CRISIL
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CRISIL Ratings' approach to COVID related restructuring

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The Reserve Bank of India (RBI) had notified a resolution framework vide its notification dated Aug 6, 2020 to support corporates facing stress emanating due to the COVID-19 pandemic. As per the framework, borrower accounts under stress solely due to COVID-19 that were classified as standard, but not in default for more than 30 days with any lending institution as on March 01, 2020, were eligible for resolution.

Following the RBI notification, Securities Exchange Board of India (SEBI) required credit rating agencies (CRAs) to relax default recognition norms vide its circular dated August 31, 2020. As per the circular, if the CRA was of the view that the restructuring by lenders[1]/investors was solely due to COVID-19 related stress or under the RBI resolution framework, the same may not be considered as a default event by the CRA.

In light of these regulatory developments, CRISIL Ratings had published its approach to COVID related restructuring[2].

Subsequently, on May 5, 2021 (and with revision in scope on June 4, 2021), in view of the uncertainties created by the resurgence of the Covid-19 pandemic, RBI notified Resolution Frameworks 2.0 for Micro, Small and Medium Enterprises (MSMEs) and small businesses. The notifications allow lenders to restructure or to implement resolution plans involving reschedulement, granting moratorium, conversion of interest to funded facilities, etc. for MSMEs and small businesses, respectively.

In light of the above RBI notifications, this document[3] highlights CRISIL Ratings' approach to default recognition on all debt instruments in case of entities applying for debt restructuring due to COVID related stress under the said notifications. In order to maintain consistency in our rating approach towards COVID restructuring permitted by the regulators, CRISIL Ratings will apply similar relaxation of default to rated entities availing restructuring / resolution plans under the Resolution Frameworks 2.0.

This approach is subject to change in case of any regulatory guidance received in future.

Approach to default recognition in case of restructuring due to COVID stress

With RBI enabling restructuring as per May 5, 2021 notification for COVID impacted entities, CRISIL Ratings expects some of its rated entities to avail the benefit of the same. Typically lenders, including bankers and other investors, may take time to process the COVID restructuring application. Hence, procedural delays cannot be ruled out.

Therefore, CRISIL Ratings may not recognize default as per the original repayment schedule, if the lenders approve, or are expected to approve the entity's application for restructuring. The application for the restructuring, however, needs to be made before the due date. This approach in terms of default recognition will continue till the final restructuring plan is approved (or rejected) by the lenders.

While CRISIL Ratings may not recognize default owing to COVID restructuring process, as highlighted above, there can be appropriate rating actions, including placing ratings on watch, to reflect the change in credit profile, if any. The broad framework that CRISIL Ratings will adopt in terms of default recognition under different scenarios that may pan out is outlined in the table below.

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[1] Please note that word "lenders" is used generically and includes banks, NBFCs, financial institutions, and other investors, as the case may be.

[2] https://www.crisil.com/content/dam/crisil/criteria_methodology/basics-of-ratings/archive/crisils-approach-to-covid-19-related-restructuring.pdf

[3] For accessing previously published document on "CRISIL Ratings approach to COVID related restructuring", follow the link: https://www.crisil.com/content/dam/crisil/criteria_methodology/basics-of-ratings/crisils-approach-to-covid-19-related-restructuring-july2021.pdf

Default recognition of rated debt instruments under different scenarios

<table>
<tr><th>Scenario</th><th>Payment status on rated debt instruments</th><th>Lender’s / investor’s view / approval[4]</th><th>Default recognition</th></tr>
<tr><td>1</td><td>• Missed payment as per original schedule before application for restructuring</td><td>• No application for restructuring received by lender</td><td>• Missed payment recognized as default</td></tr>
<tr><td>2</td><td rowspan="3">• Missed payment as per original schedule after application for restructuring</td><td>• Lender has rejected the application</td><td>• Missed payment recognized as default[5]</td></tr>
<tr><td>3</td><td>• Application is under consideration</td><td>• Appropriate rating action, including rating watch, rating downgrade will be taken</td></tr>
<tr><td>4</td><td>• Lender has approved the application</td><td>• Missed payment not considered as default</td></tr>
</table>

In case of non-receipt of confirmation on OTR approval from rated entity/ lender, process for categorizing the issuer as non co-operative (INC) may be initiated

While the broad framework is outlined above, as the situation is evolving, CRISIL Ratings may deviate from the above framework taking into account the case-specific nuances.

Once a resolution plan (RP) is implemented, the revised repayment schedule as per the RP will be considered by CRISIL Ratings for default recognition purposes. CRISIL Ratings will also review its ratings once the RP is finalized to gauge the impact of the RP on the credit profile of the rated debt instruments.

[4] Approval refers to either of invocation of the resolution plan and approval for the resolution plan.

[5] Upon rejection / withdrawal / lapse of the restructuring application, it is expected that the borrower will need to regularise any overdue amounts. Since these amounts could be sizeable, CRISIL Ratings will consider default if the borrower is unable to regularise these overdue amounts within a reasonable grace period.

About CRISIL Ratings Limited (A subsidiary of CRISIL Limited)

CRISIL Ratings pioneered the concept of credit rating in India in 1987. With a tradition of independence, analytical rigour and innovation, we set the standards in the credit rating business. We rate the entire range of debt instruments, such as, bank loans, certificates of deposit, commercial paper, non-convertible / convertible / partially convertible bonds and debentures, perpetual bonds, bank hybrid capital instruments, asset-backed and mortgage-backed securities, partial guarantees and other structured debt instruments. We have rated over 33,000 large and mid-scale corporates and financial institutions. We have also instituted several innovations in India in the rating business, including rating municipal bonds, partially guaranteed instruments and infrastructure investment trusts (InvITs).

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