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Rating companies need not wait for timelines to upgrade

Move to come as a relief for companies downgraded due to short-term debt woes

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Sebi said credit rating agencies should frame a policy for moving defaults to non-investment and investment-grade, and specify the deviation scenarios.

Mumbai: The Securities and Exchange Board of India (Sebi) has eased the norms for credit rating agencies to review the ratings of companies. Credit rating agencies do not need to wait for the timeline prescribed by the regulator to upgrade a company's ratings from default if they are convinced about the strength of the issuer.

The move will come as a relief to many companies, which were temporarily downgraded on account of short-term debt problems.

At present, defaulting entities must wait for a mandatory period of minimum 90 days for an upgrade of their rating from 'default' to the next grade — 'non-investment' from the date they have started being regular on their debt obligations. To get upgraded to 'investment' grade from 'non-investment', it takes 365 days. Now, credit rating agencies can upgrade the ratings of companies on a case-to-case basis.

"It has been noted in a few recent cases of defaults that 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 due to the extant provisions," Sebi said in a circular on Thursday.

"There is a possibility that such cases may increase in the wake of Covid-19 pandemic. A need has been felt to review the existing policy on post-default curing period with a view to providing some flexibility to CRAs in taking appropriate view in such cases," the regulator said.

Defaulting firms had seen alteration in their credit risk profile due to technical defaults, change in management, acquisition by another firm, sizeable inflow of long-term funds and benefits arising out of a regulatory action.

"This proactive step of Sebi will benefit those entities which are facing temporary cash-flow issues, who have defaulted on debt obligations due 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.

"We believe these entities will now be able to access the credit markets without a default tag and the waiting time period as prescribed, provided they are able to demonstrate enough cash flows to service their debt obligations. This step is in line with global best practices, where it is left to the judgement of the credit rating agencies to decide on timelines for the curing of default ratings," Bahl said.

Sebi said credit rating agencies should frame a policy for moving defaults to non-investment and investment-grade, and specify the deviation scenarios. The rules should be published on their website and the deviations have to be presented to the rating sub-committee of the credit rating agencies' board of directors.