Rating Outlook, Rating Watch Policy and Liquidity Disclosure

1. Introduction and Regulatory Compliance

ACER is India's newest SEBI-registered credit rating agency, committed to delivering independent and transparent credit ratings. Our purpose is to empower investors, lenders, and businesses with ratings they can trust-enabling informed decisions and fostering confidence in India's financial markets. With a clear vision to support India's economic growth story, ACER upholds the highest ethical and analytical standards, combining deep domain expertise, advanced analytics, and rigorous processes to ensure every rating is objective, consistent, and insightful. At ACER, we are not just rating credit, we are fueling India's journey towards a stronger and more resilient economy.

This policy establishes the framework for assigning Rating Outlooks and placing ratings on Rating Watch. Rating Outlooks and Rating Watches serve as forward-looking indicators that enhance transparency and provide market participants with insights into potential rating movements of rated debt instruments or facilities. A credit rating itself is a forward-looking opinion, but these additional indicators signal potential changes based on future performance or external factors.

This policy adheres to the Securities and Exchange Board of India (Credit Rating Agencies) Regulations, 1999, and the latest SEBI Master Circular from time to time. Any exceptions to this policy and procedures shall be approved in writing by the CEO/Chairman of ACER.RSC will annually review this Policy.

<u>Definitions</u>

i **"Board" or "SEBI"** – Means the *Securities and Exchange Board of India*, which oversees the registration, governance, and conduct of Credit Rating Agencies and issues circulars, guidelines, and clarifications from time to time.

ii **ACER or "the Company":** Means ACER Credit Rating Private Limited, a private limited company incorporated under the Companies Act, 2013, and a Credit Rating Agency registered with the Securities and Exchange Board of India.

iii **"Credit rating agency" or "CRA"** means a "credit rating agency" as a body corporate which is engaged in, or proposes to be engaged in, the business of rating of securities that are listed or proposed to be listed on a stock exchange recognized by the SEBI.

iv **"Credit Rating" or "Rating"** means the rating agency's opinion on the likelihood of a rated debt obligation being repaid in full and on time. Credit rating is therefore an assessment of the probability of default on payment of interest and principal on a debt instrument.

v **"Rating Outlook"** – A 'rating outlook' indicates CRA's view on the expected direction of the rating movement in the near to medium term.

vi **"Rating Watch"** – 'Rating watch' indicates a CRA's view on the expected direction of the rating movement in the short term.

vii **"Positive Outlook"** – Indicates that a rating is likely to be upgraded in the near to medium term due to improving credit metrics or positive developments.

viii **"Negative Outlook"** – Indicates that a rating is likely to be downgraded in the near to medium term owing to weakening credit fundamentals or emerging risks.

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CIN: U66190HR2024PTC118388
SEBI Reg. No.: IN/CRA/009/2025
Regd. Off.: Unit 808, 8th FLR, Sec-30, Signature Tower-B, Basai Road, Gurugram, Haryana, 122001
Regional Off.: Unit 1513-1514, C Wing, One BKC, Bandra Kurla Complex, Mumbai 400051
+91 124 460 7887
contact@acerratings.com
www.acerratings.com

ix **"Stable Outlook"** – Indicates that the existing rating is unlikely to change over the medium term, reflecting a balanced risk profile.

x **"Rating Watch with Positive Implications"** – Indicates that the resolution of the identified event or uncertainty is likely to result in a rating upgrade or reaffirmation.

xi **"Rating Watch with Negative Implications"** – Indicates that the resolution of the identified event or uncertainty is likely to result in a downgrade or reaffirmation.

xii **"Rating Watch with Developing Implications"** – Indicates that the rating direction (upgrade, downgrade, or reaffirmation) cannot yet be determined based on available information.

xiii **"Event-Based Outlook"** – A temporary outlook assigned when the medium-term impact of a major event (such as a regulatory or policy change) is not fully quantifiable but could alter credit dynamics across a sector or issuer group.

xiv **"Rating Action Commentary (RAC)"** – The public disclosure issued by the CRA that explains the rationale for a rating change, placement on watch, or modification in outlook.

xv **"Rating Committee"** – A committee constituted by ACER Credit Rating Private Limited under Regulation 2(1)(r) of the SEBI (CRA) Regulations 1999 to assign, review, or withdraw credit ratings.

