Analytical Treatment for One-Time Restructuring (OTR) due to Covid-19 Related Stress Revised

CareEdge RATINGS

The Covid-19 pandemic and the related lockdown and supply disruptions have resulted in liquidity stress in most sectors. This stress has had a significant impact on the repayment capacity of companies having an otherwise good track record of debt servicing. The Reserve Bank of India (RBI) has released regulatory measures from time to time to help businesses tide through this crisis. The most recent measure by RBI to this effect is the 'Resolution Framework for Covid-19 related stress' announced on August 6, 2020. Subsequently, Securities and Exchange Board of India (SEBI) has on August 31, 2020 issued a circular to the Credit Rating Agencies (CRAs) to provide relaxation from default recognition due to restructuring of debt upto December 31, 2020.

As per the RBI circular, eligible borrowers are companies which are presently under stress on account of Covid-19 and which were classified as Standard, but not in default for more than 30 days with any lending institution as on March 1, 2020. The eligible borrowers have to apply for restructuring to lending institutions by submitting a resolution plan. The lending institutions are required to frame board approved policies within the contours of the RBI circular to approve or reject such plans. The plan is said to be approved, or the resolution is said to be invoked when 75% by value and 60% by number of lenders agree to the resolution plan. Post approval, there is a process of signing of Inter creditor agreement within 30 days. The date of implementation of the plan has to be within 180 days of the date of invocation.

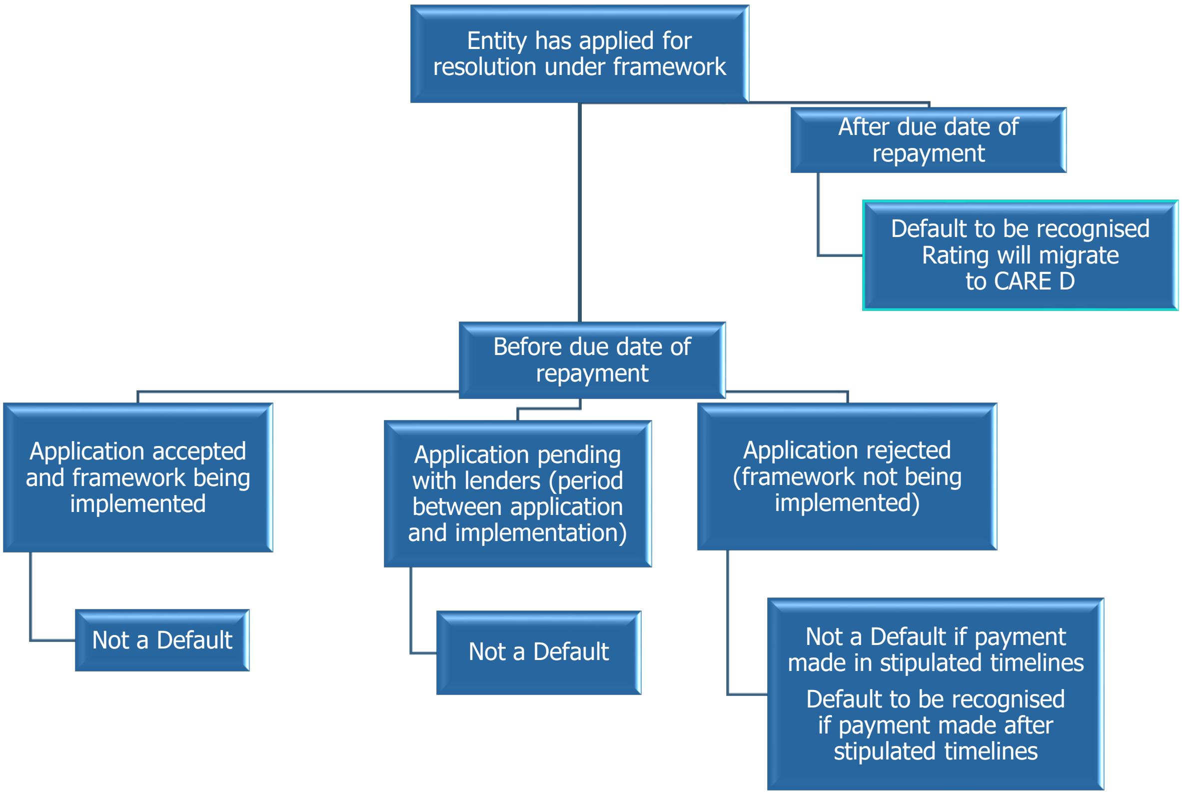
Please refer to CARE Ratings' Default policy for timelines in recognition of default or migrating the rating to CARE D for different types of instruments/facilities. As per our existing policy on Default recognition:

