Mapping global scale ratings to the CRISIL Ratings scale

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Executive summary

While assigning ratings to subsidiaries, CRISIL Ratings assesses the credit linkage of the subsidiary with its parent. The credit rating of the parent is a critical input in this assessment. If the parent is a foreign company, CRISIL Ratings considers the rating assigned by S&P Global Ratings (S&P) to the parent company. While S&P assigns ratings to instruments on a global scale, CRISIL Ratings assigns ratings on its national scale. Hence, CRISIL Ratings maps the global scale ratings on the parent to its own rating scale to assess the parent's credit risk profile.

Scope

This criteria[1] outlines the need for mapping between the global and national scale ratings. The criteria also describes CRISIL Ratings' approach in mapping global scale ratings assigned by CRAs such as S&P to its own scale. CRISIL Ratings' mapping methodology is applied when factoring the credit linkage between a foreign parent and its Indian subsidiary, and is not used to rate a global entity on CRISIL Ratings' scale. This document also covers a few FAQs that highlight features of both the scales and point out the differences in their use.

Need for inter-scale mapping

In an increasingly globalised investment environment, investors seek clarity on how credit ratings by global CRAs may be mapped to ratings on the domestic scale. Credit ratings of domestic CRAs such as CRISIL Ratings are not directly comparable with the global scale ratings assigned by CRAs such as S&P, even though the scales appear similar. While global scale ratings are assigned based on an assessment of the issuer in relation to other issuers globally, CRISIL Ratings benchmarks the issuer against other domestic issuers.

Over the past two decades, multinationals have increased their presence in India, thereby creating the need for such inter-scale mapping. Credit ratings of the domestic arms of multinationals are influenced, to varying degrees, by the credit quality of their parents, as indicated by their outstanding ratings from global CRAs such as S&P. In rating these domestic entities, CRISIL Ratings factors in parent-subsidiary linkages in a calibrated manner on the basis of objective and comprehensive framework. If the parent provides explicit guarantee for the rated debt, which is supported by an appropriate and enforceable payment structure, the rating by CRISIL Ratings depends solely on its assessment of the credit quality of the guarantor. In instances where there is no explicit guarantee, CRISIL Ratings assesses the strength of relationship between the parent and the subsidiary from a credit perspective, which is factored in addition to the Indian entity's standalone rating to arrive at the overall rating. In both instances, the foreign parent's credit quality is assessed after mapping its global scale rating on to CRISIL Ratings' scale.

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[1] For accessing the previous criteria published, refer to the following link: https://www.crisilratings.com/content/dam/crisil/criteria_methodology/criteria-research/archive/Mapping-global-scale-ratings-to-CRISIL-scale-june2023.pdf

CRISIL Ratings' approach to inter-scale mapping

The underlying principles guiding CRISIL Ratings' mapping methodology are the following:

- The default rates of the global scale rating being mapped on to the CRISIL Ratings scale should be comparable with the default rates of the mapped CRISIL Ratings' rating. For instance, the global scale rating[2] being mapped to 'CRISIL AA' should display similar default rates, in line with the performance of 'CRISIL AA' ratings.
- The mapped rating on the CRISIL Ratings' scale corresponding to the global scale rating on an entity should have been the rating that CRISIL Ratings would have assigned to the entity, based on its own independent credit assessment.

CRISIL Ratings' mapping methodology

CRISIL Ratings' methodology for mapping global scale ratings to its own domestic scale is a blended approach of comparing:

- Default rates of global scale and domestic scale
- Comparison of global scale ratings on entities to that of CRISIL Ratings' direct credit assessments of these entities.

Each of these approaches has its own advantages and limitations, thereby warranting a blended approach to mapping. These are highlighted below:

- **Comparison of historical default rates:** Ratings express credit risk in terms of probability of default. Hence, CRISIL Ratings compares default rates when arriving at the mapping between two rating scales.

  However, inter-scale mapping based on default rates may vary with changes in default rates over time as global companies and domestic companies may be subject to different stress levels during different time periods. For instance, global companies were subject to higher stress compared to Indian companies during the global financial crisis of 2008. Conversely, the stress on Indian companies was higher during the Asian crisis of 1997.

- **Direct credit assessment:** Ideally, ratings assigned to foreign entities on the global scale are to be compared with probable ratings that would have been assigned to these entities on the national scale, based on an independent assessment of their credit risk profiles as per the rating methodologies governing the national scale ratings. However, considering the different economic and credit environments in which the foreign and domestic entities operate, this exercise becomes difficult.

  Hence, as a proxy for direct credit assessment, CRISIL Ratings compares global scale ratings of Indian entities with ratings on its own scale. Global scale ratings of 'Indian companies' assigned by global CRAs such as S&P are based on their proprietary rating methodologies and benchmarking with international peers. On the contrary, CRISIL Ratings' ratings on these Indian companies are based on its own rating methodologies and benchmarking with domestic peers. Hence, the comparison of these commonly rated companies considers the differences in rating methodologies and provides another input for determining the mapping between the two rating scales.

