



Brickwork Ratings

# Default Recognition & Post default curing period policy

---

Feb 2025

## DEFAULT RECOGNITION & POST DEFAULT CURING PERIOD POLICY

Details	
Document title	Default recognition & post default curing period policy
Primary Owner	Compliance Department
Effective Date	Feb, 2025
Version	9.0
Review Cycle of the Document	Once in two (2) years or on need basis

Version History	Effective Date	Prepared by
9.0	Feb 2025	Compliance Department
8.0	Nov 2024	Compliance Department
7.0	May 2024	Compliance Department
6.0	June 2022	Compliance Department
5.0	Jan 2021	Compliance Department
4.0	Sep 2020	Compliance Department
3.0	Apr 2020	Compliance Department
2.0	Jan 2020	Compliance Department
1.0	Mar 2019	Compliance Department

## Table of Contents

1. Brickwork's Policy for Default Recognition .....	3
2. Scope of the Criteria.....	3
3. Default Recognition Policy .....	3
4. Post Default Curing Period Policy .....	6
5. Exceptions to policy: .....	7
6. Annexure 1 .....	8

## Default Recognition and Post Default Curing Period

### 1. Brickwork's Policy for Default Recognition

Brickwork Ratings (BWR) emphasizes on the timely recognition of default for the rated debt instruments and Bank loans as part of its rating process. BWR's default recognition policy is updated in-line with the guidelines of The Securities and Exchange Board of India (SEBI) and Reserve Bank of India (RBI) issued from time to time.

### 2. Scope of the Criteria

The document outlines the default recognition policy of Brickwork Ratings (BWR). The criteria applies to all financial instruments including capital market instruments, long-term and short-term debt, bank loan facilities, fixed deposits, issuer ratings and structured finance instruments.

### 3. Default Recognition Policy

#### a. Instruments/Facilities that have a pre-defined repayment schedule

BWR recognizes default on the first instance of missed payment on a rated instrument.

Even a single rupee of missed payment, or delay by a single day is treated as a default. BWR considers non-payment of financial obligations on the due-date/or as per specified terms of the agreement between the lender and the borrower as default and accordingly downgrades the rating assigned to the instrument/Bank Loan to "BWR D", based on authentic information. Financial obligations referred above include both principal and interest payments.

#### b. Facilities without a pre-defined repayment schedule

Instruments/bank facilities like working capital bank loan facilities which do not have a pre-defined payment schedule (e.g. cash credit, packing credit, overdraft, letter of credit etc), is recognized if such facilities remain continuously overdrawn for more than 30 days or overdue for more than 30 days from invocation of the facility. Please refer to Annexure 1 for the instrument-wise definition of default.

#### c. Cases where grace period for debt servicing beyond the scheduled payment date is allowed by the lenders or investors

If the terms of sanction of the facility/instrument provide for a grace period to the issuer/borrower to service the debt obligations post the due date, BWR shall consider the due date for payment taking into account such grace period. This is subject to inclusion of such provision in the sanction letter/loan agreement or a written communication from the lender/investor prior to the scheduled due date. A

missed or delayed payment by the issuer beyond the allowable grace period shall be treated by BWR as a default.

**d. Instrument backed by guarantee**

Default recognition is generally based on the structured payment mechanism mentioned in the guarantee document. In case of instruments backed by guarantee from a third party and where there is a clearly defined payment mechanism post invocation of the guarantee, BWR shall recognise default upon nonpayment of the obligations within the timelines mentioned in such payment mechanism.

In case of guarantees extended for bank facilities, normally no structured payment mechanism is defined. In such cases, irrespective of invocation of the guarantee, if there is a missed payment, BWR would recognise default on the said facility/instrument.

**e. Hybrid Instruments**

In case of hybrid instruments, any missed/deferred payments are recognised as default, even if such instances are permitted as per the terms of the hybrid instrument.

**f. Factoring in past defaults**

In rare circumstances, if BWR becomes aware of the delays that have occurred in the past and have not been recognized by way of a 'BWR D' rating, the delay shall be recognised by downgrading the rating to 'BWR D'. If the default has been subsequently cured, the rating may be simultaneously upgraded to a non- BWR D rating, in line with the curing period guidelines.

**g. Default on debt obligation not rated by BWR**

When the issuer with an outstanding BWR rating defaults on any of its other financial obligations (not rated by BWR), there could be a probability that the issuer would default on the BWR rated instrument/Bank Loan. Under normal circumstances, a default in one instrument of an issuer will lead to a default rating "BWR D" or a near default rating "BWR C" of all instruments of that issuer. In such cases, BWR shall evaluate the availability of instrument-specific risk mitigants (like external credit enhancements) or if the defaulted instrument is of different seniority from the other instruments. BWR may, based on the existence of such risk mitigating factors, conclude that instances of default on other instruments are not likely to occur in the rated instrument and hence, may not move the ratings on such instrument to BWR D/near default grade.