"Non-servicing of the debt (principal or interest or both) as per the existing repayment terms in anticipation of a favourable response from the banks of accepting their restructuring application/ proposal shall be considered as a default. Rescheduling of the debt instrument by the lenders prior to the due date of payment will not be treated as default, unless the same is done to avoid default or bankruptcy"

The cited RBI/SEBI circulars would require relaxation in the abovementioned clause in our default recognition policy. Accordingly, CARE Ratings would adopt the following approach in case of entities witnessing stress due to the pandemic. While this is the broad framework, CARE Ratings would take a view on a case-to-case basis.

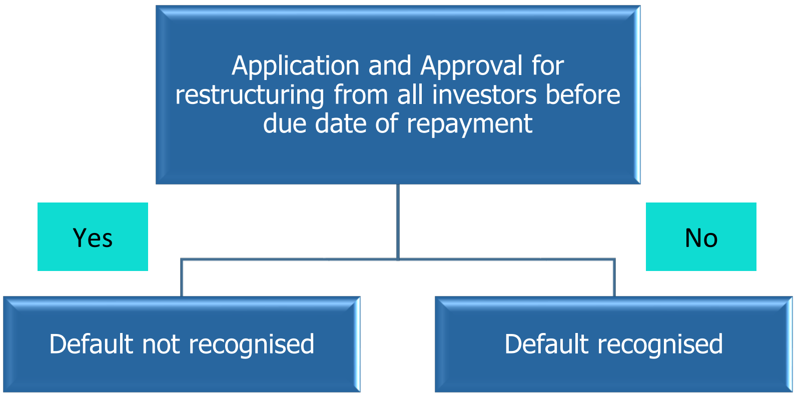
In cases where default has occurred as per our default policy the following framework will be adhered to in different circumstances that are outlined below:

- For Default recognition in case of rated Bank facilities where there are missed payments



- For Default recognition in case of Capital Market Instruments/Money Market Instruments

  In case of securities, CARE Ratings will not recognise default on non-payment of dues towards instruments, only if approval for restructuring of payment terms of the instrument has been availed from all the investors before the due date. CARE Ratings may also not recognise default if the investors have granted an in-principle concurrence to the borrower prior to the due date (to be formalized in due course) for restructuring of payment terms of the instrument. If any investor disagrees or decides to proceed with recovery (under laws including IBC), CARE Ratings will be required to recognize a default.



- Further, in case of capital market/money market instruments subscribed by banks/All India Financial Institutions/NBFCs (including HFCs) and forming part of the application under OTR framework, the default recognition in case of a missed payment will be the same as that applicable to bank facilities as mentioned above.
- In cases where due to the above framework, a default is not recognised or rating is not migrated to D, CARE Ratings may take an appropriate rating action (rating revision/credit watch/change in outlook), as warranted, to reflect the credit quality of the issuer. To clarify further, if in CARE Ratings' view the credit profile of the issuer has become structurally weak due to the economic fallout of Covid-19 or otherwise and the degree of safety towards timely servicing of financial obligations has weakened from the outstanding rating levels, CARE Ratings will take appropriate rating action.

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About:

CareEdge is a knowledge-based analytical group that aims to provide superior insights based on technology, data analytics capability and detailed research methods. CareEdge Ratings is one of the leading credit rating agencies in India. It has an impressive track record of rating companies for almost three decades and has played a pivotal role in developing the corporate debt market in India. CareEdge provides near real time research on all domestic and global economic developments. The wholly owned subsidiaries include CareEdge Advisory & Research arm focused on providing advisory and consultancy services and CareEdge Risk solutions a platform that provides risk management solutions