  Comparison of common ratings of Indian entities is only a proxy for direct credit assessment. Ratings on Indian entities are only a small subset of the portfolio of ratings of global CRAs such as S&P, and hence,

[2] *CRISIL Ratings considers the global scale local currency rating for mapping with the CRISIL Ratings scale.*

mapping based on comparison of these ratings may not be fully representative of their entire ratings portfolio. In addition, at low sovereign rating levels, “country risk” tend to dominate global scale ratings.

CRISIL Ratings periodically updates the inter-scale mapping based on its methodology, to account for possible changes in the parameters being assessed depending on changes in global and domestic credit environments. CRISIL Ratings may also amend its mapping methodology itself, based on its assessment of the relevance of the parameters considered for arriving at the mapping, and the availability of data to make meaningful interpretations.

Mapping global scale ratings to CRISIL Ratings’ scale

According to CRISIL Ratings’ mapping methodology, a global scale rating assigned by global CRAs such as S&P tends to map to a rating on the CRISIL Ratings scale which is typically 6 to 7 notches higher than the global scale rating.

For instance, a rating of ‘BBB+’ on the global scale would map to either a ‘CRISIL AAA’ or ‘CRISIL AA+’. A rating of ‘BB+’ on the global scale would map to either a ‘CRISIL AA-’ or ‘CRISIL A+’. The difference between the two rating scales tends to reduce towards the lower end of the rating spectrum. For instance, a global scale rating of ‘B’ would map to either a ‘CRISIL BB+’ or ‘CRISIL BB’. To arrive at the exact mapping level, CRISIL Ratings also factors in the outlook on the parent’s rating, the industry/economic scenario, and the recent history of rating actions on the parent.

Any change in the rating of the parent impacts the parent-linked ratings of its Indian subsidiaries. Changes in global scale ratings may, therefore, affect the credit quality of Indian companies rated by CRISIL Ratings. This is an inevitable fallout of mapping between global and national rating scales.

Conclusion

While assessing the credit risk profile of a subsidiary, the credit rating of its parent is a critical input. If the parent is a foreign company, CRISIL Ratings maps the global scale rating assigned to the parent by global CRAs such as S&P to the CRISIL Ratings scale. CRISIL Ratings’ mapping methodology is a blended approach of comparing default rates and comparing global scale ratings on Indian entities with their corresponding domestic scale ratings assigned by CRISIL Ratings. As per the methodology, a global scale rating tends to map to a roughly 6 to 7 notches higher rating on the CRISIL Ratings scale. The difference reduces at the lower end of the spectrum.

FAQs on global scale versus national scale ratings

1. What are the various rating scales and how do they differ from each other?

Investors commonly use three rating scales:

- Global scale foreign currency ratings (typically assigned by global rating agencies)
- Global scale local currency ratings (typically assigned by global rating agencies)
- National scale ratings (assigned by both global and national rating agencies)

All credit ratings are relative assessments of credit risk on a debt issue/issuer within a given frame of reference. A global scale credit rating assesses creditworthiness relative to all other debt issues/issuers across the world and is used primarily by global investors who have the option to invest in any country. A credit rating assigned on a national scale, on the other hand, assesses relative creditworthiness within a country. It is used primarily by domestic investors.

2. Can a national scale rating be compared with a global scale rating?

A national scale rating cannot be compared directly with a global scale rating or even with the national scale rating of another country, because the best credit within a country may not be of a similar quality to the best credit globally; the frame of reference would therefore differ, as would the ratings.

Moreover, in a national scale rating, risk factors that are common to all entities in the country cease to be differentiating elements. For instance, local elements such as political risk or fiscal situation of the sovereign are country-specific, and are likely to uniformly affect all entities within that country. Although these factors are considered for credit analysis, they will not play a significant role in differentiating between credit profiles in that country. On the other hand, such factors may be significant risk elements in global scale ratings, as they can vary widely across countries.

3. What is a global scale local currency rating? How does it differ from a global scale foreign currency rating?

A global scale local currency rating assesses an issuer's ability to service debt obligation in the currency of the country in which it is domiciled. Although this rating is relative to all other debt issues/issuers in the world, it addresses only the ability to generate requisite cash in the local currency. The rating does not factor in the risk of any control on transfer and convertibility of foreign exchange that may be imposed by the sovereign government.

A global scale foreign currency rating, on the other hand, assesses the ability to service debt obligations in globally accepted hard currencies such as the US dollar, British pound, or euro. This rating is also relative to all other debt issues/issuers in the world. Moreover, any risk of control on foreign exchange transfer and convertibility is factored into a global scale foreign currency rating.

