Analytical Treatment for one-time restructuring due to Covid-19 related stress

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 or 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.

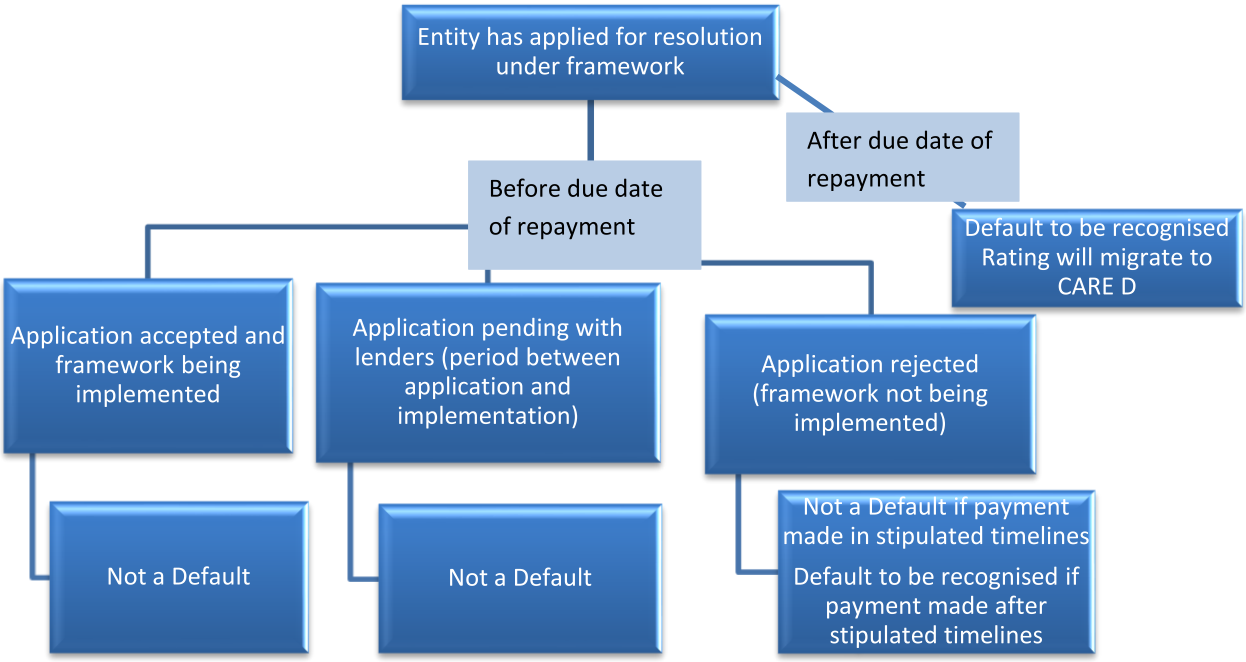
Please refer to CARE's Default policy for timelines in recognition of default or migrating the rating to CARE D for different types of instruments/facilities. As per our existing policy on Default recognition :

> *"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.

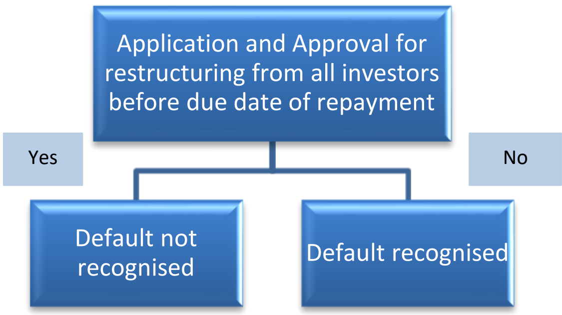
In cases where default has occurred as per our default policy the following framework will be adhered to in different circumstances that are outlined below:

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



- **For Default recognition in case of Capital Market Instruments**

  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.



- 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's 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.

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Contact us

Media Contact
Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Criteria and Quality Control Team
Smita Rajpurkar
Contact no - +91-22-6837 4416
Email ID – smita.rajpurkar@careratings.com

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.