

Policy on Curing Period



[Issued in June 2020 pursuant to SEBI Circular no. SEBI/ HO/ MIRSD/ CRADT/ CIR/ P/ 2020/ 87 dated May 21, 2020]

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 curing period as follows:

Curing Period	A	90 Days - for Default to Speculative Grade
	B	Generally, 365 Days for 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 has vide 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, on the occurrence of the following:

- Change in ownership and significant management control moving to another entity/group which has a relatively better credit profile compared to the rated entity.

- Significant infusion 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
- Certain forms of refinancing have been undertaken which leads to the replacement of the facilities/instruments in default
- Additional funding lines made available to the rated entity providing the required liquidity support

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.

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

About:

CareEdge (earlier known as CARE Group) 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

Disclaimer:

The ratings issued by CARE Ratings Limited are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings Limited has based its ratings/outlooks based on information obtained from reliable and credible sources. CARE Ratings does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings Limited have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings Ltd. or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE Ratings Limited is, inter-alia, based on the capital deployed by the partners/proprietor and the current financial strength of the firm. The rating/outlook may undergo a change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE Ratings Limited is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE Ratings.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades