

CARE's 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's 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's policy on default recognition (available at www.careratings.com) also stipulates the 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, curing period will apply at 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 a period of 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."

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Pursuant to the abovementioned circular, CARE's policy on curing period is as follows :

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

- The deviation from the 90 day timeline for upgrade to sub investment grade rating and 365 day timeline for upgrade to Investment grade rating shall happen only when CARE believes that the underlying credit profile of the entity has improved significantly. The rating so assigned shall be based on CARE's 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, prior to 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's rating committee in its analytical judgement is of the view that the underlying credit profile has significantly improved, on 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 change in regulations resulting into improvement in the liquidity and cash-flows of the rated entity
- Certain forms of refinancing have been undertaken which leads to 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 upgrade from default grade to higher rating grade (including investment grade), the rating may be upgraded within sub-investment grade, based on CARE's 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 default category to a non-default category after completion of the curing period, only if CARE's 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

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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 in the near future.

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

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