

Policy on Curing Period

[Issued in June 2022]



Background

CARE Ratings' policy on default recognition is in line with the SEBI guidelines, wherein, in respect of ratings for instruments/bank facilities with a pre-determined repayment schedule, 'one-day-one-rupee' delay is considered as default, whereas for facilities with no pre-determined repayment schedule, a 30 day grace period is allowed. This apart, SEBI has stipulated default recognition criteria in case the rated instrument is rescheduled as also specific timelines when a rating can be revised upwards from 'Default grade'.

CARE Ratings' policy on default recognition (available at www.careedge.in) stipulates the curing period as follows:

Curing Period	90 Days - for revision from Default to Speculative Grade
	Generally, 365 Days for revision from Default to Investment Grade

The default grade rating for an instrument/ facility shall not be revised unless all instruments of similar seniority are "cured" of their defaults. For subordinate instruments and structured instruments, the curing period will apply at the instrument level.

SEBI in its circular no. SEBI/ HO/ MIRSD/ CRADT/ CIR/ P/ 2020/ 87 dated May 21, 2020, stated that "After a default is cured and the payments regularized, a CRA shall generally upgrade the rating from default to non-investment grade after 90 days based on the satisfactory performance by the company during this period. CRAs may deviate from the said period of 90 days on a case-to-case basis, subject to the CRAs framing a detailed policy in this regard."

Policy on Curing Period

Pursuant to the aforementioned circular, CARE Ratings' policy on the curing period is as follows:

CARE Ratings shall generally apply the curing period as mentioned in CARE Ratings' policy on default recognition reproduced earlier. However, on a case-to-case basis, CARE Ratings may deviate from the said policy.

- The deviation from the 90-day timeline for an upgrade to sub-investment grade rating and 365-day timeline for an upgrade to Investment grade rating shall happen only when CARE Ratings believes the underlying credit profile of the entity has improved significantly. The rating so assigned shall be based on CARE Ratings' analytical judgment on the likelihood of recurrence of default.
- CARE Ratings in extremely exceptional situations may upgrade the default grade rating to investment grade rating before the completion of the stipulated curing period of 90 days.

As mentioned earlier, the deviation from the default policy shall be allowed, only if CARE Ratings' rating committee in its analytical judgement is of the view that the underlying credit profile has significantly improved and the likelihood of recurrence of default is minimal. Some of the situations that could lead to deviation from the policy include:

- Change in ownership and/or management control moving to another entity/group resulting in significant improvement in the credit profile of the rated entity
- Sizeable inflow of long-term funds
- Significant benefits accruing to the business due to changes in regulations resulting in improvement in the liquidity and cash flows of the rated entity
- Additional funding lines made available to the rated entity/refinancing/restructuring of debt providing the required liquidity support for a sustainable business risk profile
- Default was caused by a force majeure event
- Default was on account of issues with payment mechanism or systems and not due to any liquidity constraint

While one or more of these conditions are required to be satisfied for an upgrade from default grade to higher rating grade (including investment grade), the rating may be upgraded within a sub-investment grade, based on CARE Ratings' analysis of the possibility of recurrence of events which led to the default. Also, it may be noted that the rating may be upgraded from the default category to a non-default category after completion of the curing period, only if CARE Ratings' rating committee is of the view that the possibility of recurrence of events which led to default is minimal in the near future and CARE Ratings may continue with the Default category rating even after completion of the curing period if it is of the view that there is a possibility of default shortly.

The rating revision from the default grade, as stated above, shall be carried out only after the actual occurrence of the events stated above and will not be based on contingent events. Cases of deviations, if any, from the stipulated 90 days shall be placed before the Rating Sub-Committee of CARE Ratings' Board, on a half-yearly basis, along with the rationale for such deviation.

[For the previous version, please refer to 'CARE Ratings' Policy on Curing Period' issued in [June 2020](#)]

CARE Ratings Limited

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Phone : +91 - 22 - 6754 3456 | CIN: L67190MH1993PLC071691

Connect :     

Locations: Ahmedabad | Andheri-Mumbai | Bengaluru | Chennai | Coimbatore | Hyderabad | Kolkata | New Delhi | Pune

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