Criteria for Short-term Ratings

1. Introduction

ACER Credit Rating Private Limited (ACER) assigns short-term credit ratings to debt instruments, having original contracted maturity up to one year. Such debt instruments include commercial paper (CP), short-term loans, short-term NCDs, other money market instruments, short-term working capital borrowings, and revolving lines.

Majorly, short-term obligations get rolled over or refinanced at maturity. Therefore, ACER's short-term assessment is anchored to the issuer's underlying long-term credit profile, with liquidity and refinancing ability acting as key determinants.

ACER criteria for short-term ratings incorporate issuer-specific liquidity analysis, including bank limit utilisation trends and link short-term assessment to long-term credit strength through a mapping approach. The short-term ratings incorporate the impact of any credit enhancement or guarantee.

ACER reserves the right to amend this criteria from time to time in accordance with the applicable regulations, circulars, and directives issued by the SEBI and the RBI. This disclosure will be reviewed annually.

2. Scope of the Criteria

This document outlines the analytical framework applied by ACER when assigning short-term ratings to instruments with an original maturity of up to twelve months. The criteria ensure a consistent approach to evaluating near-term credit risk, focusing on the issuer's ability to manage liquidity requirements and refinancing obligations.

A. Instrument Coverage

These instruments are typically issued for working capital management, liquidity bridging, or treasury operations. These instruments are typically used to fund temporary cash flow requirements or short-term operational needs. The scope includes, but is not limited to:

- **Money Market Instruments:** Commercial Paper (CP) and short-term Non-Convertible Debentures (NCDs).
- **Credit Facilities:** Short-term working capital borrowings and revolving credit lines.
- **Other Short-Term Obligations:** Any debt instrument or money market borrowing with a tenor $\leq$1 year.

B. Entity Classification

The methodology is applicable to issuers across diverse sectors that may include:

- Corporate entities, Infrastructure and project companies
- Financial institutions such as Primary Dealers, NBFCs, HFCs and banks

Although the fundamental framework remains common across sectors, the relative importance of analytical factors may vary depending on the issuer's business model and funding structure.

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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

3. Rating Philosophy

ACER's short-term ratings aim to capture the opinion on the probability that an issuer will meet its financial obligations on time over the next twelve months. The following principles guide the rating approach.

A. Linking Short-term Rating to Long-Term Credit Strength

Short-term credit strength is closely related to the issuer’s overall long-term financial stability and solvency profile, as reflected in its long-term credit rating. Analysis of the qualitative and quantitative fundamentals of long-term ratings enhances an entity’s ability to meet its near-term obligations. This establishes a natural linkage between long-term and short-term ratings. Moreover, many short-term instruments are rolled over, effectively functioning like long-term exposures. In situations where roll-over becomes difficult, the entity’s long-term strength often determines its ability to refinance or secure alternate funding.

While the correlation between long-term and short-term ratings is evident, liquidity assessment introduces flexibility in mapping. The long-term scale is broader, whereas the short-term scale is narrower; there may not always be a one-to-one mapping between long-term and short-term ratings. Sectoral differences also play a role in evaluating the ease of raising funds by entities in the sector; entities from the financial sector tend to have better financial flexibility.

Accordingly, ACER may assess short-term ratings based on current and expected liquidity conditions. This ensures short-term ratings remain reflective not only of long-term fundamentals but also of the entity’s immediate capacity to manage obligations, thereby balancing structural strength. Issuers with stronger long-term credit profiles generally demonstrate stable financial performance, sustainable cash generation, and stronger access to capital markets and lenders. Given below is ACER’s mapping of long-term and short-term ratings.