2. Rating Outlook Policy

2.1. Descriptive Definition and Purpose of Rating Outlook

A Rating Outlook indicates the CRA's view on the expected direction of the rating movement in the near to medium term.

The Rating Outlook reflects possible alternative scenarios and their potential impact on creditworthiness. Outlooks generally reflect evolving business, financial, or other trends that are taking shape but have not yet reached the level or the certainty that would trigger an immediate rating action.

In some cases, a change in outlook may be induced by a major development where the full implications, while known, are less certain and are expected to play out over the near to medium term. The outlook points to the likely direction in which ratings may move, but it is not a necessary precursor to a rating change.

2.2. Types of Rating Outlook and Implications

The rating outlook categories, in accordance with are:

- **Stable Outlook:** Indicates a low likelihood of rating change or that the rating is likely to **remain unchanged** over the medium term. This reflects a stable credit risk profile.
- **Positive Outlook:** Indicates that the rating is likely to be upgraded in the near to medium term. This reflects expected improvements in the credit risk profile.
- **Negative Outlook:** Indicates that the rating is likely to be downgraded in the near to medium term. This reflects expected deterioration in the credit risk profile.
- **However, a positive or negative outlook does not necessarily mean that the rating will change;** it just gives the likely direction as additional information to investors to help them differentiate between issuers with the same ratings but different outlooks.

2.3. Applicability of Rating Outlooks

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Rating Outlooks are generally assigned to **long-term ratings**. Specifically, Outlooks are assigned to long-term debt instruments, fixed deposit programs, and issuer ratings (Corporate Credit Ratings).

An entity can have different outlooks on different instruments if their credit drivers are different. For instance, an instrument serviced by ring-fenced cashflows; or an instrument carrying a guarantee from another entity.

In rare cases, an outlook can be event based, where the implications can play out over the medium term and are less certain, like a change in national regulation changing market supply dynamics or a change in international tariffs with uncertain medium-term implications. These are typically industry-level issues.

Rating Outlooks will not be assigned to the following categories, as mandated by SEBI and industry practice:

- **Short-term ratings**.
- Ratings in the **Default Category** ('D' category), and also to the 'C' category.
- Instruments that are currently placed on **Rating Watch**.
- Ratings of securitization transactions backed by pool of loans, as CRAs are already mandated to disclose at least once in every six months the performance of the rated pool.
- Credit quality ratings of mutual fund schemes, provided surveillance of the fund's holdings is carried out by the CRAs on a monthly basis.

3. Rating Watch Policy

3.1. Descriptive Definition and Purpose of Rating Watch

'Rating watch' indicates a CRA's view on the expected direction of the rating movement in the short term. A Rating Watch becomes applicable when there is a material development or proposed action, the credit implications of which are **unclear or not fully ascertainable immediately**.

The Rating Watch signals **uncertainty** requiring additional information or the resolution of a triggering factor. The CRA utilizes the period for which a rating remains on "Watch" to monitor ongoing developments and gather information to assess whether, and to what extent, the existing rating may have to be revised.

3.2. Triggers for Placing Ratings on Watch

Ratings may be placed on Watch following the occurrence or anticipation of specific developments that introduce significant uncertainty and could materially impact the credit profile of the issuer in the short run. Placing a rating on Watch is generally driven by specific circumstances.

