

## **1. Ratings Mandate**

Brickwork Ratings (BWR) undertakes a rating assignment on receipt of a mandate from the client. This signifies that the client has accepted the terms/conditions stipulated by BWR in terms of fully co-operating with BWR for completing the assignment, and where necessary maintain surveillance and complete periodical review.

## **2. Assignment of Rating and publishing**

Once Brickwork Rating Committee approval is received, the client is provided with a copy of the draft rating rationale, to ensure that the factual information is correctly incorporated. All Initial Ratings issued by BWR and the Rating rationale need acceptance of the issuer within five days of issue. On receipt of the client's acceptance of Rating, the rating letter is issued and the rating rationale is published on BWR's website. Unaccepted Ratings shall also be disclosed on the BWR website.

## **3. Provisional Rating**

A Provisional rating may be assigned to debt instruments/borrowing facilities when the rating is contingent upon completion of the critical pending steps and/or execution of pending documentation, as applicable. The provisional ratings assigned by BWR are prefixed with the word 'Provisional'. For detailed policy, please refer [Annexure I](#).

## **4. Rating Appeal**

In the event, a client /issuer disagrees with the rating assigned, they can appeal for a review of the rating as detailed in [Annexure II](#).

## **5. Ratings Surveillance/Review**

BWR maintains ongoing surveillance of all its ratings for the life of the rated issue/facility and conducts a Rating review on an annual basis for NCD/bonds and Bank Loan Ratings. BWR requires the co-operation of the client for periodically providing all information, financial statements, advising any significant developments, management changes etc. On receipt of required information and fee from the client, bankers. Trustees etc. as the case may be, a rating review will be carried out and rating will be advised to the client and also published. A rating review can be conducted at a shorter interval also depending on each case. While client acceptance of the rating is required for initial rating, acceptance is not required for a rating arising out of a review.

## **6. Rating overdue for review and Issuer Non-cooperation**

All ratings assigned by BWR are valid for a specified period from the date of assignment depending on the nature of the instruments/facilities rated-(a) Ratings for short term instruments are valid for not more than 12 months (b) Ratings for medium/long term instruments are valid for 12 months (c) Bank loan ratings are normally valid for 12 months or shorter depending on the nature of the facilities

6.1 Where Annual Review of the Ratings assigned to Bond Issue/NCD Issue/Bank Loans, cannot be undertaken in time for any reasons, an advisory "Rating Not Reviewed" would be published on the BWR website immediately on the next working day. Action for issuing the advisory would be initiated in a) Bond/NCD rating cases where the annual rating

review has become overdue - on the very next day after completing 12 months from the date of publishing the relevant Rating Rationale and (b) Bank loan Rating cases where annual review has become overdue - on the very next day after completing 12 months from the date of publishing the relevant Rating Rationale

- 6.2 However, even after further follow up by BWR, if there is no progress, then a review will be undertaken based on available information and a suitable rating will be assigned. In such cases the credit rating symbol shall be accompanied by the suffix "ISSUER NOT COOPERATING" in the same font size. The suffix shall be explained below and shall read as 'Issuer did not cooperate; based on best available information'.
- 6.3 Even after moving a rating to 'INC (Issuer Not Co-operating) Category', if the issuer provides surveillance mandate and the required information, fresh review can be done. Further, even when a rating is continuing under 'INC Category', if public information is available on any material events, BWR will take suo moto notice and initiate appropriate rating action.
- 6.4 If an issuer has all the outstanding ratings as non-cooperative for more than 6 months then the rating assigned to the instrument of such issuer shall be downgraded to non-investment grade with Issuer Not Cooperating [INC] status. If non-cooperation by the issuer continues for further 6 months from the date of downgrade to non-investment grade, no Credit Rating Agency shall assign any new ratings to such issuer until the issuer resumes cooperating or the rating is withdrawn. This instruction will be effective from July 1, 2020.

For policy refer [Annexure III](#).

## **7. Credit Watch**

Placing a rating on credit watch may be necessary under certain circumstances where it would be very difficult to make any reasonable assessment on the issuing Company's performance in the near term. It shall be the endeavor to take a Rating out of Credit Watch within a time frame of 6 months. For policy refer [Annexure IV](#).

## **8. Default Recognition and Post-Default Curing Period**

Brickwork Ratings (BWR) emphasizes on the timely recognition of default for the rated debt instruments and other Bank loans as part of its rating process. BWR's default recognition policy is in-line with the guidelines of SEBI and RBI and is consistent with the Standard Operating Procedures for CRAs for monitoring and recognition of Defaults. For policy refer [Annexure V](#).

## **9. Management Interaction and Site Visits**

Brickwork Ratings (BWR) understands the value of interaction with the management of the company/client while undertaking the rating of a client/borrower. The rating team would follow the following guidelines for the new clients and already rated clients that are in the active category and not in INC category. For policy refer [Annexure VI](#).

## 10. Rating Withdrawal

Ratings issued by Brickwork Ratings will be under surveillance for the life of the rated instruments/credit facilities and till final redemption. A rating may be withdrawn under the following conditions:

- 10.1** NCDs / Market Instruments on full redemption on the due date or before maturity.
- 10.2** In case of multiple ratings on an instrument [where there is no regulatory mandate for multiple ratings], ratings may be withdrawn earlier than the above, provided BWR has:
  - 10.2.1 Rated the instrument continuously for 3 years or 50 per cent of the tenure of the instrument, whichever is higher, and
  - 10.2.2 received No-objection Certificate [NOC] from 75% of bondholders of the outstanding debt for withdrawal of rating, and
  - 10.2.3 received an undertaking from the issuer that another rating is available on that instrument.

At the time of withdrawal a rating shall be assigned to the instrument. Withdrawal of a Rating for reasons mentioned in both the above cases, being a rating action, should be placed before the appropriate Rating Committee. A suitable press release should be published specifying the reason for withdrawal of the Rating and the assigned rating at the time of withdrawal.
- 10.3** Bank Loan Ratings can be withdrawn subject to compliance of the following :
  - 10.3.1 The customer should make a written request.
  - 10.3.2 No Objection Certificate (NOC) from the lending banker [sole banking], Lead bank [consortium], top 2 banks [Multiple Banking Arrangement], to be submitted.
  - 10.3.3 The issuer has to clear all fees due to BWR.
- 10.4** In case of Issuer Rating, if a surveillance mandate is not received even after 13 months from the date of earlier rating letter, a notice of withdrawal will be served on the Issuer. If there is no response within 15 days, a Notice of Withdrawal will be published in BWR website. After waiting for 3 months, if no objections are received, a rating will be assigned based on the available information and the same will be withdrawn simultaneously. A suitable press release should be issued about the withdrawal thereafter, mentioning the rating assigned.
- 10.5** However, if an issuer, at any point in time, during the validity of the Issuer rating, requests for withdrawal of the Issuer Rating, Brickwork Ratings (BWR) would proceed with the process of rating withdrawal without placing the rating on Notice of Withdrawal. Further, if the issuer requests for withdrawal of the issuer rating during the notice period, the rating may be withdrawn without waiting for the completion of the Notice period.
- 10.6** In line with extant policy guidelines, BWR would assign a rating on the basis of the available information at the time of withdrawal of issuer rating.
- 10.7** Ratings of open ended Mutual Fund Instruments can be withdrawn after receiving a request from the Asset Management Company. As units of such Schemes are held by many investors, such ratings shall be placed on notice of withdrawal for a period of 30 days in BWR's website, where after the ratings will be withdrawn, subject to there being no objections.

In all the above cases suitable press releases will be issued.

## **Annexure I**

### **Policy on Provisional Ratings**

Brickwork Ratings (BWR) has, in accordance with the requirements of SEBI Circular SEBI/HO/MIRSD/MIRSD\_CRADT/P/CIR/2021/554 dated 27Apr2021 on “Standardizing and Strengthening Policies on Provisional Rating by Credit Rating Agencies (CRAs) for Debt Instruments”, and the subsequent clarifications received from SEBI in this regard, revised its Policy on Provisional Ratings. This revised policy is applicable to all debt instruments and borrowing facilities including securities, bank loan facilities, commercial papers, issuer ratings etc.<sup>1</sup>

#### **Assignment of Provisional Rating and Prefix**

##### **A. General applicability**

BWR assigns a Provisional rating to such instruments/facilities when the rating is contingent upon completion of the critical pending steps and/or execution of pending documentation, as applicable. The provisional ratings assigned by BWR, on both the long-term as well as the short-term scale, are prefixed with the word ‘Provisional’, denoting that the rating assigned to the instrument/facility is subject to fulfilment of certain conditions/steps or execution of the pending documentation. Such pending steps or documentation (as applicable) are as follows:

- a) execution of letter of comfort, corporate guarantee, or other forms of explicit third party support;
- b) execution of documents such as debenture trustee deed/debenture trustee agreement, legal opinions, representations and warranties, final term sheet;
- c) assignment of loan pools or finalisation of cash flow escrow arrangements;
- d) setting up of debt service reserve account (DSRA);
- e) opening up of escrow account; or
- f) for a proposed Real Estate Investment Trust (REIT) or Infrastructure Investment Trust (InvIT), pending formation of a trust but only after receipt of SEBI Registration. However, the process of obtaining rating may commence at the stage of the sponsor filing with SEBI for the registration of the Trust, subject to declaration from the sponsor to this effect being submitted to BWR. The provisional rating indicates the final rating that is likely to be assigned to the InvIT/ REIT after the transfer of the shareholding in the designated Special Purpose Vehicles (SPVs) to the trust, raising of the proposed capital etc.

Normally, BWR would assign provisional ratings when key steps or documentation are pending in case of instruments / facilities backed by credit enhancement mechanisms such as guarantees and letters of comfort, debt backed by co-obligor structures, escrow mechanism, DSRA, securitization transactions, REITs/InvITs pending formation of trust etc. However, even in such circumstances, BWR may assign a final rating even if certain actions/ documents are pending, depending on its assessment of the credit profile of the entity.

**Mutual fund schemes and capital protection-oriented schemes:** In respect of ratings of the mutual fund schemes that are yet to be launched or are yet to invest in the underlying securities or capital protection-oriented schemes that are yet to firm up their investment portfolio, BWR may initially assign a provisional rating based on the expected credit quality and the tenor of the securities in the mutual fund portfolio or on the proposed mix of investment in debt instruments and in equity and subsequently convert into a final rating upon launching of the scheme and investments made.

## **B. Non-applicability**

BWR shall not assign a rating, including provisional rating, to an issuer/entity evaluating strategic decisions such as funding mix for a project, acquisition, debt restructuring, scenario- analysis in loan refinancing, etc, where a scenario based rating assignment is involved.

## **Rating Symbols**

When BWR assigns provisional ratings, its existing long-term and short-term rating symbols will be prefixed with the term 'Provisional' in all communications viz. rating letter, press release / rating rationale, etc. For example, 'Provisional BWR AAA' or 'Provisional BWR A1+'.

## **Validity Period**

Post assigning a provisional rating, BWR shall closely follow up with the issuer/client for confirmation of completion of pending steps and/or executed transaction documents and issuance/raising of debt/borrowings. The issuer/entity should keep BWR informed about the completion/execution of appropriate transaction related formalities and issuance/raising of debt/borrowings. The provisional rating shall be converted into a final rating following receipt of confirmation of completion of pending steps and/or executed transaction documents, as applicable, and after vetting by BWR legal officer, within 90 days from the date of issuance of the debt instrument/availment of borrowings. The final rating assigned by BWR shall be dependent on the available documents or completed actions, as applicable. In case of pending steps / documentation at the end of 90 days from the date of issuance of debt instrument/availment of borrowings, BWR may grant an extension of upto 90 days from the expiry of the above mentioned validity period, based on the status/progress of the pending steps/documentation of the transaction, on a case to case basis. If such an extension is approved, there would be no requirement to do a press release.

At the end of 180 days from the date of issuance of the instrument/availment of borrowings, an outstanding provisional rating shall necessarily be converted into a final rating that is consistent with the available documents or completed actions, as applicable. BWR shall not assign any provisional ratings upon the expiry of 180 days from the date of issuance of the instrument/availment of borrowings.

**Provisional Ratings assigned to securitisation transactions:** If the pending actions/documents are not completed/executed within 180 days of assignment of the provisional rating, BWR would withdraw the provisional rating, even if the instrument has been issued.

## **Conversion of Provisional Rating to Final Rating**

BWR's communications for 'Provisional' rating viz., Rating Letter and Press Release/Rating Rationale, shall mention the pending conditions/steps/documentation, based on which the provisional rating is assigned. Upon receipt of confirmation of the completion of the pending actions and/ or execution of the pending documents, as applicable, and after vetting by BWR legal officer, the provisional rating shall be converted into a final rating, in line with the validity period for provisional ratings, as mentioned above, and the prefix 'Provisional' shall be removed.

In case the pending actions/ documents are completed for only a portion of the rated amount, the rating for such portion alone shall be converted into final. The rating for the remaining portion of the rated amount would continue to remain provisional.

The final rating may be the same as the provisional rating in case the completed steps/documentation are consistent with the expectations/assumptions based on which the provisional rating was initially assigned. The final rating may differ from the provisional rating in case the completed actions/executed documents are not in conformity with those envisaged initially. To elaborate, BWR would take rating action as follows:

- i) In case there are material changes in the terms of the transaction after the initial assignment of the provisional rating and when the debt issuance /borrowing is yet to happen.

In such cases, upon being intimated of the material changes by the issuer/entity, BWR shall withdraw the existing provisional rating as the instrument/facility is yet to be issued/raised, duly stating that the provisional rating is being withdrawn as there are material changes in the terms of the transaction after the initial assignment of the provisional rating.

- ii) In case there are material changes in the terms of the transaction after the initial assignment of the provisional rating and post the completion of the debt issuance/borrowing (corresponding to the part that has been issued/availed).

When the terms of the transaction undergo a material change and are not in accordance with the premise on which the provisional rating was initially assigned, BWR would withdraw the existing provisional rating and concurrently assign a fresh final rating basis the revised terms of the transaction. Both the withdrawal of the initial provisional rating and the concurrent assignment of the fresh final rating would reflect in the same press release/rating rationale.

However, in cases where the material changes have occurred due to failure of the structure to work in the manner it was designed to or on account of factors beyond the control of the issuer/ entity, BWR would revise the existing provisional rating based on best available information, irrespective of whether the debt issuance/availment of borrowings has taken place or not.<sup>2</sup>

In the case of REITs/InvITs, if there are changes in key assumptions, BWR shall obtain a declaration from the issuer that the changes in key assumptions are consistent with its filings with SEBI and revise<sup>2</sup> the provisional ratings appropriately. Such declaration shall also be disclosed in the press release.

### **Non issuance of debt or non availment of borrowings**

In cases where the documentation has not been completed and the instrument/facility has not yet been issued/raised even at the end of 6 months from the date of assignment of provisional rating, BWR may continue the Provisional Rating for another six months, upon receipt of a written request from the issuer / entity for continuance of the rating in view of their intention to complete the documentation and the fundraising within the next six months. BWR may grant a maximum of two extensions of six months each, based on specific written requests for each extension from the issuer/entity i.e., for a maximum of 18 months from the date of assignment of Provisional Rating. If after the expiry of such extensions, the debt is not yet issued/availed, then BWR would withdraw the rating.

In the absence of such written requests for extensions, the rating shall be placed on a Notice of Withdrawal for 15 days on BWR website, whereafter the rating shall be withdrawn.

If at any point in time, the entity informs BWR that it does not intend to issue the proposed debt instrument/ avail the proposed borrowing, the provisional rating shall be withdrawn. In the case of REITs/ InvITs, if the sponsors do not intend to go ahead with the REIT/ InvIT formation, the provisional rating assigned earlier shall be withdrawn.

However, in case of any material developments affecting the credit profile of the entity being rated, BWR may review/revise<sup>2</sup> the provisional/final rating, irrespective of the status of the steps/documentation/debt issuance or the validity period as mentioned above.

### **Additional disclosure requirements for Provisional ratings**

In accordance with the stipulations of the aforesaid SEBI circular dated April 27, 2021, additional disclosures shall be made in the press release / rating rationale pertaining to Provisional Ratings as well as in the disclosures relating to Unaccepted Provisional ratings. Details of such disclosures are given below:

#### **Disclosures in the Press Release / Rating Rationale**

BWR's press release / rating rationale for Provisional Ratings would also disclose the following:

- a) Pending steps / documentation considered while assigning the Provisional Rating.
- b) Risks associated with the provisional nature of credit rating, including those on account of absence of completed documentations / steps.
- c) Rating that would have been assigned in the absence of pending steps / documentations which were considered while assigning the provisional rating. In cases where the absence of said steps/documentation would not result in any rating being assigned by BWR (eg., securitisation transactions or proposed REIT/InvIT), the same would be specified in the press release.
- d) Validity period for conversion of a provisional rating into final rating, in the case of issued debt/availed borrowing.
- e) Disclosures related to REIT or InvITs, wherever applicable:

1. the broad details of the assets that are proposed to be held by REIT / InvIT, the proposed capital structure, etc.

Receipt of an undertaking from the sponsor stating that the key assumptions (relating to the assets, capital structure, etc.) are in consonance with the details filed by the sponsor with SEBI.

In case of change in provisional rating due to change in aforesaid assumptions, the press release shall state that the rating is based on a declaration from the issuer that similar changes have been made in the filing with SEBI.

### **Unaccepted Provisional Rating**

BWR would provide the following supplementary disclosures:

1. Details of the steps taken for assigning the provisional rating (the steps / documentation pending which provisional rating was assigned).
2. In case of REITs/InvITs, the broad details of the assets to be housed under the Trust, the proposed capital structure, etc.
3. Rating that would have been assigned in absence of the said steps / documentation.

*<sup>1</sup>This policy is applicable with immediate effect for all new rating assignments. The outstanding provisional ratings shall be aligned with this revised policy by December 31, 2021.*

*<sup>2</sup>Any review or revision of rating refers to the likelihood of appropriate rating action which may mean an upgrade, downgrade, change in outlook, placement of rating on credit watch etc.*

### **Annexure II**

#### **Policy for Appeal on the assigned Rating**

In case a client / issuer disagrees with the rating assigned or reaffirmed or revised, it can appeal in writing to BWR to review such a rating. The client / issuer, while submitting the appeal shall also provide any additional or new relevant information complete in all respect and with adequate supporting documents.

Such a request should be received within 5 working days from the date of the communication of the rating to the issuer in case of initial rating and within 2 days in case of surveillance, monitoring or periodic review of ratings.

The Rating Team will analyse the impact of the information received on the rating and place the revised rating recommendation before the Appeal Committee. The Appeal Committee consist of, majority of members that are different from those in the Rating Committee that assigned the earlier rating and at least one-third of the members are independent.

### **Annexure III**

#### **Policy on Issuer Non Co-Operation**

Ratings Surveillance/Review

BWR maintains ongoing surveillance of all its ratings for the life of the rated issue/facility and conducts a Rating review at least on an annual basis for NCD/bonds and Bank Loan Ratings. BWR requires the co-operation of the client for periodically providing all information, financial statements, advising any significant developments, management changes etc. On receipt of required information, Bankers and Trustees feedback etc. as the case may be, a rating review is carried out and the rating is disclosed to the client and also published. A rating review is conducted at a shorter interval if the situation so warrants.

#### Rating overdue for review and Issuer Non-cooperation

All ratings assigned by BWR are reviewed at least once every 12 months but can be reviewed anytime earlier if the conditions so warrant. The following actions will be taken if BWR is unable to receive the necessary information from the issuer during the review of ratings:

i) Where Annual Review of the Ratings assigned to Bond Issue/NCD Issue/Bank Loans, cannot be undertaken in time for any reasons, an advisory "Delay in Periodic Review" would be published on the BWR website immediately on the next working day. The "Rating Advisory" would state the reasons for delay.

ii) However, even after further follow up by BWR, if there is no progress, then a review will be undertaken based on available information and a suitable rating will be assigned. In such cases the credit rating symbol shall be accompanied by the suffix "ISSUER NOT COOPERATING" in the same font size. The suffix shall be explained below and shall read as 'Issuer did not cooperate; based on best available information'.

iii) For capital market instruments (NCDs / CPs / FDs), the movement to INC (Issuer Not Cooperating) post completion of the 12 month's rating validity period, may be done within a month of the rating advisory unless a further delay is explainable due to circumstances beyond the control of the issuer.

iv) For bank loan instruments, the movement to INC may be done before the completion of 15 months from previous rating (in line with regulations), unless the client has clearly refused to cooperate, in which case the INC action can be taken any time after the publication of rating advisory but not later than completion of the 15 months from the previous review date..

v) An issuer/client is required to submit a "No Default Statement" (NDS) every month, which has to be submitted to BWR at the beginning of the ensuing month for the previous month. Failure to submit the NDS for 3 consecutive months would be considered as an act of Non-Cooperation.

vi) An issuer/client is required to pay fee agreed for providing specified rating services. Failure to pay such fee would be considered as an act of Non-cooperation.

BWR may take a Rating action as deemed necessary by it, in case of non-cooperation by the issuer/client.

1. If an issuer has all the outstanding ratings as non-cooperative for more than 6 months then the rating assigned to the instrument of such issuer shall be downgraded to non-investment grade with Issuer Not Cooperating [INC] status. If non-cooperation by the issuer continues for further 6 months from the date of downgrade to non-investment grade, The Credit Rating

Agency shall not assign any new ratings to such issuer until the issuer resumes cooperating or the rating is withdrawn.

2. Even after moving a rating to 'INC (Issuer Not Co-operating) Category', if the issuer provides surveillance mandate and the required information, fresh review can be done. Further, even when a rating is continuing under 'INC Category', if public information is available on any material events, BWR will take suo-moto notice and initiate appropriate rating action.

#### **Annexure IV** **Policy for placing Ratings on Credit Watch**

During the surveillance period of the assigned rating of any entity, there may be sudden events or developments involving changes in business, management, industry or financial profile of the entity. The impact of such developments for the entity's rating may be difficult to assess immediately and hence the rating requires to be put under 'Credit Watch'.

(i) Such circumstances (illustrations only) could be (a) Change in Shareholding pattern of the issuing Company which can have an effect on the overall control of the Company, its Management and the way it operates (b) Demerger or Division Spinoff/Buyouts and Takeovers could impact the operations of the Company, its profitability, market share etc. (c) Change in Business Strategy of the issuing Company impacts its profitability and performance.

(ii) The analyst concerned shall put up to the rating committee with the recommendation that the said entity may be placed under "Credit Watch" with positive/negative or developing implications. Intimation of placing the rating on credit watch shall be given to the issuer/concerned client and such information shall also be published in the public domain.

(iii) The ratings placed on "Credit Watch" shall be monitored for further confirmation of the effect of these developments from the client. Once a reasonable assessment is possible, the matter may be placed before rating committee (within a reasonable period of 6 months) for removing the ratings from "Credit Watch" for appropriate rating action.

#### **Annexure V** **Policy for Default Recognition and Post-Default Curing Period**

[Ref: SEBI Cir. No. SEBI/ HO/ MIRSD/ DOS3/ CIR/ P/ 2019/ 70 dated June 13, 2019 and SEBI/ HO/ MIRSD/ CRADT/ CIR/ P/ 2020/ 87 dated May 21, 2020]

Brickwork Ratings (BWR) emphasizes on the timely recognition of default for the rated debt instruments and other Bank loans as part of its rating process. BWR's default recognition policy is in-line with the guidelines of SEBI and RBI and is consistent with the Standard Operating Procedures for CRAs for monitoring and recognition of Defaults.

#### **Default Recognition Policy**

BWR recognizes default on first instance of missed payment on a rated instrument. A "default" is defined as delay in payment, as per the payment schedule provided 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. BWR considers non-payment of financial obligations on the due-date/or as per specified terms of 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 refer to both principal and interest payments.

Default recognition on working capital bank loan facilities, which don't have a pre-defined payment schedule (like cash credit, over-draft, letter of credit, etc), is recognized if such facilities remain continuously overdrawn for more than 30 days. See table below for instrument-wise definition of default

In some instances, there may be delays or missed payments due to operational / administrative issues and not attributable to credit issues with the issuer/borrower. These instances typically include operational lapses at the lenders side like failure to debit the CC account on the due date, system / human errors. In such instances, BWR assesses if the delay is solely attributable to operational issues and not credit issues and that the issuer had sufficient funds to make the payment on due date. If BWR believes the intent and ability of the issuer to make the payment, the missed / delayed payment will not be regarded as a default.

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. The exceptions to this rule may be in instruments that are backed by a Credit Enhancement (like FDs or guarantees) or are structured to provide a better credit worthiness (escrow, ringfencing of cash flows) or the defaulted instrument is of a different seniority from the other instruments.

#### Default on Debt Obligations 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. Brickwork in such cases may take appropriate rating action (including downgrade to “BWR D”. 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.

