

INDEPENDENT CREDIT EVALUATION OF RESOLUTION PLANS

INTRODUCTION:

The Reserve Bank of India (RBI) has issued, from time to time, guidelines and norms in order to strengthen the lenders' ability to deal with stressed assets. In view of the enactment of the Insolvency & Bankruptcy Code, 2016 (IBC), the existing guidelines have been substituted with a simplified and harmonized framework for resolution of stressed assets vide RBI's [Circular RBI/2017-18/131/DBR.No.BP.BC.101/21.04.048/2017-18 dt February 12, 2018](#).

The above said circular states that Resolution Plan (RP) for stressed assets may involve any actions/plans/reorganisation including, but not limited to, regularisation of the account by payment of all overdues by the borrower entity, sale of the exposures to other entities/investors, change in ownership or restructuring. Any Resolution Plan (RP) involving restructuring/change of ownership in respect of 'large' accounts (where aggregate exposure is Rs. 100 Crs and above) shall require Independent Credit Evaluation (ICE) of the residual debt by Credit Rating Agencies (CRAs) specifically authorised by RBI for the purpose. While accounts with aggregate exposure of Rs. 500 Crs and above would require two such ICEs, others shall require one ICE.

Brickwork Ratings India Pvt Ltd., is one of the CRAs authorised by Reserve Bank of India vide their letter DBR.No.BP.10444/21.04.048/2017-18 dt May 21, 2018 to undertake such evaluations.

Independent Credit Evaluation (ICE) provides credit opinion on the RP, especially on entities' residual debt's quality under the revised framework for resolution of stressed assets as notified by RBI. It is an independent view with respect to the credit risks of the debt facilities/instruments. The residual debt of the borrower entity means the aggregate debt (fund based as well as non-fund based) envisaged to be held by all the lenders as per the proposed RP. The ICE symbols would be assigned for the RPs in accordance with RBI guidelines.

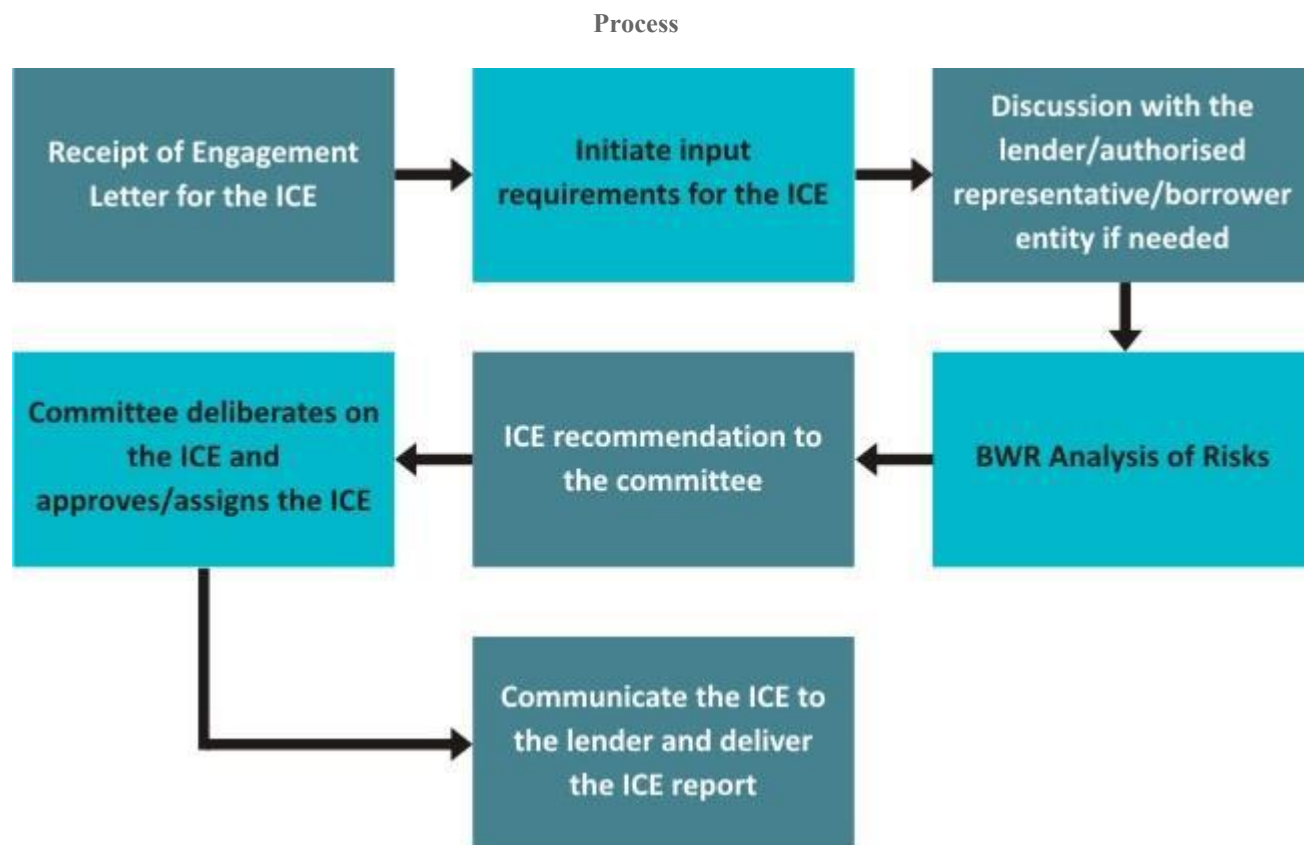
ICE FRAMEWORK IN BRIEF BASED ON RBI FEBRUARY 12, 2018

