

10:40 AM   07 AUG <b>LIVE</b> <b>MARKET STATS</b> ▾	सेन्सेक्स <b>32,330</b> ▲ 4.76	निफ्टी 50 <b>10,068</b> ▲ 2.30	सोने ( एमसीएक्स ) (□/१० ... <b>28,379.00</b> ▼ -27.00	यू एस डी/भारती... <b>63.67</b> ▲ 0.09	पोर्टफोलियो निर्माण करा	ई-टी मार्केट्स आप उतरवून घ्या	CHOOSE LANGUAGE MAR
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# Sebi's loan default disclosure diktat likely to discipline companies on repayment habit

BY [ATMADIP RAY](#) & [JOEL REBELLO](#), ET BUREAU | UPDATED: AUG 06, 2017, 10:57 PM IST

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KOLKATA/MUMBAI: Deceitful borrowers who routinely delay repayment of monthly loan instalments will find it difficult to do so as the Securities & Exchange Board of India has asked rating companies to downgrade any company to 'junk' if it misses its loan repayment.

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Top bankers often rue the fact that many companies, including some in the top bracket, pay dues just a few days before the 90-day deadline to retain standard asset classification on their loans. A non-performing asset or NPA classification limits a borrower's ability to raise further capital and is also seen as a reputation risk.

"It is quite prevalent among some deceitful borrowers. The new rule may put a stop to this practice, at least for those companies which are rated," a veteran bank executive said.

The market regulator has put the onus on debenture trustees, rating companies as well as the companies themselves to let the world know if there is a default on payment.

Rating companies are told to downgrade rating immediately on non-repayment, even as banks following the Reserve Bank of India's asset classification norm would not term them as NPA before 90 days.

"Sebi's guidance would narrow the information asymmetry that existed in the system," said Gurpreet Chhatwal, president at CrisilRatings. "There may be short-term disruption, if any, but in the long run, it would be strongly credit positive for the market. It will bring more discipline and transparency in the credit markets."



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A State Bank of India executive said though banks would still go by the 90-day classification rule, the new direction would raise risk weightage on companies to be downgraded and that would have to be priced in the loans.

"Companies can no longer take it easy because a default of even a day will mean walls will start to close," said Kuntal Sur, risk & regulatory leader at PwC. "For banks, it means that risk of provisions rising is higher, which will also increase the burden on them."

He said Sebi's order just reiterates what always had to be followed but the rating agencies did not do it. "This, now, means that rating agencies have to be more alert on defaults. This should be seen in the context of various measures against defaults like the new bankruptcy code," Sur said.

Care Ratings chief executive Rajesh Mokashi said rating agencies depend on disclosures from companies, bond trustees and bank feedback.

"The [Sebi](#) order will strengthen flow of information and plug the gaps, which currently exist. The market will move to rule-based

regulations from principal-based regulations. This will tighten compliance," he said.

The market regulator has directed rating companies to obtain a 'no default statement' (NDS) from the issuer at the end of each month, which will be provided on the first working day of the next month. It has also asked listed companies to inform bourses in case of a [loan default](#).

Chhatwal explained that the failure by a company to send an NDS every month may not mean that rating companies downgrade a bond or a loan of that company immediately. "Among other sources, we would rely on information from banks, debenture trustees, stock exchange filings and would downgrade it to "D", the lowest level of sub-investment grade, only if it is not paying its dues on time. NDS will be one of the inputs for taking rating action," he said.

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