



Catalyst Trusteeship Limited
Policy on Monitoring of Breach of Covenants

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2022

(1) INTRODUCTION

The Securities and Exchange Board of India (“**SEBI**”) in its endeavor to protect the interest of investors has formulated the SEBI (Debenture Trustee) Regulations, 1993 (“**DT Regulations**”), which inter-alia provides for several roles, responsibilities and duties of the Debenture Trustee. One of the vital duties provided under Regulation 15(f) of the DT Regulations mandates the Debenture Trustee(s) to monitor the breach of covenants and ensure that any company issuing debentures does not commit any breach of the terms of issue of debentures or covenants of the trust deed and take such reasonable steps as may be necessary to remedy any such breach.

SEBI vide its circular dated November 12, 2020 and October 13, 2020 has also prescribed the action to be taken by Debenture Trustees against Companies issuing Debentures in case of breach of covenants or terms of issue.

This policy has been formulated and adopted in compliance with SEBI’s Circular dated May 19, 2022, which requires Debenture Trustees to establish a board approved internal policy with respect to proactive and effective monitoring of breach of covenants.

(2) APPLICABILITY:

This policy shall be applicable to listed non-convertible debentures in respect of which Catalyst is acting as debenture trustee and will be effective from October 1st 2022.

(3) CATEGORY OF COVENANTS TO BE MONITORED BY CATALYST:

All covenants included in the Information Memorandum, Trust Deeds, transaction documents and as prescribed by SEBI from time to time, shall be monitored for identifying breach.

(4) PROCEDURE FOR MONITORING BREACH:

The following process will be followed for monitoring breach of covenants by companies issuing debentures:

- (a)** Apart from the periodical information / documents submitted by the issuer company, the officers dealing with the debenture issues, should monitor the financial and non-financial covenants by the issuer on continuous basis and should keep track on developments of the issuer through various sources including public disclosures on Stock Exchanges, company filings, news articles in electronic / print media or any information available on public domain etc.
- (b)** In pursuance of the SEBI Circular dated May 19, 2022, the issuer of debentures has to furnish on quarterly basis, the asset cover certificate in the format specified therein, duly certified by its statutory auditor. Similarly, the issuer also has to furnish to Catalyst the compliance status with respect of financial covenants duly certified by statutory auditors. The ERP with Catalyst will generate the intimation / reminder emails to issuer, considering the due dates of submission of asset cover certificate and also confirmation of compliance of covenants by the issuer. The Officer of Compliance Team shall check correctness of such emails with relevant documents, before sending such emails and ensure that the same are received within 75 days from end of each quarter except last quarter of financial year.
- (c)** The evaluation of covenant certificates and compliance reports submitted by the issuer shall be undertaken by cross-checking with Catalyst's records, to ensure compliance of the covenants.
- (d)** In case any breach of covenants is reported by the issuer and / or statutory auditor in the quarterly reporting, the same shall be communicated to the debenture holders within 3 days of communication of such breach. However, in case such breach of covenants is observed through any other source, the explanation / clarification shall be sought from the issuer and after confirmation by the issuer or non-response within reasonable time, the debenture holders shall be informed about the same.

- (e) The consequences of breach of covenant may be examined in the light of Information Memorandum and transaction documents and take further necessary steps, particularly relating to acceleration of payments, imposing restrictions on issuer for further borrowing, restricting payment of dividend etc.
- (f) If no waiver is obtained for breach of any covenants or terms of issue of debentures the same shall be published on the website of the Catalyst and also be communicated to stock exchanges.
- (g) On quarterly basis, the disclosure on Catalyst's website may be made about the instances of breach of covenants by the issuer in the preceding quarter and the action taken / proposed to be taken. The debenture holders may also be informed about the same and also seek instructions for further course of action against the issuer of debentures.
- (h) The further action for enforcement of security / recovery of dues under debentures may be initiated as per provisions of relevant documents and provisions of Companies Act, 2013, SEBI Regulations.

(5) ROLES AND RESPONSIBILITIES OF EMPLOYEES:

The responsibility for effective monitoring of breach of covenants lies upon the Compliance Team and Catalyst Team.

❖ Compliance Team

The compliance team shall be responsible for the following:

- (a) ensuring timely receipt of periodical statements, declarations, certifications from the issuer
- (b) Scrutinizing periodical statements, declarations, certifications from the issuer and identify breach of covenants if any reflected therein.
- (c) If any breach of covenant is observed, Compliance Team shall immediately communicate such breach to the respective Dealing Officer from the Debenture Trustee Team for further action.
- (d) Quarterly status report containing covenants breached in previous quarter along with action taken / proposed to be taken by Catalyst shall be published on the Catalyst's website and to communicate to Stock Exchanges.

❖ **Debenture Trustee Team**

Based on intimation received from the compliance team or company issuing debentures, about breach the covenants, the Dealing Officer shall examine the further action to be taken as per the relevant transaction documents and SEBI Regulations. Accordingly, inform to all debenture holders appearing in the latest BENPOS provided by the Issuer Company, as prescribed in SEBI circular dated October 13, 2020.

A copy of the communication made to debenture holders shall be sent to Compliance Team for maintaining records. Further course of action or waiver if any obtained by debenture holders shall be communicated to the Compliance Team.

❖ **Legal Team**

Legal Team shall take all necessary further steps for enforcement of security / recovery of the dues under the outstanding debentures, as per the instructions given by the debenture holders and the relevant transaction documents / SEBI Regulations.