CIRCULAR:

- All lenders shall put in place Board-approved policies for resolution of stressed assets under this framework, including timelines.
- As soon as there is default, the lenders – either singly or jointly – shall initiate steps to cure the default, through defined Resolution Plans (RP). The RP may involve actions including, but not limited to, recovery of overdues, sale of exposures to other investors (with or without change in ownership) or restructuring.
- Only such RPs which receives an ICE of RP4 or better for the residual debt from one or two CRAs, as the case may be, shall be considered for implementation.
- If lenders obtain ICE from more than the required number of CRAs, all such ICEs shall be RP4 or better for the RP to be considered for implementation.
- The RP should be implemented within 180 days from default. An RP, shall be deemed to be 'implemented' only if specified conditions are fulfilled, viz., the borrower entity is no longer in default with any of the lenders. If involving restructuring, a RP shall be deemed to be 'implemented' only when all related documentation, including perfection of securities, is complete and the new capital structure gets reflected in the books of all the lenders and the borrower.
- Restructuring in respect of projects under implementation involving deferment of Date of Commencement of Commercial Operations (DCCO) is outside the purview of the revised framework. (Ref Para 4.2.15 of the Master Circular no. DBR no. BP.BC.2/21-04-048/2015-16 dated July 1, 2015).
- Additionally, revival/rehabilitation/restructuring of loans to MSME borrowers or those affected by natural calamity will be governed by separate guidelines issued by RBI in this regard.

BWR PROCESS FOR INDEPENDENT CREDIT EVALUATION OF RESOLUTION PLANS

Brickwork Ratings India Pvt. Ltd (BWR) has formulated the following process to assess the Resolution Plans (RP):



- RPs involving restructuring in respect of large accounts (aggregate exposure of Rs. 100 Crs & above) require Independent Credit Evaluation (ICE) of the residual debt from authorised Credit Rating Agencies (CRAs). For aggregate exposures of Rs. 500 Crs & above, ICE from two CRAs is needed. The evaluation process will commence on receipt of engagement letter from the lenders.
- Based on the interaction with the lenders, inter alia the indicative information requirements for the ICE are:
 - The approved Resolution Plan (RP) - The RP should have the details of any restructuring being proposed by the lenders, the changes in terms of the loans, any additional loans being provided, the promoter / management changes being proposed. The RP should also contain the financial projections along with the assumptions. The RP provided by the lender and the information provided in this regard would be

examined in detail including assessing the eligibility of the borrower entity under the scheme and whether due process has been followed viz., identification of default, verification and approval of the resolution plan by the lenders (either singly or jointly), etc.

