

Policy on Post Default Curing Period

Securities and Exchange Board of India (SEBI) issued a Master circular dated May 16, 2024 (erstwhile SEBI circular dated May 21, 2020 titled 'Review of Post-Default Curing Period for CRAs' and SEBI Master Circular for CRAs dated July 03, 2023), whereby SEBI revised the circular dated Nov 1, 2016 relating to post-default curing period with a view to providing some flexibility to CRAs in taking appropriate view in such cases. SEBI also required CRAs to frame a policy on post default curing period, including on any deviations to post default curing period policy.

Accordingly, CRISIL Ratings Limited ('CRISIL Ratings' or 'CRISIL') has framed a policy on post default curing period as outlined below.

After a default is cured and the loan regularised, CRISIL monitors whether the entity has cleared overdue amounts, regularised payments and is meeting debt and interest obligations in time for at least 90 days (from the date of regularising the default), before upgrading the rating. Generally, in such cases, the rating would move to non-investment grade category after the default is cured.

Further, the rating may be upgraded to investment grade, generally after 365 days from the date of regularising the default.

Upward revision in the rating could be driven by:

- Sustainable improvement in the business risk profile
- Sufficient liquidity to manage working capital requirement and debt obligation
- Improvement in the financial risk position with comfortable debt coverage indicators and balance sheet strength to support medium-term business requirement

However, CRISIL may deviate from these curing period timelines if it believes that the situation that lead to default earlier, is unlikely to recur in the near term. Some of the instances that could lead to this conclusion are:

- Change in management
- Acquisition by a stronger firm
- Sizeable inflow of long-term funds
- Benefits arising out of a regulatory action
- Force majeure event leading to default
- Restructuring of loans so that the business risk profile of the company remains strong
- Delay in debt servicing on account of operational or non-credit reasons

The reasons mentioned above are indicative in nature and not exhaustive. CRISIL will continue to evaluate its policy in this regard.

All deviations to the 90 days curing period requirement shall be placed before the Ratings Sub-Committee of the Board, atleast on a half yearly basis.

CRISIL also has a detailed criteria on approach to recognising default, also capturing the criteria on curing period post default. This is available at:

https://www.crisilratings.com/content/dam/crisil/criteria_methodology/basics-of-ratings/CRISILs_approach_to_recognising_default.pdf

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