Sebi eases 90-day curing period norm for defaulting firms post-downgrade

Raters can move company to speculative grade on case-by-case basis

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The Securities and Exchange Board of India (Sebi) has relaxed the 90-day required curing period following a default rating, as such cases are likely to rise in the wake of the Covid-19 pandemic.

Under the existing framework, after a default is cured and the payments regularised, a rating agency shall generally upgrade the rating from default to non-investment grade (speculative grade) after a period of 90 days, based on a satisfactory performance by the company during this period.

In its circular, Sebi said rating agencies may deviate from the period of 90 days on a case-to-case basis, subject to rating agencies framing a detailed policy in this regard.

Sebi said these policies can be used to factor in scenarios such as technical defaults, change in management, acquisition by another firm, sizeable inflow of long-term funds, or benefits arising out of a regulatory action, etc. which fundamentally alter the credit-risk profile of the defaulting firm.

“This proactive step of Sebi will benefit those entities that are facing temporary cash flow issues, who have defaulted on debt obligations because of the lockdown situation and are expected to return to near-normal levels when such restrictions are resolved,” said Rajat Bahl, chief ratings officer, Brickwork Ratings.

Sebi said that in a few recent cases of default, even though the rated entity was able to correct the default within a relatively shorter span of time, the rating could not be upgraded and continued to be under sub-investment grade because of the existing provisions.

“These entities will now be able to access the credit markets without a default tag and the waiting time period as prescribed, if they are able to demonstrate enough cash flows to service debt obligations. This step is in line with the best practices globally, where it is left to the judgment of the rating agency to decide timelines for curing default ratings,” Bahl added.

The policy shall be placed on the rating agency’s website. Cases of deviation from the stipulated 90 days shall be placed before the ratings sub-committee of the board on a half-yearly basis, along with the rationale for such deviation.

The regulator didn’t specify any relaxation on the 365-day curing period required to move the firm back to the investment grade post-default.