

INFOMERICS' POLICY OF DEFAULT RECOGNITION

A. BACK GROUND

SEBI has issued guidelines for movement of default rating to non-investment /investment grades which are being complied by us. SEBI called for a meeting all CRAs on March 27, 2020 to discuss situation emerging due to Covid 19 and announcement of regulatory COVID 19 package by RBI on 23rd March 2019. SEBI was of the opinion that COVID 19 induced lockdown was an extraordinary situation and can cause immense stress to the cash flows of any company. During the course of deliberations CRAs were advised to take into account the extraordinary situation arising due to lock down and it's after effects which has caused disruption in the Economic activity and financial sector while rating the exposures. It was felt that the CRAs should not mechanically downgrade issuers into Default on account of delay and defaults arising out lockdown induced stress.

This was followed by the SEBI circular SEBI/ HO/ MIRSD/ CRADT/ CIR/ P/ 2020/ 53 dated March 30, 2020. The circular inter alia state as under:-

“In view of the developments arising due to COVID-19 pandemic and in light of the moratorium permitted by Reserve Bank of India (RBI) (vide notification no. RBI/201920/186, dated March 27, 2020) on loan servicing, working capital facilities etc. for three months, a need for temporary relaxations in compliance by CRAs is felt. Accordingly, it has been decided to grant relaxations from the requirements stipulated vide circulars as under:

RECOGNITION OF DEFAULT

- A. Currently, CRAs recognize default based on the guidance issued vide SEBI circular dated May 3, 2010 and November 1, 2016.
- B. In view of the nationwide lockdown and the three month moratorium/ deferment on payment permitted by RBI, a differentiation in treatment of default, on a case to case basis, needs to be made as to whether such default occurred solely due to the lockdown or loan moratorium.

- C. Accordingly, based on its assessment, if the CRA is of the view that the delay in payment of interest/principle has arisen solely due to the lockdown conditions creating temporary operational challenges in servicing debt, including due to procedural delays in approval of moratorium on loans by the lending institutions, CRAs may not consider the same as a default event and/or recognize default. Appropriate disclosures in this regard shall be made in the Press Release.
- D. The above shall also be applicable on any rescheduling in payment of debt obligation done by the issuer, prior to the due date, with the approval of the investors/lenders.
- E. The above relaxation is extended till the period of moratorium by the RBI, in which SEBI instructed CRAs to evaluate each default on a case to case basis and observe whether it is on account of COVID 19 induced lockdown.”

Further on May 21, 2020, SEBI released a circular SEBI/ HO/ MIRSD/ CRADT/ CIR/ P/ 2020/ 87 which directed CRAs to frame individual policies for movement of default rating into sub investment and investment grade and not necessarily abiding by the curing period of 90- days (default to sub investment grade) and 365- days (default to investment grade) criteria.”

B. EXTANT GUIDELINES

The extant guidelines have been prescribed as per circular SEBI/HO/MIRSD/DOP2/CIR/P/2018/76, dated May 2, 2018.

Instrument/Facility wise Default Recognition & Post-Default Curing Period

Facilities/Debt Instruments	Rating Scale	Proposed Definition of Default
Fund-based facilities & 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
Working Capital Term Loan		
Working Capital Demand Loan (WCDL)		
Debentures/Bonds		
Certificate of Deposits (CD)/Fixed Deposits (FD)	Short Term/Long Term	

Commercial Paper	Short Term	scheduled repayment date.
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 & No Pre Defined Repayment Schedule		
Cash Credit	Long Term	Continuously overdrawn for more than 30 days.
Overdraft	Short Term	Continuously overdrawn for more than 30 days.
Non fund-based facilities		
Letter of credit (LC)	Short Term	Overdue for more than 30 days from the day of devolvement
Bank Guarantee (BG)(Performance/Financial)	Short Term	Amount remaining unpaid from 30 days from invocation of the facility
Other Scenarios		
When rated instrument is rescheduled:		Non-servicing of the debt (principal as well as interest) as per the existing repayment terms in anticipation of a favourable response from the banks of accepting their restructuring

		<p>application/ proposal shall be considered as a default.</p> <p>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.</p>
Curing Period		<p>90 Days for Default to Speculative Grade and 365 days for Default to Investment Grade.</p>

C. OUR PROPOSAL

Keeping in view the regulatory directives and the need to have framework to review the existing downgrade in ratings, we propose the following policy for movement of ratings from default grade sub investment /investment grade under different scenario:-

- **Situations where rating can be upgraded from ‘Default’ grade before the stipulated 90 days curing period.**

