

CARE Ratings' Policy on Default Recognition



[Issued in January 2025]

Background:

Ratings from CARE Ratings Limited (CARE Ratings) are an opinion on the relative ability and willingness of an issuer to repay debt (including interest and other obligations) in a timely manner.

CARE Ratings' default recognition policy is updated in line with the Securities and Exchange Board of India (SEBI) guidelines issued from time to time, as per which in respect of listed and proposed to be listed debt securities, a 'one-day-one-rupee' delay in the debt servicing is considered as default. Further, the Reserve Bank of India (RBI) has specified guidelines for recognition of default in case of facilities / instruments (other than listed / proposed to be listed debt securities) as per which for facilities / instruments with a pre-defined repayment schedule, a 'one-day-one-rupee' delay in the debt servicing is considered as default, whereas facilities with no pre-determined repayment schedule are considered to be in default if they remain continuously overdrawn / overdue / unpaid for more than 30 days. This apart, there are specific regulatory guidelines on default recognition in case the rated security / instrument / facility is rescheduled and for the 'curing' period post which a rating may be upgraded from 'Default Grade' (CARE D).

This document explains in detail the definition of default followed by CARE Ratings and the criteria for treatment of defaults while assigning initial ratings and reviewing outstanding ratings.

Definition of default:

A. Definition of default for listed / proposed to be listed debt securities (as per SEBI's master circular):

Financial Instrument	Rating Scale	Definition of Default
Debentures / Bonds	Long Term	A delay of 1 day even of 1 rupee (of principal or interest) from the scheduled repayment date (refer note below).
Commercial Paper	Short Term	
When the rated instrument is rescheduled		Non-servicing of debt (principal or interest or both) as per the existing repayment terms in anticipation of a favourable response from the investors / lenders of accepting their restructuring application / proposal shall be considered as a default. Rescheduling of the debt instrument by the investors / lenders prior to the due date of payment will not be treated as a default, unless the same is done to avoid default or bankruptcy.
Curing Period [^]		Generally 90 Days - for upgrade from Default to Non-Investment Grade.

[^]Curing period would be generally 365 days for upgrade from Default to Investment Grade. CARE Ratings may upgrade the rating before expiration of the stipulated curing period, in accordance with CARE Ratings' 'Policy on Curing Period' available at www.careratings.com.

Note: Default may not be recognised if the non-payment of debt (principal and/or interest) is due to reasons beyond the control of the issuer, namely, failure to remit payment due to absence of correct information or due to incorrect or dormant investor account furnished by the investor(s) or due to notice / instruction received from a government authority to freeze the account of investor(s).

In the aforesaid scenarios, CARE Ratings shall confirm and verify the availability of adequate funds with the issuer and also confirm and verify:

- the proof of failure of the required payment of debt (principal and/or interest),
- the reasons for failure being as specified above, and
- the required amounts being duly paid into a separate escrow account maintained with a scheduled commercial bank by the issuer on the due date of payment.

B. Definition of default for other facilities / instruments (other than listed / proposed to be listed debt securities):

Facilities	Rating Scale	Definition of Default*
Fund-based facilities and facilities with pre-defined repayment schedule#		
Term Loan	Long Term	A delay of 1 day even of 1 rupee (of principal or interest) from the scheduled repayment date.
Working Capital Term Loan	Long Term	
Working Capital Demand Loan	Long Term	
Debentures / Bonds	Long Term	
Certificate of Deposits / Fixed Deposits	Short Term / Long Term	
Commercial Paper	Short Term	
Packing Credit (Pre-shipment Credit)	Short Term	Overdue / unpaid for more than 30 days.
Buyer's Credit	Short Term	Continuously overdrawn for more than 30 days.
Bill Purchase / Bill Discounting / Foreign Bill Discounting / Negotiation (BP/BD/FBP/FBDN)	Short Term	Overdue / unpaid for more than 30 days.
Fund-based facilities and no pre-defined repayment schedule		
Cash Credit	Long Term	Continuously overdrawn for more than 30 days.
Overdraft	Short Term	
Non-fund-based facilities		
Letter of Credit	Short Term	Overdue for more than 30 days from the day of devolvement.
Bank Guarantee (Performance / Financial)	Short Term	Amount remaining unpaid for more than 30 days from the invocation of the facility.
Other Scenarios		
When the rated facility / instrument is rescheduled		<p>Non-servicing of debt (principal or interest or both) as per the existing repayment terms in anticipation of a favourable response from the lenders / investors of accepting their restructuring application / proposal shall be considered as a default.</p> <p>Rescheduling of the debt instrument by the lenders / investors prior to the due date of payment will not be treated as a default unless the same is done to avoid default or bankruptcy.</p>
When the debt servicing of an facility / instrument backed by a guarantee is not done on the due date		In such cases, the recognition of default is generally dependent upon the nature of structured payment mechanism (SPM) mentioned in the guarantee document.