- Techno Economic Viability Report - Main cause/s for the borrower's stress is examined and the manner in which such causes are addressed in the RP is an important factor. Independent Techno-Economic Viability (TEV) Report obtained, if any, is studied.
- Information memorandum, if any prepared for the resolution
- Forensic report, if any on the entity - If the banks have done any forensic or investigative audit post the account showing irregularities or defaults, the same will be studied to check if there are any adverse comments against the promoters/management regarding diversion of funds or other frauds/ malfeasance/ willful default.
- Discussion with the lenders will be done to understand their perspective of the resolution plan. Further, discussions with the borrower entity could be done through the lenders to better understand the management plans and ability to execute the RP.
- Depending upon the outcome of the various analyses, ICE is assigned for the proposed RP for the residual debt, for the specific purpose of providing an independent opinion to the lenders regarding the credit risks associated with stressed borrower entities.
- The ICE opinion would be discussed in a committee specially formed for the purpose and post deliberation in the committee the ICE would be finalized. Considering the specialised nature of the exercise, these credit opinions would be provided to the lenders and not disclosed in public domain. BWR will use the ICE Symbols for Resolutions Plans in accordance with RBI's guidelines, as detailed in the annexure.

Methodology:

- BWR's evaluation methodology would involve assessment of Industry risk, Business Risk, Management Risk and Financial Risk of the proposed business and operating model under the RP. The coverage and assessment of the above said risks would be as under:
 - The state of industry in which the borrower operates and the expected growth in the industry and its competitive dynamics will be considered based on the BWR industry assessment.
 - The anticipated future performance of the borrower entity is examined in the light of available or proposed manufacturing facilities, orders on hand, marketing capabilities, expected demand and supply scenario, etc.

- The analysis would cover the areas of business plan drawn, projections etc.
- The entity’s ability to generate adequate cash flows from operations to service the debt obligations over the tenure of the residual debt would be analysed and the expected improvement in the credit quality on implementation of the proposed resolution plan would be assessed.
- Scenario Analysis or Stress Testing would be done to evaluate robustness of the RP.
- In the event of contemplation of a change in promoter, either through the route of converting a part of the debt into equity or as per the Prudential Norms on Change of Ownership of Borrowing Entities, the credit worthiness and ability to provide managerial, infrastructural and financial support, of the new promoter is given due weightage in the evaluation.
- The ICE opinion is a One Time exercise based on a ‘Point in time’ approach and on the current economic and regulatory scenario.

Annexure

BWR ICE SYMBOLS FOR INDEPENDENT CREDIT EVALUATION OF RESOLUTION PLANS

ICE SYMBOLS	DEFINITIONS
BWR RP1	Debt facilities/instruments with this symbol are considered to have the highest degree of safety regarding timely servicing of financial obligations. Such debt facilities/instruments carry lowest credit risk.
BWR RP2	Debt facilities/instruments with this symbol are considered to have high degree of safety regarding timely servicing of financial obligations. Such debt facilities/instruments carry very low credit risk.
BWR RP3	Debt facilities/instruments with this symbol are considered to have adequate degree of safety regarding timely servicing of financial obligations. Such debt facilities/instruments carry low credit risk.
BWR RP4	Debt facilities/instruments with this symbol are considered to have moderate degree of safety regarding timely servicing of financial obligations. Such debt facilities/instruments carry moderate credit risk.

BWR RP5	Debt facilities/instruments with this symbol are considered to have moderate risk of default regarding timely servicing of financial obligations.
BWR RP6	Debt facilities/instruments with this symbol are considered to have high risk of default regarding timely servicing of financial obligations.
BWR RP7	Debt facilities/instruments with this symbol are considered to have very high risk of default regarding timely servicing of financial obligations.

ValidUpto 12 Jan 2020