CRAF's Policy on Curing Period

Background

As per CareEdge Africa (CRAF) policy on default recognition in respect of ratings for instruments/bank facilities with a pre-determined repayment schedule, 'one-day-one-rupee' delay is considered as default, whereas for facilities with no pre-determined repayment schedule, a 30 day 'grace period' is allowed.

CRAF's policy on default recognition (available at www.careratingsafrica.com) also stipulates the curing period as follows:

Curing Period	A	90 Days - for Default to Speculative Grade
	B	Generally 365 Days for Default to Investment Grade

The default grade rating for an instrument/ facility shall not be revised unless all instruments of similar seniority are "cured" of their defaults. For subordinate instruments and structured instruments, curing period will apply at instrument level.

Although after a default is cured and the payments regularized, a CRA shall generally upgrade the rating from default to non-investment grade after a period of 90 days based on the satisfactory performance by the company during this period. CRAF may deviate from the said period of 90 days on a case to case basis, subject to the CRAs framing a detailed policy in this regard.

CRAF's policy on curing period

Pursuant to the abovementioned circular, CRAF's policy on curing period is as follows:

CRAF shall generally apply the curing period as mentioned in CRAF's policy on default recognition reproduced earlier. However, on a case to case basis, CRAF may deviate from the said policy.

- The deviation from the 90 day timeline for upgrade to sub investment grade rating and 365 day timeline for upgrade to Investment grade rating shall happen only when CRAF believes that the underlying credit profile of the entity has improved significantly. The rating so assigned shall be based on CRAF's analytical judgment on the likelihood of recurrence of default.
- CRAF in extremely exceptional situations may upgrade the default grade rating to investment grade rating, prior to the completion of the stipulated curing period of 90 days.

As mentioned earlier, the deviation from the default policy shall be allowed, only if CRAF's rating committee in its analytical judgement is of the view that the underlying credit profile has significantly improved, on occurrence of the following:

- Change in ownership and significant management control moving to another entity/group which has a relatively better credit profile compared to the rated entity.
- Significant infusion of long-term funds
- Significant benefits accruing to the business due to change in regulations resulting into improvement in the liquidity and cash-flows of the rated entity

- Certain forms of refinancing have been undertaken which leads to replacement of the facilities/instruments in default
- Additional funding lines made available to the rated entity providing the required liquidity support

While one or more of these conditions are required to be satisfied for upgrade from default grade to higher rating grade (including investment grade), the rating may be upgraded within sub-investment grade, based on CRAF's analysis of the possibility of recurrence of events which led to the default. Also, it may be noted that the rating may be upgraded from default category to a non-default category after completion of the curing period, only if CRAF's rating committee is of the view that the possibility of recurrence of events which led to default is minimal in the near future and CRAF may continue with the Default category rating even after completion of the curing period if it is of the view that there is a possibility of default in the near future.

The rating revision from default grade, as stated above, shall be carried out only after actual occurrence of the events stated above and will not be based on contingent events. Cases of deviations, if any, from stipulated 90 days shall be placed before the Rating Sub-Committee of CRAF's Board, on a half yearly basis, along with the rationale for such deviation.

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About:

CareEdge is a knowledge-based analytical group that aims to provide superior insights based on technology, data analytics and CRAF (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, CRAF (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 CRAF 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 CRAF Limited on an ongoing basis. CRAF 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 CRAF 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.