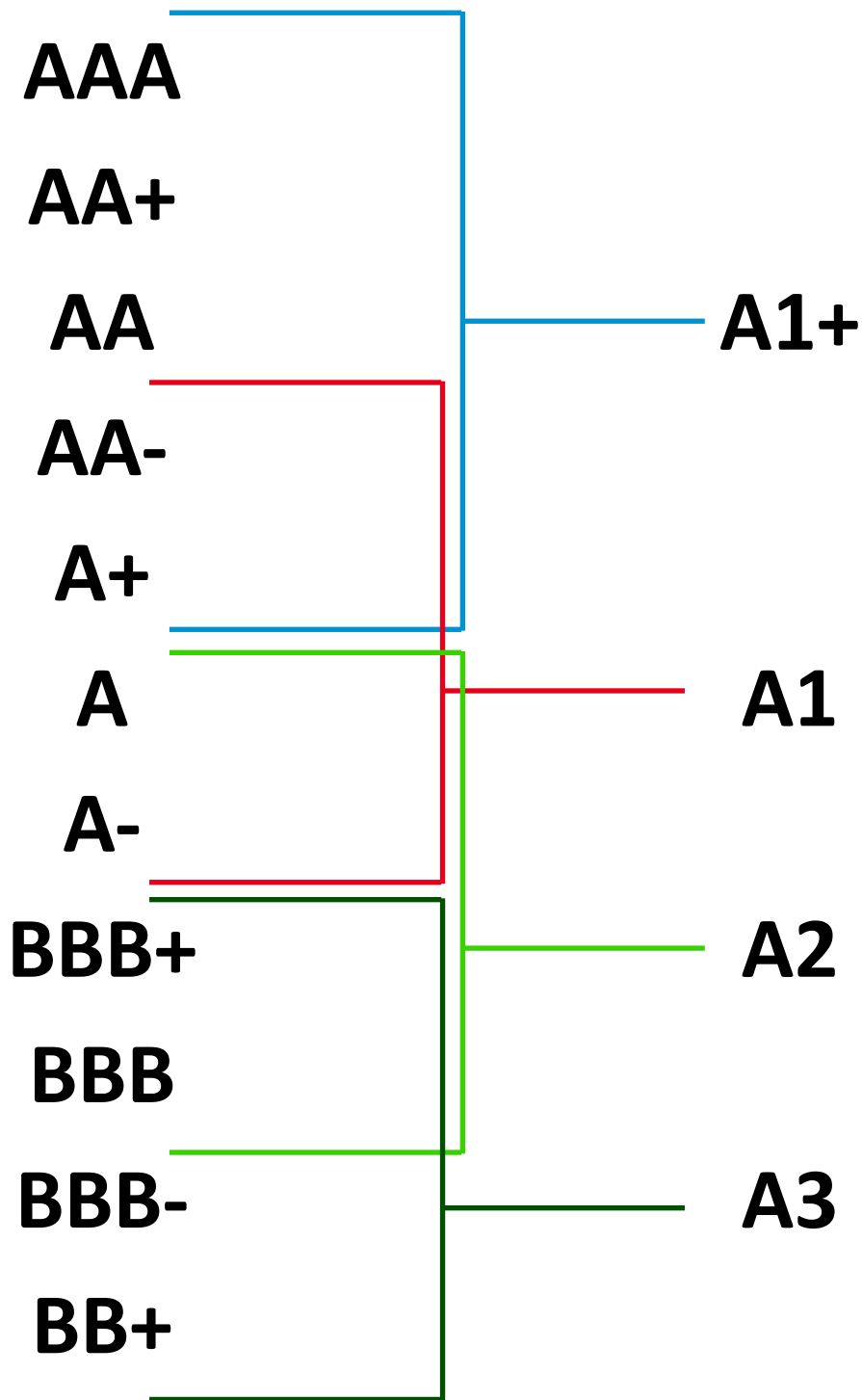
Relevant Regulatory Provisions SECP's Code of Conduct for Credit Rating Companies

Annexure - II

The criteria, methodologies and procedures to be developed and disclosed by a CRA shall include at least the following:

(viii) Correlation between short and long term rating scale.

CORRELATION OF LONG TERM RATING SCALE WITH SHORT TERM RATING SCALE



Note: The relationship indicated above is approximate and may not apply in all situations.