#### Re-schedulement of Debt

BWR does not treat re-schedulement of obligor debt with investor consent prior to the maturity date as default. Under such a scenario, BWR would consider the new payment schedule for its assessment of credit risk. 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.

#### 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 detailed below.

#### Fund-based facilities & Facilities with pre-defined repayment schedule

Facilities	Rating Scale	Definition of Default
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	A delay of 1 day even of 1 rupee (of principal or interest) from the scheduled repayment date.
Working Capital Demand Loan(WCDL)	Long Term	A delay of 1 day even of 1 rupee (of principal or interest) from the scheduled repayment date.
Debentures/Bonds	Long Term	A delay of 1 day even of 1 rupee (of principal or interest) from the scheduled repayment date.
Certificate of Deposits (CD)/ FixedDeposits (FD)	Short Term/Long term	A delay of 1 day even of 1 rupee (of principal or interest) from the scheduled repayment date.
Commercial Paper	Short term	A delay of 1 day even of 1 rupee (of principal or interest) from the scheduled repayment date.
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

#### Fund-based facilities & No Pre-Defined Repayment Schedule

Facilities	Rating Scale	Definition of Default
Cash Credit	Long Term	Continuously overdrawn for more than 30 days.
Overdraft	Short Term	Continuously overdrawn for more than 30 days.
Other Scenarios		

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 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

### Post Default Curing Period Policy

The curing period principle for default category ratings will apply to fresh rating assignment 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 curing period to have been successfully completed, 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. Only post successful completion of curing period, a non-default rating can be assigned.

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, curing period should apply at 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 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 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 a credit profile of an investment grade entity.

The check 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 (CC and term-loan statements) from all bankers of the entity showing timely payments and overdraws in CC account being regularized within 30 days

The above curing principle 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. 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, favorably impacting the entities cash flows
- Restructuring of facilities of the entity, substantially improving its liquidity position
- Removal of the circumstances that lead to the default of the entity (including force majeure events), thereby improving the visibility of cash flows

A mere clearance of past dues is not a reason for an accelerated upgrade of the rating of the entity. The onus of convincing the rating team of an enhanced liquidity (through better expected cash flows, cash on-hand, cushion in CC lines with adequate drawing power, no liquidity mismatches) lies with the issuer, to get an accelerated rating upgrade.

## **Annexure VI**

### **Policy for Management Interaction and Site Visits**

Brickwork Ratings (BWR) understands the value of interaction with the management of the company/client while undertaking the rating of a client/borrower. The rating team would follow the following guidelines for the new clients and already rated clients that are in the active category and not in INC category.

#### **11. New clients**

- 11.1 For new clients who have approached BWR for a rating for the first time, it is important to understand the management and the facilities of the company (especially in the manufacturing segment). For such new clients following policies will generally be followed and exceptions to these will be presented to the rating committee with the reasons thereof.
- 11.2 The rating team should interact with the management of the company in all cases. These interactions can be through the virtual modes like teleconference or videoconference for the lower rated companies ('BBB' category or below). However, for higher rated companies ('A' category and above), any member of the analytical team should preferably have a physical meeting with the company management, where feasible.
- 11.3 Further, for manufacturing companies that are setting up a new plant (Greenfield projects) and don't have a history of operations, a member of BWR should preferably visit the manufacturing facilities of the company. While, these site visits can also be undertaken in companies with existing operations, they are less critical given the track record of operations. For Greenfield projects, where site visits are not feasible, the rating team should seek a TEV report from the company or a visit Report by an independent qualified professional.

## 12. Existing clients

- 12.1 For existing clients, the rating team should interact with the management of the company at least once a year. The principles of physical meeting vs virtual meeting remain the same as for new clients. Further, for higher rated companies (as defined above), the rating team should interact with the management of the company through teleconference or video conference, at least once every 6 months to understand the performance of the company. In addition to these, interactions may be necessitated based on events that have an impact on the credit profile of the company. These may also be undertaken through a physical meeting or virtual interaction depending on the mutual convenience of the rating team and the company management.
- 12.2 All physical meetings can happen at the company's offices / facilities, BWR offices or any mutually convenient place.
- 12.3 Management Interaction/visit report should be prepared and shared by the concerned official with the concerned analyst and CP/CCP for information and needful action and for placing it in the clients folder/file in BCRISP.

*Valid upto 02 February 2022*