Long-Term Securities	**Short-Term Securities**
ACER AAA	ACER A1+
ACER AA+	ACER A1+
ACER AA	ACER A1+
ACER AA-	ACER A1+
ACER A+	ACER A1+/ACER A1
ACER A	ACER A1
ACER A-	ACER A1/ ACER A2+
ACER BBB+	ACER A2+
ACER BBB	ACER A2
ACER BBB-	ACER A3+/ ACER A3
ACER BB+ to ACER BB-	ACER A4+
ACER B+ to ACER B-	ACER A4
ACER C+ to ACER C-	ACER A4
ACER D	ACER D

NOTE*: ACER may assign a short-term rating that is different from the standard mapping derived from the long-term rating, where there is a justified basis to assess the issuer’s short-term credit profile as relatively stronger or weaker. Such deviations are mainly based on ACER’s view of the issuer’s liquidity position, including the adequacy of short-term funding sources in relation to its near-term repayment obligations and working capital requirements.*

B. Assessing the Key Factor- Liquidity

Liquidity is the most important factor influencing the final short-term rating outcome. The ability to meet short-term obligations depends on whether the issuer has sufficient liquid resources and reliable funding sources to cover obligations falling due within the next year.

Even financially strong entities may face short-term credit stress if liquidity buffers are limited or refinancing options become restricted.

ACER shall evaluate the issuer's fundamental credit quality using its long-term internal rating framework. The analysis will typically cover:

- **Business Risk Profile:** Assessment of cyclical/secular industry risks, the issuer's competitive moat, market share, and operational scale.
- **Financial Risk Profile:** Quantitative evaluation of earnings quality, capital structure, and debt-servicing metrics.
- **Management & Governance:** Review of management's track record, strategic execution, risk appetite, and the robustness of the corporate governance framework.
- **Financial Flexibility:** Analysis of cash flow adequacy, unencumbered asset pools, and the issuer's ability to access diverse funding sources.

C. Possibility of Systemic Risk

Systemic risk refers to broad market disruptions that can impair liquidity across the commercial paper market. In such short-term instruments, the liquidity can be constrained by systemic factors, such as sudden investor risk aversion, regulatory tightening, interest rate volatility, or contagion from defaults in related sectors. These risks that may result in wider systemic disruptions in liquidity, even in primary CP (Tier-1) issuances, are likely to shake investor interest.

D. Access to Market and Ability to Refinance

Many short-term instruments rely on continuous market access and investor confidence for rollover at maturity.

ACER therefore evaluates the issuer's ability to refinance obligations under varying market conditions, including periods of reduced liquidity or tighter credit availability. This analysis helps assess the issuer's resilience to temporary disruptions in capital markets.

E. External Support

Short-term obligations may, in some cases, derive strength from external credit support such as guarantees, etc. When such support is legally enforceable, irrevocable, and unconditional, the assigned short-term rating can incorporate the creditworthiness of the supporting entity. This linkage is valid only if the support remains effective and accessible throughout the instrument's tenure.

Accordingly, the rating outcome reflects not merely the issuer's standalone profile but also the reliability of the external support, ensuring that investors and stakeholders have a clear view of the enhanced protection available during the life of the obligation.

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4. Analytical Framework

ACER applies a structured multi-step analytical framework when assigning short-term ratings. The analytical process generally includes:

A. Assessment of the issuer's underlying long-term credit strength

The first step in assessing short-term ratings is by anchoring them to the issuer's long-term credit strength. The analysis highlights financial resilience and the ability to generate consistent cash flows, with a focus on leverage, interest coverage, margin stability, and cash flow adequacy. These indicators demonstrate whether the issuer's financial structure can support ongoing borrowing and refinancing needs. By aligning liquidity considerations with broader credit fundamentals, the evaluation provides stakeholders with a clear view of the issuer's near-term repayment capacity and overall financial stability, reinforcing confidence in its ability to meet obligations on time.