	DEFAULT	To Investment Grade	To Sub Investment Grade
1.	Delay due to technical reasons	Immediate	Immediate
		<p>i) Delay and default due to technical reasons shall be construed if the issuer is able to demonstrate with adequate proof to INFOMERICS that the company had sufficient liquidity available in the bank accounts and there was willingness to pay the same on due date. However delay has occurred due to technical reason such as deficiency in the service on the part of the bank or intermediary to effect transfer of funds from one account to another or one bank to another Bank where the funds were required due to non-availability of staff or closure of Branch/offices due to lock down or placed in containment zone. This or any other reason which may be construed as technical reason by the INFOMERICS due to which the issuer was unable to remit the funds on due date for repayment of debt.</p> <p>ii)The issuer shall submit the documentary proof in connection with following:-</p> <ul style="list-style-type: none"> • Circumstances under which the delay/default occurred at the first place. • No due certificate issued by the Bank/FI that the over dues are cleared after the technical issue is resolved. • Bank statement to confirm regularization of the account. • Letter/Email from the bank/investor clearly mentioning that the delay was due to technical 	

		reasons and the account is running satisfactorily with no delay/defaults.	
2.	Change Promoter/Management	in	Immediate /After at least one quarter of operation under the new promoter/management
			Immediate
		<p>In order to protect the economic capital in the shape of investment in plant and machineries and business processes, the stakeholders are coming together to restructure the non-performing assets with merger and acquisition. The change in promoters with control over the management may have significant impact on the credit risk profile of the issuer. When such change is coupled with infusion of additional funds by the new Promoters/Management, it may strengthen the financial risk profile of the issuer and deserve a review of the existing “default” rating of the issuer. Infomerics shall review the existing rating only if the following if the following is complied with</p> <ul style="list-style-type: none"> i) The new promoters are not closely related to the previous promoters /management. ii) The new promoters/management has infused fresh funds to improve the financial risk profile. iii) The delay and default has been cleared and the credit facilities are restored/being restored by the lenders. iv) After considering an impact analysis, rating may be upgraded to the appropriate scale based on the risk profile under the new promoters. 	

3.	Merger and Acquisition by another entity	Immediate	Immediate
		<p>In case of acquisition by way of merger, the credit risk and financial risk profile undergoes a change. INFOMERICS shall conduct a fresh credit risk assessment based on the Acquirer or on the merged entity. Hence a fresh rating can be assigned notwithstanding the delay/default in the now defunct entity subject to the following:-</p> <ul style="list-style-type: none"> i) The merger of the defunct unit is with entities owned by new promoters which not closely related to the previous promoters /management. ii) The new promoters/management has infused fresh funds to improve the financial risk profile of the merged entity. iii) The delay and default has been cleared and the credit facilities are restored/being restored by the lenders. <p>After considering an impact analysis, rating may be upgraded to the appropriate scale based on the credit risk profile of the merged entity.</p>	
4.	Sizable inflow of long term funds	Immediate	Immediate
		<p>If inflow of long term fund reduces the immediate liabilities and/or defers/ease off/reduce the debt repayment obligations the rating may be assigned/revised based on the revised credit risk profile of the issuer/borrower. However, the inflow amount should be material and we may consider various other</p>	

		factors while assigning the rating. Most importantly all dues needs to be cleared.	
5.	Benefit arising out of regulatory action	After 90 days	After 30 days
		<p>Keeping in view the lock down situation, RBI has advised lenders to extend moratorium on loan instalments and interest payment for a period of three months which was later extended by another three months. It has come to our notice that there was delay in extending moratorium by some of the lenders to their clients which resulted in delay and default in the repayment and attracted downgrade by the CRAs. INFOMERICS shall deem such a delay/default as technical in nature and take rating action appropriately subject to submission of the following documentary evidence by the issuers:-</p> <ol style="list-style-type: none"> 1. Letter/Email from the bank/investor that the moratorium was allowed albeit with delay 2. Prior to application for moratorium there was no ongoing delay/default at least for 1 month and the account was standard and was running satisfactorily. (Banker letter/mail) 	

➤ **Guideline for cases which is in default grade rating by other agencies**

Issuers that are rated D by other CRAs may come to Infomerics for ratings. In such cases, the Analytical team will conduct usual due diligence on the issuer and prepare the rating note and rating model which will be governed by the following conditions:

- Migration from D to non D will be governed by extant SEBI guidelines and Infomerics policy as stated above.
- Account statements of the issuer for term loan, CC and OD accounts for 3 months (in case of non-investment grade) and 12 months (in case of investment grade) shall be taken and scrutinized in detail for over drawls or delays.

The above modifications will be appropriately placed in our Operational Manual and also on our website.

Approved in the BM dated 03rd July 2020 (Version I)