ICRA

INDEPENDENT CREDIT EVALUATION

Under RBI's Revised Framework for Resolution of Stressed Assets

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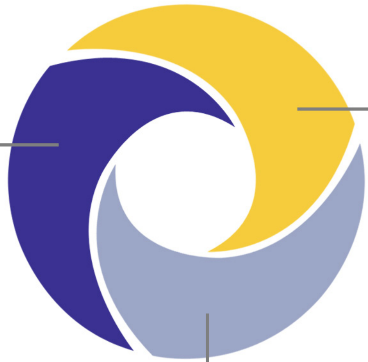
What is ICRA's Independent Credit Evaluation

ICRA's Independent Credit Evaluation (ICE) is an assessment of the credit quality of the residual debt in entities, under the revised framework for resolution of stressed assets as notified by the Reserve Bank of India (RBI). The outcome of this assessment aims to help the lenders and investors understand the credit risks in entities that are in the process of undergoing a resolution plan. A snapshot of the product is given below:

Independent Credit Evaluation



Purpose
Independent Credit Evaluation of the residual debt as per the proposed plan, for assessing the credit risk and degree of safety regarding timely servicing of debt obligations

Relevance
Resolution plans in respect of accounts with aggregate exposure of lenders being more than Rs. 100 crore and involving restructuring, change in ownership, etc. shall require this evaluation

Deliverable
- One-time exercise
- Detailed assessment report along with the rating assigned on a 7-point scale
- Report to be provided to the lender and not disclosed to the public

Who should take ICRA's Independent Credit Evaluation

The RBI, in its circular on February 12, 2018 has come out with a revised framework for resolution of stressed assets. The revised framework is aimed at providing a harmonised and simplified generic framework consistent with the Insolvency and Bankruptcy Code, 2016 (IBC). This replaces the previously existent schemes such as Corporate Debt Restructuring Scheme (CDR), Flexible Structuring of Existing Long Term Project Loans (5/25 scheme), Strategic Debt Restructuring

Scheme (SDR), Scheme for Sustainable Structuring of Stressed Assets (S4A), etc., all of which have experienced limited success in resolving the stressed assets situation being faced by the banking system.

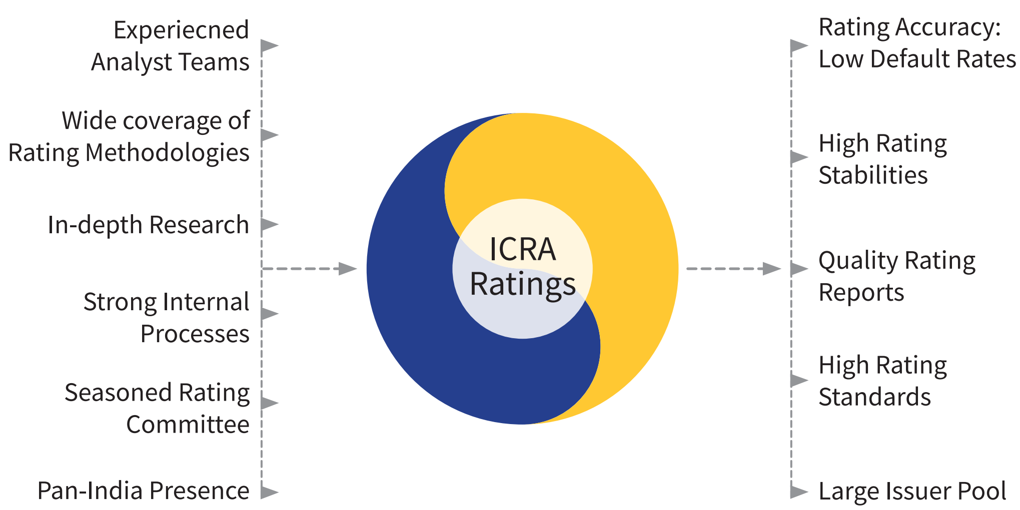
In light of this situation, lenders and investors wishing to obtain an independent view of the credit risks in entities undergoing a resolution plan would benefit from ICRA's Independent Credit Evaluation.

Why ICRA?

ICRA, a Moody's investors Service company, is a leading rating agency in India providing independent, professional and impartial opinion on credit ratings, and research for risk assessment and management.

ICRA has, over 25 years, developed substantial experience in assessing credit risk across industries, forecasting macro trends, and evaluating businesses. Our research base across more than 100 sectors and completed rating assignments of more than 10,000 entities enables us to maintain the highest standards of quality and credibility.

Backed by these strong fundamentals, we have acquired a strong rating stability across all investment grade ratings. ICRA's average default rates in the investments grade categories have been very low, with overall one year default rate of 2.6% in FY2017 (reduced further to 2% in H1-FY2018), giving greater confidence to lenders/investors. Correspondingly, ICRA rated debt instruments typically command lower spreads – in FY2017, ICRA rated AAA and AA category rated bonds traded 11-bps lower than bonds rated in similar category by other rating agencies.



Methodology

The rating approach involves evaluating the entity's ability to generate cash from operations, the predictability of such cash flows and assessing their adequacy to meet the debt-servicing obligations over the tenure of the residual debt. Additionally, the rating approach involves assessing other forms of support available to an entity that is likely to supplement its operational cash flows. Such support may be in the form of cash balances, liquid marketable securities, external sources of financing, or some manner of third-party support, implicit or explicit.

