

Recovery Ratings

SARFAESI Act was enacted to regulate securitisation and reconstruction of financial assets and enforcement of security interest. This facilitated resolution of long-drawn legal matters in recovery cases and involved professional expertise by way of involving Securitisation Companies (SCs)/Asset Reconstruction Companies (ARCs) in the recovery process. Security Receipts (SRs) are instruments issued under ‘The SARFAESI Act’ after acquisition of assets by SCs/ARCs (against the acquired financial assets), to Qualified Institutional Buyers (QIBs). These SRs need to be rated and the objective of the RBI guidelines on declaration of Net Asset Value (NAV) of the SRs issued by SCs/ARCs is to enable QIBs value their investment in SRs in accordance with the applicable guidelines. The rating serves as an important objective tool for the purpose of arriving at NAV. Recovery rating is based on the ‘**recovery risk (probability of recovery)**’ and **not** the ‘**default risk (probability of default)**’. The value of the underlying security and its recoverability is of prime importance in recovery rating, whereas, cash flow adequacy and future volatility in cash flows hold significance in credit rating including various other financial parameters.

Information required by CARE for Recovery Rating The recovery rating or valuation of SR would start with basic information and request being submitted by the SC/ARC. Basic information would include following details:

1. Reasons for distress
2. Basic information of the unit
3. Annual reports of the company for four-five years
4. Resolution strategy finalised by SC/ARC and progress made towards resolution
5. Detailed valuation report prepared by SC/ARC
6. Information memorandum prepared by SC/ARC

7. Details of fixed assets like land and building
8. List of lenders with list of collaterals
9. Various existing claims on the available security and order of claim
10. Bank Summary report (Credit communications and other observations)
11. Legal status report
12. Expected cash flows with underlying assumptions
13. Any other relevant information, etc.

What is the Rating Scale?

Recovery Rating (RR)	Indicative Recovery Expected (%)	Definitions
RR 1+	150 and above	The RR1+ rating represents that the estimated present value of outstanding SRs would be above 150% of the face value of outstanding SRs issued.
RR 1	100-150	The RR1 rating represents that the estimated present value of outstanding SRs would be above 100% and upto 150% of the face value of outstanding SRs issued.
RR 2	75-100	The RR2 rating represents that the estimated present value of

		outstanding SRs would be above 75% and upto 100% of the face value of outstanding SRs issued.
RR 3	50-75	The RR3 rating represents that the estimated present value of outstanding SRs would be above 50% and upto 75% of the face value of outstanding SRs issued.
RR 4	25-50	The RR4 rating represents that the estimated present value of outstanding SRs would be above 25% and upto 50% of the face value of outstanding SRs issued.
RR 5	0- 25	The RR5 rating represents that the estimated present value of outstanding SRs would be upto 25% of the face value of outstanding SRs issued.