



Acuite
RATINGS & RESEARCH

Fixed Deposit

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Definition of Fixed Deposit

The term Fixed Deposit refers to a Certificate of Deposit that pays a fixed rate of interest until a given maturity date. Funds placed in a Fixed Deposit (FD) usually cannot be withdrawn prior to its maturity or they can be withdrawn only with advanced notice and/or by paying a penalty. Currently, deposits can be accepted by the following types of entities viz., (i) Banks (ii) Non-Banking Financial Companies registered with RBI (referred to as NBFC-D); and (iii) Non-Banking, non-financial companies.

Fixed Deposits: Credit Rating Parameters

Acuité believes that credit rating parameters to rate fixed deposits will depend on the inherent credit quality of the issuer. In other words, the criteria used to rate manufacturing/ financial entities or respective industry-specific criteria will be used for evaluation. Accordingly, the credit rating parameters will be linked to business, financial and management risk profiles.

Risk factors that may impact Credit Rating:

Business Risk: Credit rating analysis begins with an assessment of the company's environment. Acuité analyses the dynamics of business with respect to the industry in which the company operates, to determine the degree of operating risk that a company faces. The factors assessed include industry risk, competitive profile, market position and operating efficiency of the enterprise.

Management Risk: Management risk considers the ability of the leader to guide, explore opportunities, develop, execute plans and react to market changes. Acuité considers the risk appetite, integrity and competence of the management, and evaluates its corporate governance principles.

Financial Risk: Financial risk analysis determines how the business manages the available funds, the risks it faces, and the factors employed to mitigate the same. The balance sheet, income statement, sources and uses of funds statement and financial projections provide essential information about the company's initial and ongoing repayment capacity. Quantitative analysis of revenues, profit margins, income and cash flow, leverage, liquidity and capitalisation helps identify trends and anomalies that could affect the borrower's performance. While benchmarks vary greatly by industry, several analytical adjustments are required to calculate ratios for an individual company.

Analysis of audited financials entails reviewing accounting quality to determine whether ratios and statistics derived from financial statements can be used accurately to measure a company's performance and position relative to its peer group.

Additional Factors Considered

Along with the revolving nature of the FDs, a large number of investors and smaller repayment amounts make this instrument different from the mainstream debt instruments. Accordingly, due to the emphasis that has to be accorded to factors such as risk management systems surrounding the raising and repayment of FDs. For

instance, stronger risk management policies such as using account transfer for FD (as against Cash and PDCs) go a long way in ensuring issuer's ability and willingness to service instruments in a timely manner. The historical track record of raising and repayments of FDs and the extent of reliance on this type of instrument in the overall funding mix are also evaluated.

Acuité may consider a differentiation between a rating for a Fixed Deposit vis-à-vis the ratings on the other plain vanilla debt instruments of the same borrower. The reasons are twofold. Firstly, borrowings under the fixed deposit programme are granular in nature and maturities of the fixed deposits are spread across different points of time. Secondly, it is pertinent to note that while certain fixed deposits fall due for payment, the borrowing company could also be simultaneously accepting fresh deposits/ renewing existing deposits. The net impact on the borrower's cash flow is significantly moderated.

Acuité's Rating Scale for Fixed Deposits (revised to be in compliance with SEBI circular nos.: SEBI/HO/MIRSD/MIRSD_CRADT/P/CIR/2021/594 dated July 16, 2021 and SEBI/HO/MIRSD/MIRSD_CRADT/P/CIR/2022/43 dated April 01, 2022 and clarification issued by RBI vide notification RBI/2022-23/37 DOR.FIN.REC.No.30/03.10.001/2022-23 dated May 02, 2022)

Symbols	Rating Definition
'Acuité AAA' ("Triple A") Highest Safety	Instruments with this rating are considered to have the highest degree of safety regarding timely servicing of financial obligations. Such instruments carry lowest credit risk
'Acuité AA' ("Double A") High Safety	Instruments with this rating are considered to have high degree of safety regarding timely servicing of financial obligations. Such instruments carry very low credit risk
'Acuité A' ("Single A") Adequate Safety	Instruments with this rating are considered to have adequate degree of safety regarding timely servicing of financial obligations. Such instruments carry low credit risk
'Acuité BBB' ("Triple B") Moderate Safety	Instruments with this rating are considered to have moderate degree of safety regarding timely servicing of financial obligations. Such instruments carry moderate credit risk
'Acuité BB' ("Double B") Moderate Risk	Instruments with this rating are considered to have moderate risk of default regarding timely servicing of financial obligations

'Acuité B' ("Single B") High Risk	Instruments with this rating are considered to have high risk of default regarding timely servicing of financial obligations
'Acuité C' ("Single C") Very High Risk	Instruments with this rating are considered to have very high risk of default regarding timely servicing of financial obligations
'Acuité D' ("Single D") Default	Instruments with this rating are in default or are expected to be in default soon

Acuité may apply '+' (plus) or '-' (minus) signs for ratings from 'ACUITE AA' to 'ACUITE C' to reflect comparative standing within the category.

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