S&P states: "S&P's issuer credit ratings make a distinction between foreign currency ratings and local currency ratings. An issuer's foreign currency rating will differ from its local currency rating when the obligor has a different capacity to meet its obligations denominated in its local currency vs obligations denominated in a foreign currency."[3]

[3] Please refer to the section on 'Local Currency and Foreign Currency Ratings' in 'S&P Global Ratings Definitions' at www.standardandpoors.com

4. Why do domestic investors use national scale ratings when global scale ratings are available?

National scale ratings, including those of CRISIL Ratings, provide superior credit differentiation among issuers/issues within a country. This is especially true if the sovereign rating of that country is in the low investment or speculative grade. At low sovereign rating levels, 'country risk' elements (such as political and economic risks) tend to dominate global scale ratings. Thus, the global scale ratings of entities in the country will generally be clustered in a few categories around the sovereign rating and will not adequately differentiate credit risk among entities in the country.

Moreover, at any time, only a few entities from any developing country are likely to have global scale ratings; national scale ratings provide a wider coverage of entities in local markets, allowing better peer comparisons. These factors make national scale ratings more meaningful for domestic investors.

5. What are the ratings of CRISIL Ratings and S&P on the Government of India?

CRISIL Ratings does not have an outstanding rating on the Indian government. However, government securities are risk-free in the Indian context and hence, if rated, would carry the highest rating on the CRISIL Ratings scale. Government-guaranteed instruments also carry the highest rating on the CRISIL Ratings scale. This is because of the government's ability to raise taxes and print money to meet all its Indian rupee-denominated obligations.

S&P has a long-term rating of '**BBB-/Positive**'[4] on the Government of India, for both local and foreign currency obligations.

6. Why does S&P not rate all sovereigns 'AAA' for their local currency obligations?

According to S&P, "One might ask why sovereign local-currency ratings are not all 'AAA', given sovereigns' flexibility to service their local-currency debt through their extensive powers within their own borders. Although the ability to print local currency gives sovereigns flexibility, heavy reliance on such an expansionary monetary stance may fuel very high inflation, or even hyperinflation, and lead to a breakdown of all domestic currency funding options. This may cause more serious political and economic damage than rescheduling local-currency debt.

More often than not, hyperinflation leads to the downfall of the government. This observation may deter policymakers from running the printing presses at full capacity. Sovereigns may therefore prefer to default on their local-currency obligations rather than risk the more profound economic and social dislocations caused by hyperinflation. In addition, in a distressed debt exchange, a sovereign may tender for both local- and foreign currency government debt (as opposed to foreign-currency debt alone) to achieve greater debt relief."[5]

[4] The rating is as on October, 2024. Please visit www.standardandpoors.com for the rating outstanding as on date
[5] Please refer to S&P's article on "What's New in S&P Global Ratings' Updated Sovereign Rating Methodology?" at www.standardandpoors.com

7. When can a company obtain a global scale rating higher than the rating on its sovereign?

A global scale rating on an issuer will be higher than the sovereign rating only if the entity is not expected to default in the stress scenario likely to accompany a sovereign default. The extent by which the entity's rating can be above the sovereign rating would depend on the sensitivity of the entity's sector to country risk, and the presence of mitigating factors for transfer and convertibility risk.[6] Companies that achieve such ratings typically include those that have considerable foreign currency earnings or earning prospects, and those that are not entirely dependent on the domestic economy for cash flow generation.

8. If an Indian company obtains ratings from both CRISIL Ratings and S&P, which of the two should an investor use?

The answer to this depends on the investor's investment objectives. A global investor investing across countries should use the rating of S&P, which provides an assessment of the relative creditworthiness of the rated entity in relation to all other debt issues/issuers in the world. However, an investor investing predominantly in India will find the rating of CRISIL Ratings more useful, as it provides the investor with a finer gradation of the entity's creditworthiness in relation to other Indian issues/issuers.

9. If S&P changes its rating on an entity that is also rated by CRISIL Ratings, will the latter follow suit?

CRISIL Ratings' ratings are determined under separate criteria that are not harmonised with S&P's rating criteria. Also, S&P does not issue local scale Indian ratings. Hence, rating changes by S&P and CRISIL Ratings are independent of each other. However, in some instances, the primary factors that drive credit quality may be similar for the ratings of S&P and CRISIL Ratings. This can result in changes in a similar direction in both ratings, but not necessarily of the same magnitude.

[6] For more details, please refer to S&P's article on "Ratings above the Sovereign--Corporate and Government Ratings: Methodology and Assumptions"

About CRISIL Ratings Limited (A subsidiary of CRISIL Limited)

CRISIL Ratings pioneered the concept of credit rating in India in 1987. With a tradition of independence, analytical rigour and innovation, we set the standards in the credit rating business. We rate the entire range of debt instruments, such as, bank loans, certificates of deposit, commercial paper, non-convertible / convertible / partially convertible bonds and debentures, perpetual bonds, bank hybrid capital instruments, asset-backed and mortgage-backed securities, partial guarantees and other structured debt instruments. We have rated over 33,000 large and mid-scale corporates and financial institutions. We have also instituted several innovations in India in the rating business, including rating municipal bonds, partially guaranteed instruments and infrastructure investment trusts (InvITs).

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