Examples of situations that create sufficient **uncertainty** to warrant a Watch include:

- Announcement of a proposed merger, acquisition, demerger, or takeover.
- Significant ownership or management changes, or the resignation of key managerial personnel.
- Major regulatory or legal developments, where the final impact is not yet quantifiable.
- The existence of a discrete development where the implications are clear, but a triggering milestone (like shareholder or regulatory approval) is awaited.

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- The ultimate implication of internal or external changes on debt servicing ability cannot be evaluated instantly due to many **uncertainties**.
- A criteria change whose implications are being studied

3.3. Types of Rating Watch and Implications

Ratings placed on Watch are accompanied by standard descriptors, as prescribed by SEBI:

- **Rating Watch with Positive Implications:** Indicates that once the credit uncertainty is resolved, the rating is more likely to be upgraded or reaffirmed.
- **Rating Watch with Negative Implications:** Indicates that once the credit uncertainty is resolved, the rating is more likely to be downgraded or reaffirmed.
- **Rating Watch with Developing Implications:** Indicates that the likely direction of the rating change is uncertain based on the available information. The rating may ultimately be upgraded, downgraded, or reaffirmed.

3.4. Applicability and Resolution

A Rating Watch applies to all rated instruments, including those rated on the long-term and short-term scales. A Watch is also applicable for ratings assigned to securitisation transactions. The designation is generally applicable at the instrument level. So, it is possible that only short-term instruments are put on a watch while long term instruments are not; or vice-versa.

Like outlooks, **watch does not necessarily mean that the rating will change;** it just gives the likely direction on happening of an event as additional information to investors.

4. Key Distinctions between Rating Outlook and Rating Watch

The primary differences relate to the time horizon, the nature of the trigger, and the resulting severity of the potential rating action.

Feature	Rating Outlook	Rating Watch
Description	Indicates the possible direction of rating movement over the medium term based on assessment of key rating sensitivity factors as defined in (2.3).	Indicates uncertainty in a rating due to the occurrence/possible occurrence of specific developments, the impact of which is uncertain & cannot be immediately evaluated.
Trigger	Generally based on evolving trends (business, financial, industry) leading to long-term uncertainty. Can be based on developments where implications are expected but take time (6-24 months) to manifest.	Driven by developments (e.g., M&A, regulatory changes) where the material impact on credit rating is uncertain, specifically mentioned in (3.2).
Time Horizon	Near to medium term (typically 6 months to 2 years).	Short-term (typically resolved within 90 days). Typically, shorter timeframe, though not necessarily.
Magnitude of Change	Expected to lead to rating changes to a lesser degree and gradually	The extent of the rating change may be severe

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Disclosure on liquidity indicators

In order to make the disclosures meaningful to the end users, it has been decided to mandate disclosure of liquidity indicators using standardized terminology. Accordingly, ACER will disclose the liquidity indicators using one of the following indicators and give an explanation thereon:

Indicative illustration of usage of descriptors for liquidity assessment

1. **Liquidity: Superior/ Strong** - Liquidity is marked by strong accruals against negligible repayment obligations and liquid investments to the tune of Rs.xxx Crore. With a gearing of xx times as of March 31, xxxx, the issuer has sufficient gearing headroom, to raise additional debt for its capex. Its unutilized bank lines are more than adequate to meet its incremental working capital needs over the next one year.

2. **Liquidity: Adequate** - Adequate liquidity characterized by sufficient cushion in accruals visà-vis repayment obligations and moderate cash balance of Rs.xx Crore. Its capex requirements are modular and expected to be funded using debt of Rs.xx Crore for which it has sufficient headroom. Its bank limits are utilized to the extent of 80% and has sought enhancement in bank lines, supported by the above unity current ratio.

3. **Liquidity: Stretched** - Liquidity is marked by tightly matched accruals to repayment obligations, highly utilized bank limits and modest cash balance.

4. **Liquidity: Poor** - Poor liquidity marked by lower accruals when compared to repayment obligations, fully utilized bank limits and modest cash balance. This could constrain the ability of the company to repay its debt obligations on a timely basis.

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