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RBI Accredited  
NSIC Empanelled

## Default Recognition and Post Default Curing Period

### Brickwork's Policy for Default Recognition

Brickwork Ratings (BWR) emphasizes on the timely recognition of default for the rated debt instruments and other loans as part of its rating process. BWR recognizes default on first instance of missed payment on a rated instrument. A “default” is defined as delay in payment by a day or “default” as defined in the concerned agreements/documents executed between the issuer/borrower and the investor/lender. BWR recognizes even a single rupee of missed payment, or delay by a single day as default. Brickwork Ratings considers non-payment of financial obligations on the due-date/or as per specified terms of agreement between the lender and the client as default and accordingly downgrades the rating assigned to the instrument/client to “BWR D”, based on authentic information. Financial obligations refer to both principal and interest payments due. BWR rated instruments that are likely to default in the near term (within 2-3 months) may be recognized early based on information about persistent liquidity issues of the Company and stressed working capital cycle. Such instruments will carry a 'near default' rating ('BWR C' or 'BWR D').

*In cases where the issuer has filed for bankruptcy / stakeholders have moved application for bankruptcy under the appropriate regulatory forums, the rating is withdrawn and may be marked “Not Significant”.*

#### a) Default on Debt Obligations not rated by BWR:

When the issuer with an outstanding BWR rating defaults on any of its other financial obligations, there is a high probability that the issuer would default on the Brickwork rated instrument. Brickwork in such cases may take appropriate rating action. The severity of the rating action would be based on BWR's assessment of the information received regarding reasons of default and the credit quality of the issuer. The considerations for classifying as default may vary according to instrument type / bank loan exposure etc.

#### b) Reschedulement of Debt:

Brickwork does not treat reschedulement of obligor debt with investor consent prior to the maturity date as default. Under such a scenario, Brickwork would consider the new payment schedule for its assessment of credit risk. Brickwork would also take cognizance of the factors that necessitated the obligor to reschedule its debt and the circumstances that led the investor to provide its consent.

The Default recognition approach is applicable to all capital market debt instruments, issuer rating, fixed deposits, structured finance instruments and term loans availed from the banks.

## How is a Default recognized?

BWR follows the guidelines prescribed by SEBI for recognition of Default. Instrument wise definition of default is given below:

Facilities	Rating Scale	Definition of Default
<i>Fund-based facilities &amp; Facilities with pre-defined repayment schedule</i>		
Term Loan	Long Term	A delay of 1 day even of 1 rupee (of principal or interest) from the scheduled repayment date.
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	
Packing Credit (pre-shipment credit)	Short Term	Overdue/unpaid for more than 30 days.
Buyer's Credit	Short Term	Continuously overdrawn
Bill Purchase/Bill discounting/ Foreign bill discounting/ Negotiation (BP/BD/FBP/FBDN)	Short Term	Overdue/unpaid for more than 30 days.
<i>Fund-based facilities &amp; No Pre-Defined Repayment Schedule</i>		
Cash Credit	Long Term	Continuously overdrawn for more than 30 days.
Overdraft	Short Term	Continuously overdrawn for more than 30 days.
<i>Non fund-based facilities</i>		
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.
<i>Other Scenarios</i>		
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 favorable 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.

Curing Period		90 Days - for Default to Speculative Grade and generally 365 Days for Default to Investment Grade
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For bank loan ratings, default recognition will be as per RBI guidelines.

### **Post default recovery procedure followed by BWR**

BWR follows the Probability of Default approach for assigning ratings. BWR watches post default recovery of the issuer and takes appropriate rating action.

### ***Procedure to be followed for monitoring and recognition of defaults.***

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#### **Disclaimer:**

*It must be clearly understood that a Rating opinion is based on various factors/aspects which includes application of certain Rating criteria. The particular criteria applied depends on a number of factors, inter alia, sector/Industry, historical performance, cyclical trends, prevailing economic condition, group support etc. Rating opinions factor many assumptions and the application of any particular criteria or a set of criteria may be full or partial depending upon peculiarity of each case. Application of any Rating criteria should not therefore be considered as rendering finality or completeness to a Rating assessment. A reference to criteria needs to be perceived in broad terms, only as an aid to a rating decision.*