B. Evaluation of Liquidity and Near-Term Cash Flows

Liquidity analysis is central to ACER's short-term rating methodology. The objective is to determine whether the issuer has sufficient resources to meet obligations due within the next twelve months, including interest payments, debt maturities, and working capital requirements.

i. Internal Liquidity Sources

ACER evaluates the availability of internal liquidity buffers, which include unencumbered cash balances, liquid financial investments, and readily realisable marketable securities. These resources represent the first line of defence against short-term financial stress. ACER assesses whether expected operating cash flows are adequate to meet operational expenses, debt servicing requirements and working capital needs. Cash flow volatility or weak operating performance may increase reliance on external funding.

ii. Utilisation of Working Capital Limits

ACER evaluates issuers' short-term ratings by analysing the utilisation of working capital bank facilities. Key indicators include average usage over the past twelve months, available headroom under sanctioned limits (after comparing it with drawing power), and reliance on short-term borrowings. Persistently high utilisation levels may signal tight liquidity and reduced financial flexibility.

By monitoring these patterns, ACER provides stakeholders with a clear view of the issuer's near-term funding position and ability to manage refinancing pressures. This approach ensures transparency in assessing liquidity strength and highlights potential risks that could affect the issuer's capacity to meet short-term obligations.

iii. Liquidity Assessment for Financial Institutions

Liquidity analysis for the financial sector entities emphasises asset-liability maturity mismatches, reliance on short-term funding, and liability maturity distribution. ACER may evaluate diversity in funding sources, as concentrated reliance can heighten refinancing risks. A balanced funding structure, with staggered maturities and multiple funding channels, strengthens resilience against liquidity stress during market disruptions. Entities demonstrating prudent liability management and diversified funding access are generally better positioned to withstand adverse market conditions. Such practices enhance confidence in the issuer's ability to maintain liquidity, and reduce vulnerability to systemic shocks.

5. Assessment of financial flexibility and contingency funding

Financial flexibility reflects an issuer's ability to raise incremental funding when required. This encompasses access to bank financing, a track record of raising funds from capital markets, and prudent management of capital expenditure, among others. Entities demonstrating greater financial flexibility typically show resilience in navigating liquidity pressures, as they can adapt funding strategies to evolving market conditions.

ACER assesses the ability of the issuer to support liquidity through access to alternative liquidity sources during periods of market stress. The likelihood of the issuer to raise funds through contingency funding arrangements, such as committed bank lines, revolving credit facilities, unencumbered liquid investments, and group support, may act as critical mitigants against temporary refinancing disruptions. Issuers with diversified and dependable liquidity backups are generally better positioned to meet short-term obligations.

6. Evaluation of credit enhancement, where applicable

When short-term instruments benefit from external credit enhancement, ACER incorporates the impact of such support into its rating assessment. Enhancements may include corporate or bank guarantees, standby liquidity facilities, and structured support mechanisms. For factoring the benefit of credit enhancement in ratings, ACER carefully evaluates whether the support is legally enforceable, unconditional, and appropriately aligned with the tenor of the instrument, which may support the issuer's ability to meet near-term obligations.

7. Monitoring Ratings

All ratings mapped either to the long-term or the short-term scale are monitored on an ongoing basis. The ongoing monitoring supports gauging early warning indicators of weakening credit quality. Key signals include sharp increases in bank limit utilisation, deterioration in operating cash flows, restricted access to market funding, and significant growth in short-term borrowings. The presence of these stress markers may prompt heightened surveillance or a rating review, as they suggest rising liquidity risk and potential refinancing challenges. From a rating standpoint, timely identification of such trends is critical to reassessing creditworthiness and ensuring ratings remain reflective of an issuer's evolving financial risk profile.

8. Conclusion

ACER's short-term credit assessment framework ensures analytical consistency by anchoring short-term ratings to issuers' long-term solvency and credit profiles. Risk is further assessed on liquidity dynamics and refinancing contingencies. Structural protection is reinforced by mandating robust liquidity backstops for instruments vulnerable to confidence shocks. Credit integrity is preserved by recognising third-party support only when commitments are unconditional and irrevocable. Collectively, this policy establishes a standardised, defensible, and risk-aligned architecture, enabling ACER to uphold superior discipline, transparency, and resilience in all short-term exposure decisions.

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