For analytical convenience, ICRA's methodology is categorised under four sections viz., Industry Risk Assessment, Business Risk Assessment, Financial Risk Assessment and Management Quality & Corporate Governance Assessment.

Credit Risk Categorisation

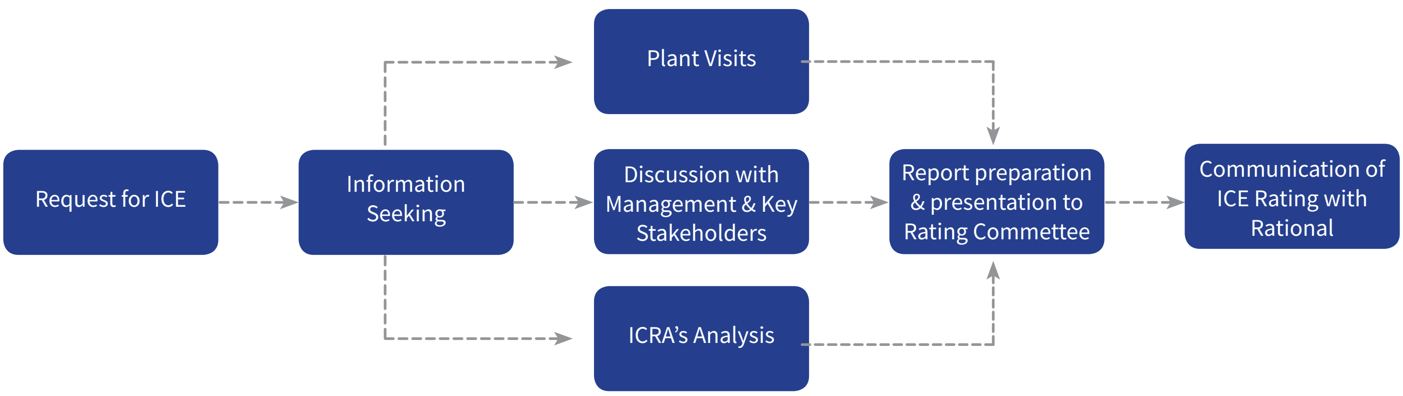
Industry Risk	Business Risk	Financial Risk	Management Risk
Growth Prospects	Relative Scale	Profitability	Quality of Management
Cyclicality	Competitive Position	Leverage	Financial Policies
Competitive Intensity	Diversification	Coverage	

ICRA's assessment is backed by its sector specific methodologies and strong research base for the specific industry of the entity under consideration. ICRA's experienced team of analysts and its in-depth Sector and Industry research provide it with the essential mix of quantitative assessment and qualitative judgment.

ICRA shall also consider the details provided by the lender with respect to the resolution plan. These details are likely to form the basis for due diligence and analysis of the revised scenario for evaluating the degree of improvement in the credit quality which may be expected if the proposed resolution plan is implemented. ICRA shall take into consideration the likely changes to the company's business model, operating scenario and/or managerial changes under the resolution plan.

Process

The evaluation process is to be initiated by a lender (which is considering a resolution plan) by submitting a formal request to ICRA through the Business Development team. A dedicated team of analysts with the expertise and skills required to evaluate the entity's business and the proposed resolution plan is involved in the assessment. A list of supplementary information requirement is shared to seek information about the entity's business as well as the proposed resolution plan. These requirements are worked out on the basis of ICRA's understanding of the entity's business, and broadly cover all aspects that may have a bearing on the evaluation. The team primarily relies upon ICRA's proprietary research covering wide range of Industry and macro-economic research. Our large research and rating base enables the team to have their ears to the ground and gain in-depth understanding of the business dynamics. The process also includes detailed discussions with key management personnel. Simultaneously, ICRA conducts an independent due diligence through plant visits (if applicable) and interactions with various operational and financial stakeholders like customers, suppliers, investors, statutory auditors, among others. The analysis is completed with ICRA's forecast of the business and financial performance of the entity, wherein the robustness of the revised business model is tested on a range of probable scenarios. The Rating Report is presented to ICRA's Rating Committee, which is the final authority for assigning ratings. The assigned rating, along with the rating considerations, is submitted to the lender in the form of a comprehensive rationale. The rationale will be available for proprietary use of the lender.



Outcome

The final outcome of the exercise is the assignment of the residual debt rating as per the following seven-point scale. The detailed assessment report for the assigned residual debt rating shall be provided.

Symbols	Definition
[ICRA]RP1	Debt facilities/instruments with this symbol are considered to have the highest degree of safety regarding timely servicing of financial obligations. Such debt facilities/instruments carry lowest credit risk.
[ICRA]RP2	Debt facilities/instruments with this symbol are considered to have high degree of safety regarding timely servicing of financial obligations. Such debt facilities/instruments carry very low credit risk.
[ICRA]RP3	Debt facilities/instruments with this symbol are considered to have the adequate degree of safety regarding timely servicing of financial obligations. Such debt facilities/instruments carry low credit risk.
[ICRA]RP4	Debt facilities/instruments with this symbol are considered to have moderate degree of safety regarding timely servicing of financial obligations. Such debt facilities/instruments carry moderate credit risk.
[ICRA]RP5	Debt facilities/instruments with this symbol are considered to have moderate risk of default regarding timely servicing of financial obligations.
[ICRA]RP6	Debt facilities/instruments with this symbol are considered to have high risk of default regarding timely servicing of financial obligations.
[ICRA]RP7	Debt facilities/instruments with this symbol are considered to have very high risk of default regarding timely servicing of financial obligations.

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