Care Ratings' Policy on Default Recognition

[Issued in January 2025]

RATINGS AFRICA
A subsidiary of CARE Ratings Limited, India

Background:
Ratings from CareEdge Africa (CRAF) are an opinion on the relative ability and willingness of an issuer to repay debt (including interest and other obligations) in a timely manner.

CRAFs' default recognition policy is updated in line with the Global best practices from time to time, as per which in respect of listed and proposed to be listed debt securities, a 'one-day-one-rupee' delay in the debt servicing is considered as default. Further, CRAF has internal guidelines for recognition of default in case of facilities / instruments (other than listed / proposed to be listed debt securities) as per which for facilities / instruments with a pre-defined repayment schedule, a 'one-day- one-rupee' delay in the debt servicing is considered as default, whereas facilities with no pre-determined repayment schedule are considered to be in default if they remain continuously overdrawn / overdue / unpaid for more than 30 days. This apart, there are specific regulatory guidelines on default recognition in case the rated security / instrument/ facility is rescheduled and for the 'curing' period post which a rating may be upgraded from 'Default Grade' (CARE MAU D).

This document explains in detail the definition of default followed by CRAF and the criteria for treatment of defaults while assigning initial ratings and reviewing outstanding ratings.

Definition of default:

A. Definition of default for listed / proposed to be listed debt securities:

Financial Instrument	Rating Scale	Definition of Default
Debentures / Bonds	Long Term	A delay of 1 day even of 1 rupee (of principal or interest) from the scheduled repayment date (refer note below).
Commercial Paper	Short Term	
When the rated instrument is rescheduled		Non-servicing of debt (principal or interest or both) as per the existing repayment terms in anticipation of a favourable response from the investors / lenders of accepting their restructuring application / proposal shall be considered as a default. Rescheduling of the debt instrument by the investors / 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^		Generally 90 Days - for upgrade from Default to Non-Investment Grade.

^Curing period would be generally 365 days for upgrade from Default to Investment Grade. CRAF may upgrade the rating before expiration of the stipulated curing period, in accordance with CRAFs' 'Policy on Curing Period' available at www.careratingsafrica.com.

Note: Default may not be recognised if the non-payment of debt (principal and/or interest) is due to reasons beyond the control of the issuer, namely, failure to remit payment due to absence of correct information or due to incorrect or dormant investor account furnished by the investor(s) or due to notice / instruction received from a government authority to freeze the account of investor(s).

In the aforesaid scenarios, CRAF shall confirm and verify the availability of adequate funds with the issuer and also confirm and verify:

- the proof of failure of the required payment of debt (principal and/or interest),
- the reasons for failure being as specified above, and
- the required amounts being duly paid into a separate escrow account maintained with a scheduled commercial bank by the issuer on the due date of payment.

B. Definition of default for other facilities / instruments (other than listed / proposed to be listed debt securities):

Facilities	Rating Scale	Definition of Default*
Fund-based facilities and facilities with pre-defined repayment schedule#		
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	Long Term	
Debentures / Bonds	Long Term	
Certificate of Deposits / Fixed Deposits	Short Term / Long Term	
Commercial Paper/ Money Market Instruments	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.
Fund-based facilities and no pre-defined repayment schedule		
Cash Credit	Long Term	Continuously overdrawn for more than 30 days.
Overdraft	Short Term	
Non-fund-based facilities		
Letter of Credit	Short Term	Overdue for more than 30 days from the day of devolvement.
Bank Guarantee (Performance / Financial)	Short Term	Amount remaining unpaid for more than 30 days from the invocation of the facility.
Other Scenarios		
When the rated facility / instrument is rescheduled		Non-servicing of debt (principal or interest or both) as per the existing repayment terms in anticipation of a favourable response from the lenders / investors of accepting their restructuring application / proposal shall be considered as a default. Rescheduling of the debt instrument by the lenders / investors prior to the due date of payment will not be treated as a default unless the same is done to avoid default or bankruptcy.

When the debt servicing of an facility / instrument backed by a guarantee is not done on the due date		In such cases, the recognition of default is generally dependent upon the nature of structured payment mechanism (SPM) mentioned in the guarantee document. The SPM generally contains a 'T-' structure, where 'T' is the due date. In case the payment mechanism is not adhered to and there is a missed payment on such due date, default is recognised on the said facility / instrument. In some cases, the payment mechanism mentioned in the guarantee document may be a 'T+x' structure@, where 'x' is the number of days for making the payment after the due date. In case of such 'T+x' structures, CRAF would recognise default on the facility / instrument if the payment mechanism is not adhered to and the debt servicing is not done by the 'T+x'th day, with 'T+x'th day being very close to the 'T'th day. In cases where there is no SPM mentioned in the guarantee document, notwithstanding whether the guarantee is invoked or otherwise, if there is a missed payment on the due date, then CRAF would recognise default on the said facility / instrument.
Curing Period^		90 Days - for Default to Speculative Grade and Generally 365 Days for Default to Investment Grade.

@'T+x' payment mechanism shall be applicable only for facilities.
#If the sanctioned terms allow a grace period for making the payment after the due date, CRAF considers the due date after taking into account the grace period.

^CRAF may upgrade the rating before expiration of the stipulated curing period, in accordance with CRAFs' 'Policy on Curing Period' available at www.careratingsafrica.com.