**h. Rescheduling of Debt:**

BWR does not treat rescheduling of a debt obligation with investor consent prior to the upcoming scheduled payment/maturity date as default provided the debt servicing had been timely till the time the lenders provide the consent to the rescheduling and that the rescheduling was not done to avoid a default/bankruptcy. Under such a scenario, BWR would consider the new payment schedule for its assessment of credit risk and review the ratings appropriately. BWR 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.

**i. Default recognition for the reasons beyond the entity's control:**

BWR may not revise the entity rating to "D" where non-payment of financial obligation (principal and/ or interest) arises because of reasons beyond the control of the entity, namely, a.) failure to remit payment due to absence of correct information or b.) due to incorrect or dormant investor account furnished by the investor(s) or c.) due to notice/ instruction received from a government authority to freeze the account of investor(s).

In the above mentioned scenarios, BWR may not recognize a default, provided the following conditions are met:

- There is evidence that the entity had adequate funds on the due date to make the payment, and
- There is proof that the required payment of debt (principal and/ or interest) failed to be processed for reasons/ scenarios specified above, and
- The required amounts are duly paid by the entity into a separate escrow account maintained with a scheduled commercial bank on the due date of payment.

Non-recognition of default for the above scenarios would be disclosed by BWR via PR in the website. Additionally, BWR shall furnish the required details( as per regulatory guidelines) to the Stock Exchanges, Depositories and Debenture Trustee within the stipulated timelines.

## 4. Post Default Curing Period Policy

The curing period principle for default category ratings will apply to fresh rating assignments as well as surveillance assignments and usually are at an issuer level. If BWR is rating an issuer afresh, a non-default rating would not be assigned if the curing period post an earlier default on any instrument of similar seniority has not been completed. For the successful completion of the curing period, the account should be regular, and the issuer should have serviced the debt and interest for all instruments on a timely basis for at least 90 days post the regularization of the most recent default. Only post successful completion of the curing period, a non-default rating can be assigned.

In respect of facilities/ instruments downgraded to default category, post which the issuer's debt is restructured/ rescheduled such that a revised payment schedule becomes applicable, the curing period would be considered to have commenced from the date when the loan restructuring/ rescheduling is approved, and not from the cut off/ reference date from which the restructuring became effective.

However, for ratings on subordinated or hybrid bonds, since a default on such instruments may not necessarily imply a default by the issuer for senior instruments, the curing period will apply at the instrument level. In case of default on subordinated or hybrid instruments, ratings on senior instruments may not be upgraded during the curing period for subordinated and hybrid instruments.

If a rated instrument has credit enhancement or there is a structure around the cash flows, the curing period will apply at instrument level, as default by issuer on other instruments may not imply or lead to default on such an instrument.

On successful completion of the curing period of 90 days, generally a sub-investment grade rating will be assigned to the outstanding instruments / facilities of the issuer. For ratings to be upgraded to investment grade, typically the issuer should have been servicing the debt and interest for all instruments on a timely basis for 365 days and should have the credit profile of an investment grade entity.

The checks for completion of curing period will be:

- Clear statement of timely servicing of principal and payment of interest for 90 days from bankers (for bank loans) and debenture trustees or IPAs (for capital market instruments).
- A clear statement from the banker that the account continues to be standard for the preceding 3 months.
- 3 months NDS from the issuer
- 3 months bank statements (Cash credit and term-loan statements) from all bankers of the entity showing timely payments and overdrafts in Cash credit account, if any, being regularized within 30 days

An entity's rating may continue to be rated as BWR D even after completion of the minimum curing period if in BWR's assessment, the entity may slip to the default status over the short term after a temporary period of regularisation in debt servicing.

## 5. Exceptions to policy:

The general curing period of 90 days for a sub-investment grade rating and 365 days for an investment grade rating may be deviated from, if the issuer can establish that there is a structural improvement in the credit profile of the issuer from the time that it went into default or there is an intent, willingness and ability of the issuer to make the payment on the due date. Some of the instances where such a deviation may be allowed are:

- Infusion of capital into the entity, substantially improving its liquidity profile
- Merger/takeover of the entity by a stronger entity or change in ownership of the entity
- Regulatory / government action, favourably impacting the cash flows
- Restructuring of facilities of the entity, substantially improving its liquidity position
- Removal of the circumstances that led to the default of the entity beyond the control of issuers (scenarios other than specified above as per the SEBI guidelines in sub-section (i) of the default recognition). These may include scenarios where issuers have sufficient fund to meet the repayment obligations and ensured all the necessary steps have been completed for meeting the obligations.



