

Disclosure of Default Rates for FY 2022-23

ANNEXURE A.1. – Long-run average default rates for long term instruments

Table 1: Cumulative Default rates for all instruments (including non-cooperative issuers)

Rating Category	1-Year Default Rate	2-year Cumulative Default Rate	3-year Cumulative Default Rate
AAA	0.01%	0.07%	0.16%
AA	0.05%	0.21%	0.38%
A	0.12%	0.53%	1.08%
BBB	0.55%	1.45%	2.42%
BB	2.45%	4.74%	6.78%
B	4.74%	8.80%	12.00%
C	15.88%	25.00%	30.76%

Table 1 is from a disclosure made in April 2023.

Table 2: Cumulative Default rates for dataset limited to credit ratings of listed debt securities¹ (including non-cooperative issuers)

1-Year Default Rate	2-year Cumulative Default Rate	3-year Cumulative Default Rate
0.00%	0.00%	0.00%
0.17%	0.51%	0.67%
1.02%	3.02%	5.48%
3.34%	5.34%	6.35%
12.17%	33.73%	53.75%
26.17%	44.63%	54.07%
57.14%	98.21%	100.00%

Table 3: Cumulative Default rates for dataset limited to credit ratings of listed debt securities¹ (excluding non-cooperative issuers)

1-Year Default Rate	2-year Cumulative Default Rate	3-year Cumulative Default Rate
0.00%	0.00%	0.00%
0.17%	0.51%	0.67%
1.02%	3.02%	5.48%
3.49%	5.73%	7.00%
14.47%	40.22%	61.86%
21.34%	32.94%	43.03%
53.85%	100.00%	100.00%

ANNEXURE A.2. – Short-run average default rates for long term instruments

Table 4: Cumulative Default rates for all instruments (including non-cooperative issuers)

Rating Category	1-Year Default Rate	2-year Cumulative Default Rate	3-year Cumulative Default Rate
AAA	0.00%	0.02%	0.17%
AA	0.01%	0.20%	0.64%
A	0.02%	0.23%	0.50%
BBB	0.10%	0.52%	1.36%
BB	1.29%	2.99%	4.72%
B	2.09%	4.54%	7.28%
C	6.96%	12.95%	17.48%

Table 4 is from a disclosure made in April 2023.

Table 5: Cumulative Default rates for dataset limited to credit ratings of listed debt securities¹ (including non-cooperative issuers)

1-Year Default Rate	2-year Cumulative Default Rate	3-year Cumulative Default Rate
0.00%	0.00%	0.00%
0.03%	0.43%	0.98%
0.39%	0.28%	0.21%
0.75%	0.55%	1.17%
12.26%	46.66%	56.61%
20.69%	47.29%	72.20%
59.62%	100.00%	100.00%

Table 6: Cumulative Default rates for dataset limited to credit ratings of listed debt securities¹ (excluding non-cooperative issuers)

1-Year Default Rate	2-year Cumulative Default Rate	3-year Cumulative Default Rate
0.00%	0.00%	0.00%
0.03%	0.43%	0.98%
0.39%	0.28%	0.21%
0.75%	0.56%	1.23%
16.05%	62.18%	61.28%
2.13%	11.73%	66.50%
56.52%	100.00%	100.00%

¹ Includes proposed to be listed debt securities

Note:

1. Due to constraints on consistent availability of the data on listing of debt securities for the past 10 years, the computation of cumulative default rates limited to credit ratings of securities that are listed/ proposed to be listed has been done on a best-efforts basis. For obtaining data on listed debt securities, CRISIL Ratings has relied on listing data from depositories, exchanges, and third-party databases for the entire period, and data on listed ISINs maintained by CRISIL Ratings for the past few years.
2. Tables 1 and 4 capture default rates for all instruments published by CRISIL Ratings in April 2023² (added here for comparison), while tables 2,3,5 and 6 pertain to default rates for listed debt securities. As can be seen from the tables above, default rates computed on a data set limited to credit ratings on listed debt securities are higher than default rates computed on a data set that includes all instruments; this is because the former suffer from low sample sizes. The sample size of rated listed debt securities is only a fraction of the total rated universe as is clearly evident from the following table which captures the sample size of listed debt securities across rating categories as a proportion of the total rated universe. While listed debt securities are relatively more prevalent in higher rating categories such as AAA and AA, the sample size gets sharply and nearly secularly truncated at lower rating categories (going as low as ~1/1600th) as there are scarcely any issuances in India for securities rated in lower rating categories. Further, the few ratings for listed debt securities at lower categories are mostly ratings in transition to default. Even a rare default by an issuer from such low rating category leads to inflated default rates in these rating categories given the insignificant sample set of listed debt securities.

Approximate sample size of listed debt securities as a proportion of total rated universe for all instruments, for each rating category	
AAA	1/2
AA	1/4 th
A	1/20 th
BBB	1/200 th
BB	1/600 th
B	1/1600 th
C	1/200 th

How to read the above table? In BB category, the sample size of listed debt securities is ~1/600th of all instruments. Hence, while the long run 3-year default rate for the CRISIL Ratings' listed debt securities portfolio for BB category is 53.75% (table 2), the overall long run 3-year default rate is only 6.78% (table 1). **Clearly, computation of default rates solely based on listed debt securities (or any single instrument class) is not representative of the default behaviour of Indian corporates. Tables 1 and 4 capture default rates for all instruments and better represents the quality of a credit rating agency's ratings.**

²The disclosures for all instruments are also available on the CRISIL Ratings website at <https://www.crisilratings.com/content/dam/crisil/generic-images1/our-businesses/ratings/regulatory-disclosure-highlighted-policies/regulatory-disclosures/sebi/disclosures-as-per-sebi-circular-cir-mirsd-cra-6-2010/long-run-and-short-run-average-default-rates.pdf>.