*CRAF tracks timeliness of the debt servicing by the rated entities. In this regard, CRAF relies on information such as no-default statement from the rated entities, auditor's report, feedback from the bankers, debenture trustees / issuing and paying agents (as applicable), stock exchange disclosures made by the listed entities, bank statements (if shared by the entities), or any other public sources. If such feedback confirms that the delayed payment was a one-off event solely due to operational issues at the lender's or investor's end, beyond the control of that entity, and the same does not reflect lack of ability or willingness of the entity to pay its debt obligations, then CRAF may not recognize a default. However, in such cases, CRAF may publish a credit update about the delay and the operational issues causing such delay.

Criteria for treatment of defaults:

1. **Treatment of default in case of initial ratings**
   In case of initial ratings, a rating of 'CARE MAU D' is assigned in case of ongoing delays in debt repayment of the facility / instrument being rated. In case of instances of past delays in repayment of any debt instrument, the following four dimensions of delay are analysed: a) the extent of delay (number of days of delay); b) frequency of delay (number of times the delay occurred in the past one year); c) severity of delay (amount not paid vis-à-vis amount due); and d) status of an ongoing delay (a facility / instrument in default). A non-default rating will

not be assigned generally if the curing period post an earlier default on any facility / instrument of similar seniority has not elapsed. For subordinate facilities / instruments and structured instruments, the curing period will apply at the facility / instrument level.

- In case of (d) above, a rating of 'CARE MAU D' is assigned if the delay is in respect of the facility / instrument being rated, or delay is in respect of a facility / instrument of similar seniority not being rated.

- In cases other than (d) above, the rating will take into account the extent, frequency and severity of the delay, and also how recently the delay has occurred. A default-free track record of generally 90 days is required to assign the rating in the non-investment grade / speculative grade other than 'CARE MAU D', and generally a default-free track record of 365 days is required to assign an investment grade rating. CRAF may assign 'Non-D' rating before the expiration of the stipulated curing period in line with CRAFs' 'Policy on Curing Period' available at www.careratingsafrica.com.

2. Treatment of default in review of outstanding ratings

Whenever CRAF becomes aware of any missed payment on a rated facility / instrument, the rating of that facility / instrument is brought down to 'CARE MAU D'. The rating of all other facilities / instruments rated by CRAF, which have the same seniority as the facility / instrument that has defaulted and issuer rating will generally move to 'near default' grade or 'CARE MAU D', as the circumstances that caused a delay in the debt servicing on one facility / instrument may also affect the debt servicing of other facilities / instruments. However, CRAF may, in certain situations, not move ratings on all other facilities / instruments to 'near default' grade or 'CARE MAU D' if strong instrument-specific mitigating factors exist or instances of delinquencies / defaults on other facilities / instruments are unlikely to lead to a default on the rated facility / instrument. After curing the delay, the default grade rating can be moved within the sub-investment category based on the extent, frequency, severity and the date of occurrence of the delay. A default-free track record of generally 90 days is required to move a facility / instrument's rating from 'CARE MAU D' to other ratings in the non-investment grade / speculative grade and generally, a default-free track record of 365 days is required to move a facility / instrument's rating from 'CARE MAU D' to investment grade. CRAF may assign 'Non-D' rating before the expiration of the stipulated curing period in line with CRAFs' 'Policy on Curing Period' available at www.careratingsafrica.com.

3. Default on facilities / instruments not rated by CRAF

In case an issuer with an outstanding rating from CRAF defaults on any facility / instrument (other than the rated one), which has the same seniority as the facility / instrument rated by CRAF, the rating of the facility / instrument rated by CRAF (which is not in default) and issuer rating will move to 'near default' grade or 'CARE MAU D'. This is because the factors that caused the delinquency / default on other facilities / instruments may also affect the debt servicing on the rated facility / instrument. However, CRAF, in certain situations may not move ratings on all other facilities / instruments to 'near default' grade or 'CARE MAU D', if strong instrument-specific mitigating factors exist or instances of delinquencies / defaults on other facilities / instruments are unlikely to lead to a default on the rated facility / instrument.

4. Treatment of default in case of hybrid instrument ratings

The terms of the hybrid instruments may allow deferment of principal and/or interest payment in case of invocations of certain pre-agreed clauses. Any delay in the payment of interest / principal (as the case may be) following the invocation of the lock-in clause is considered an event of default as per CRAFs' definition of default and as such, these instruments may exhibit a somewhat sharper migration of the rating compared with conventional subordinated debt instruments.

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About:

CareEdge is a knowledge-based analytical group that aims to provide superior insights based on technology, data analytics and CARE Ratings (Africa) Private Limited (CRAF) is the first credit rating agency to be licensed by the Financial Services Commission of Mauritius in May 2015. It is also recognized by Bank of Mauritius as External Credit Assessment Institution (ECAI) from May 2016. CRAF is also licensed by Capital Markets Authority of Kenya to operate as a Credit Rating Agency in Kenya. CRAF intends to expand across other geographies in Africa with Mauritius as its hub of operations. With an equitable position in the Mauritius capital market, CARE Ratings (Africa) Private Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.

CRAF's shareholders are CARE Ratings Limited, African Development Bank, MCB Equity Fund and SBM (NFC) Holdings Limited.

CRAF gets its technical support in the areas such as rating systems and procedures, methodologies, etc. from CARE Ratings Limited on an ongoing basis. CARE Ratings Limited, with an established track record of rating companies over almost three decades, follows a robust and transparent rating process that leverages its domain and analytical expertise backed by the methodologies congruent with the international best practices.

CRAF's Rating Committee consist of full-time members comprising of Senior Rating officials from CARE Ratings Limited and a panel of experienced professionals from Mauritius and African Development Bank.

CRAF has had a pivotal role to play in developing bank debt and capital market instruments including MMIs, corporate bonds and structured credit.