## 6. Annexure 1

BWR follows the guidelines prescribed by SEBI for Instrument wise definition of default as given below:

Facilities	Rating Scale	Definition of Default
<b><i>Fund-based facilities &amp; Facilities with pre-defined repayment schedule</i></b>		
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	Long Term	
Working Capital Demand Loan (WC DL)	Long Term	
Debentures/Bonds	Long Term	
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 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
<b><i>Fund-based facilities &amp; No Pre-Defined Repayment Schedule</i></b>		
Cash Credit	Long Term	Continuously overdrawn for more than 30 days.
Overdraft	Short Term	Continuously overdrawn for more than 30 days.
<b><i>Non fund-based facilities</i></b>		
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
<b><i>Other Scenarios</i></b>		
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 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 a 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

*# BWR may deviate from the stipulated curing period in cases where the fundamental credit profile of the defaulting entity undergoes a material improvement, while being within the curing period window. Such instances are elaborated earlier in this document.*

**[Policy on Procedure to be followed for monitoring and recognition of defaults.](#)** Link [Credit Rating Process | Brickwork Ratings](#)

The previous version of the document can be found in the below link:

<https://www.brickworkratings.com/download/BWRArchive/PolicyforDefaultRecognitionandPostValidTill12Dec2024.pdf>

**About Brickwork Ratings:** Brickwork Ratings (BWR), a Securities and Exchange Board of India [SEBI] registered Credit Rating Agency and accredited by Reserve Bank of India [RBI], offers credit ratings of Bank Loan, Non- convertible / convertible / partially convertible debentures and other capital market instruments and bonds, Commercial Paper, perpetual bonds, asset-backed and mortgage-backed securities, partial guarantees and other structured / credit enhanced debt instruments, Security Receipts, Securitisation Products, Municipal Bonds, etc. BWR has rated over 11,400 medium and large corporates and financial institutions' instruments. BWR has also rated NGOs, Educational Institutions, Hospitals, Real Estate Developers, Urban Local Bodies and Municipal Corporations. BWR has Canara Bank, a leading public sector bank, as one of the promoters and strategic partner. BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

**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.

Brickwork Ratings India Pvt. Ltd. (BWR), a Securities and Exchange Board of India [SEBI] registered Credit Rating Agency and accredited by the Reserve Bank of India [RBI], offers credit ratings of Bank Loan facilities, Non- convertible / convertible / partially convertible debentures and other capital market instruments and bonds, Commercial Paper, perpetual bonds, asset-backed and mortgage-backed securities, partial guarantees and other structured / credit enhanced debt instruments, Security Receipts, Securitisation Products, Municipal Bonds, etc. [hereafter referred to as “Instruments”]. BWR also rates NGOs, Educational Institutions, Hospitals, Real Estate Developers, Urban Local Bodies and Municipal Corporations.

BWR wishes to inform all persons who may come across Rating Rationales and Rating Reports provided by BWR that the ratings assigned by BWR are based on information obtained from the issuer of the instrument and other reliable sources, which in BWR’s best judgement are considered reliable. The Rating Rationale / Rating Report & other rating communications are intended for the jurisdiction of India only. The reports should not be the sole or primary basis for any investment decision within the meaning of any law or regulation (including the laws and regulations applicable in Europe and also the USA).

BWR also wishes to inform that access or use of the said documents does not create a client relationship between the user and BWR.

The ratings assigned by BWR are only an expression of BWR’s opinion on the entity / instrument and should not in any manner be construed as being a recommendation to either, purchase, hold or sell the instrument.

BWR also wishes to abundantly clarify that these ratings are not to be considered as an investment advice in any jurisdiction nor are they to be used as a basis for or as an alternative to independent financial advice and judgement obtained from the user’s financial advisors. BWR shall not be liable to any losses incurred by the users of these Rating Rationales, Rating Reports or its contents. BWR reserves the right to vary, modify, suspend or withdraw the ratings at any time without assigning reasons for the same.

BWR’s ratings reflect BWR’s opinion on the day the ratings are published and are not reflective of factual circumstances that may have arisen on a later date. BWR is not obliged to update its opinion based on any public notification, in any form or format although BWR may disseminate its opinion and analysis when deemed fit.

Neither BWR nor its affiliates, third party providers, as well as the directors, officers, shareholders, employees or agents (collectively, “**BWR Party**”) guarantee the accuracy, completeness or adequacy of the Ratings, and no BWR Party shall have any liability for any errors, omissions, or interruptions therein, regardless of the cause, or for the results obtained from the use of any part of the Rating Rationales or Rating Reports. Each BWR Party disclaims all express or implied warranties, including, but not limited to, any warranties of merchantability, suitability or fitness for a particular purpose or use. In no event shall any

BWR Party be liable to any one for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of any part of the Rating Rationales and/or Rating Reports even if advised of the possibility of such damages. However, BWR or its associates may have other commercial transactions with the company/entity. BWR and its affiliates do not act as a fiduciary.

BWR keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of the respective activity. As a result, certain business units of BWR may have information that is not available to other BWR business units. BWR has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

BWR clarifies that it may have been paid a fee by the issuers or underwriters of the instruments, facilities, securities etc., or from obligors. BWR's public ratings and analysis are made available on its web site, [www.brickworkratings.com](http://www.brickworkratings.com). More detailed information may be provided for a fee. BWR's rating criteria are also generally made available without charge on BWR's website.

This disclaimer forms an integral part of the Ratings Rationales / Rating Reports or other press releases, advisories, communications issued by BWR and circulation of the ratings without this disclaimer is prohibited.

BWR is bound by the Code of Conduct for Credit Rating Agencies issued by the Securities and Exchange Board of India and is governed by the applicable regulations issued by the Securities and Exchange Board of India as amended from time to time.