



Criteria for Default Recognition

DEFAULT

Acuite adheres to the following definition of default#:

Instrument-wise definition of default

Financial Instrument	Rating Scale	Definition of Default
Debentures/Bonds/Debt Securities	Long Term	A delay of 1 day even of 1 rupee (of principal or interest) from the scheduled repayment date.
Commercial Paper	Short Term	
Other Scenarios		
When rated instrument is rescheduled:		<p>Non-servicing of the debt (principal as well as interest) as per the existing repayment terms in anticipation of a favourable response from the creditor of accepting their restructuring application/ proposal shall be considered as a default.</p> <p>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.</p>

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

Facilities	Rating Scale	Proposed 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		
Working Capital Demand Loan (WC DL)		
Debentures/Bonds		
Certificate of Deposits (CD)/ Fixed Deposits (FD)	Short Term/ Long term	

Commercial Paper	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 & No Pre-Defined Repayment Schedule

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

Non fund-based facilities

Facilities	Rating Scale	Proposed Definition of Default
Letter of credit (LC)	Short Term	Overdue for more than 30 days from the day of devolvement.
Bank Guarantee (BG)(Performance / Financial)	Short Term	Amount remaining unpaid from 30 days from invocation of the facility.

Other Scenario

Scenario	Proposed Definition of Default
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 favorable response from the banks of accepting their restructuring application/ proposal should 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.

Events of Default in case of Hybrid Instruments

Acuité believes that any delay in servicing the interest from the scheduled repayment date shall constitute an event of default. Acuité will recognize a default when the issuer of the instrument delays, even by one day, any interest payment (and/or principal in case of non-perpetual instruments) even if the terms of the instrument allow such delays in certain situations.

Curing Period

The following curing period shall be applicable for entities rated 'D' i.e. 'Default' category

- *Generally 90 Days - from curing of default up to 'BB+'
- Generally 365 Days - from curing of default to 'BBB-' and above

However, there could be situations where an entity that has defaulted in the past, witnesses one or more (list is indicative, not exhaustive) of the following:

- Change in management
- Acquisition by another firm
- Sizeable inflow of long term funds
- Benefits arising out of regulatory changes
- Sharp improvement in liquidity due to replacement / refinancing of existing lender's debt with debt of longer tenor i.e. elongation of the liability profile from a new lender (and not from the existing lender)

The aforementioned or similar such developments may structurally alter the credit risk profile of entities that have defaulted in the past. If Acuité is of the opinion that factor(s) that led to a default earlier is unlikely to recur in the near term, Acuité may deviate from the curing period stated above.

Any transient or temporary improvements in liquidity which are not expected to be sustained or fundamentally alter the liquidity profile - (for instance a one-time sale of a non-core asset to service a few instalments) - will not be considered as a reason for deviation from the curing period especially if Acuite is of the view that going forward the cash accruals from operations are expected to remain below the debt servicing commitments thereby leading to elevated possibility of default.

Applicable to listed debt securities in accordance with SEBI Amendment to Para 15 of Master Circular for Credit Rating Agencies (CRAs) dated May 16, 2024 ("Master Circular") - Circular No.: SEBI/HO/DDHS/DDHS-PoD-3/P/CIR/2024/160 dated November 18, 2024.

Failure to remit payment for reasons ('specified reasons') beyond the control of the issuer

A. If non-payment of debt (principal and/or interest) on a listed debt security occurs due to reasons beyond the control of the issuer and forms part of any of the three scenarios specified by SEBI in its circular, namely, failure to remit payment:

1. due to absence of correct information or
2. due to incorrect or dormant investor account furnished by the investor(s) or
3. due to notice/ instruction received from a government authority to freeze the account of investor (s)

AND

B. Acuite can confirm and verify all the following four aspects:

- 1.the availability of adequate funds with the issuer, and
- 2.the proof of failure of the required payment of debt (principal and/ or interest), and
- 3.the reasons for failure as specified above, and
- 4.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.

THEN,

Acuite shall NOT recognize the failure of the investor to receive funds as 'default'.

Upon occurrence of any of the 'specified reasons' as per 'A - 1. or 2. or 3.' described above and Acuite being able to confirm and verify all the four actions at 'B – 1. and 2. and 3. and 4.' provided above, Acuite will publish a rating Press Release about occurrence of an event of payment failure and the treatment of the same on its website. Acuite shall also furnish the following details to the Stock Exchanges, Depositories and Debenture Trustee on the same day as the dissemination of the press release.

Name of the security	ISIN	Amount to be paid	Due date of payment	Amount of payment made	Amount of payment failed	Reasons for failure of payment

*Cases of deviations from stipulated 90 days, if any, shall be placed before the Ratings Sub-Committee of the board of the CRA, on a half yearly basis, along with the rationale for such deviation.

Applicable to bank loan facilities in accordance with RBI communication dated 15-September-2025.

This section deals with the accelerated post-default curing period exclusively with respect to bank loan & working capital facilities in specific scenarios - wherein the default was not due to the inability and the unwillingness of the borrower, but due to operational reasons outside the control of the borrower. The provisions shall NOT apply to listed debt securities.

- a. Acuite shall ascertain that the borrower (rated entity) had the necessary funds, in the account(s) continuously until the date of curing of default and the default was not due to any credit or liquidity related factors, but entirely due to operational reasons beyond the control of the borrower.
- b. The accelerated post-default curing period shall only be considered wherein the default was cured within the next three (03) working days.
- c. Acuite shall seek clarifications from the lender(s) to satisfy itself and to conclusively establish that the default was not due to the inability and the unwillingness of the borrower, but due to operational reasons outside the control of the borrower. Acuite may also seek necessary documentation (including but not limited to the relevant bank statements) to establish that such default was cured within the next three (03) working days.
- d. The rating rationale in the Press Release shall capture the event of default as well as the accelerated post-default curing period adopted by the CRA and the reasons thereof.
- e. Acuite shall apply a post-default accelerated curing period immediately on the basis of and satisfying itself with respect to points 'a.', 'b.' and 'c.' above.

Acuite shall put up a list of such cases to the Ratings Sub-Committee on a half-yearly basis.

Checklist for the Rating Note

The Rating Analyst should ensure that the points mentioned in the checklist below are applicable to all the outstanding instruments. The table below should form part of every rating note.

Details of the checklist	Yes / No
Has the issuer indicated that they have delayed or defaulted [^] in debt service on any external debt (i.e. excluding debt from the promoters)?	
Has the company's auditor (typically in the annual report) indicated any delays/ defaults in debt service by the borrower?	
As part of the interactions with the borrower's bankers, have any of the bankers indicated any irregularity/ delays/ defaults in debt service by the borrower?	
For capital market instruments, have the debenture trustees indicated any delays/ defaults in servicing of the debt instruments by the issuer?	

With respect to recognition of default, Acuite will be guided by SEBI Circular SEBI/ HO/ MIRSD/ CRADT/ CIR/ P/ 2020/ 53 dated March 30, 2020.

A note on the same is available on:

<https://www.acuite.in/Page/regulatorydisclosures/transitory-relaxation-from-compliance-with-certain-provisions-under-SEBI.html>