Facilities	Rating Scale	Definition of Default*
		<p>The SPM generally contains a 'T-' structure, where 'T' is the due date. In case the payment mechanism is not adhered to and there is a missed payment on such due date, default is recognised on the said facility / instrument.</p> <p>In some cases, the payment mechanism mentioned in the guarantee document may be a 'T+x' structure@, where 'x' is the number of days for making the payment after the due date.</p> <p>In case of such 'T+x' structures, CARE Ratings would recognise default on the facility / instrument if the payment mechanism is not adhered to and the debt servicing is not done by the 'T+x'th day, with 'T+x'th day being very close to the 'T'th day.</p> <p>In cases where there is no SPM mentioned in the guarantee document, notwithstanding whether the guarantee is invoked or otherwise, if there is a missed payment on the due date, then CARE Ratings would recognise default on the said facility / instrument.</p>
Curing Period^		90 Days - for Default to Speculative Grade and Generally 365 Days for Default to Investment Grade.
<p>@'T+x' payment mechanism shall be applicable only for facilities. #If the sanctioned terms allow a grace period for making the payment after the due date, CARE Ratings considers the due date after taking into account the grace period. ^CARE Ratings may upgrade the rating before expiration of the stipulated curing period, in accordance with CARE Ratings' 'Policy on Curing Period' available at www.careratings.com.</p> <p>*CARE Ratings tracks timeliness of the debt servicing by the rated entities. In this regard, CARE Ratings relies on information such as no-default statement from the rated entities, auditor's report, feedback from the bankers, debenture trustees / issuing and paying agents (as applicable), stock exchange disclosures made by the listed entities, bank statements (if shared by the entities), or any other public sources. If such feedback confirms that the delayed payment was a one-off event solely due to operational issues at the lender's or investor's end, beyond the control of that entity, and the same does not reflect lack of ability or willingness of the entity to pay its debt obligations, then CARE Ratings may not recognize a default. However, in such cases, CARE Ratings may publish a credit update about the delay and the operational issues causing such delay.</p>		

Criteria for treatment of defaults:

1. Treatment of default in case of initial ratings

In case of initial ratings, a rating of 'CARE D' is assigned in case of ongoing delays in debt repayment of the facility / instrument being rated. In case of instances of past delays in repayment of any debt instrument, the following four dimensions of delay are analysed: a) the extent of delay (number of days of delay); b) frequency of delay (number of times the delay occurred in the past one year); c) severity of delay (amount not paid vis-à-vis amount due); and d) status of an ongoing delay (a facility / instrument in default). A non-default rating will not be assigned generally if the curing period post an earlier default on any facility / instrument of similar seniority has not elapsed. For subordinate facilities / instruments and structured instruments, the curing period will apply at the facility / instrument level.

- In case of (d) above, a rating of 'CARE D' is assigned if the delay is in respect of the facility / instrument being rated, or delay is in respect of a facility / instrument of similar seniority not being rated.
- In cases other than (d) above, the rating will take into account the extent, frequency and severity of the delay, and also how recently the delay has occurred. A default-free track record of generally 90 days is required to assign the rating in the non-investment grade / speculative grade other than 'CARE D', and generally a default-free track record of 365 days is required to assign an investment grade rating. CARE Ratings may assign 'Non-D' rating before the expiration of the stipulated curing period in line with CARE Ratings' 'Policy on Curing Period' available at www.careratings.com.

2. Treatment of default in review of outstanding ratings

Whenever CARE Ratings becomes aware of any missed payment on a rated facility / instrument, the rating of that facility / instrument is brought down to 'CARE D'. The rating of all other facilities / instruments rated by CARE Ratings, which have the same seniority as the facility / instrument that has defaulted and issuer rating will generally move to 'near default' grade or 'CARE D', as the circumstances that caused a delay in the debt servicing on one facility / instrument may also affect the debt servicing of other facilities / instruments. However, CARE Ratings may, in certain situations, not move ratings on all other facilities / instruments to 'near default' grade or 'CARE D' if strong instrument-specific mitigating factors exist or instances of delinquencies / defaults on other facilities / instruments are unlikely to lead to a default on the rated facility / instrument. After curing the delay, the default grade rating can be moved within the sub-investment category based on the extent, frequency, severity and the date of occurrence of the delay. A default-free track record of generally 90 days is required to move a facility / instrument's rating from 'CARE D' to other ratings in the non-investment grade / speculative grade and generally, a default-free track record of 365 days is required to move a facility / instrument's rating from 'CARE D' to investment grade. CARE Ratings may assign 'Non-D' rating before the expiration of the stipulated curing period in line with CARE Ratings' 'Policy on Curing Period' available at www.careratings.com.

3. Default on facilities / instruments not rated by CARE Ratings

In case an issuer with an outstanding rating from CARE Ratings defaults on any facility / instrument (other than the rated one), which has the same seniority as the facility / instrument rated by CARE Ratings, the rating of the facility / instrument rated by CARE Ratings (which is not in default) and issuer rating will move to 'near default' grade or 'CARE D'. This is because the factors that caused the delinquency / default on other facilities / instruments may also affect the debt servicing on the rated facility / instrument. However, CARE Ratings, in certain situations may not move ratings on all other facilities / instruments to 'near default' grade or 'CARE D', if strong instrument-specific mitigating factors exist or instances of delinquencies / defaults on other facilities / instruments are unlikely to lead to a default on the rated facility / instrument.

4. Treatment of default in case of hybrid instrument ratings

The terms of the hybrid instruments may allow deferment of principal and/or interest payment in case of invocations of certain pre-agreed clauses. Any delay in the payment of interest / principal (as the case may be) following the invocation of the lock-in clause is considered an event of default as per CARE Ratings' definition of default and as such, these instruments may exhibit a somewhat sharper migration of the rating compared with conventional subordinated debt instruments.

[For the previous version, please refer to CARE Ratings' 'Policy on Default Recognition' issued in [December 2024](#)]

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About:

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