Treatment of Hybrids in Non financial Corporate and REIT Credit Analysis

Sector-Specific Criteria

Overview of Methodology

Assess and Rate Hybrids: India Ratings and Research Private Limited (India Ratings) applies the following guidelines to assess the effects of hybrid securities on the financial leverage or capital adequacy of entities in the corporate and real estate investment trust (REIT) sectors and to rate these instruments.

Three Debt/Equity Categories: India Ratings allocates hybrid securities into the following categories: 100% equity, 50% equity and 50% debt, or 100% debt. The decision to use only three categories reflects India Ratings' view that the allocation of hybrids and capital securities into debt and equity components is a rough and qualitative approximation, and is not intended to give the impression of precision.

No Adjustment to Coverage Ratios: India Ratings uses the full amount of hybrid interest to calculate interest coverage ratios, despite provisions allowing the deferral or omission of payments.

Preserving Ongoing Viability Focus: Hybrids are evaluated, in determining equity credit, as to the extent they contribute to financial flexibility and support the ongoing viability of an organization. It is essential to achieve any equity allocation that the terms of the instrument avoid mandatory payments, covenant defaults, or events of default (EODs) that could trigger a general corporate default or liquidity need. Structural features that constrain a company's ability to activate the equity-like features of a hybrid make an instrument more debt like.

No Limit on Equity Credit: The amount of adjusted equity that can be derived from hybrid instruments is not subject to an explicit cap.

Not Highly Confidence Sensitive: The non financial corporate and REITs sectors are not highly confidence sensitive. Activating the equity-like features of an instrument is unlikely to trigger an entity's financial collapse due to signalling.

Similarities/Differences in Analysis: The credit of both sectors is analyzed with a focus on cash flow measures and projections of an entity's financial condition and liquidity. However, the REIT sector also employs a risk-adjusted capital adequacy measure that is not applied to corporates.

Issue Ratings Notched from IR: Hybrid instruments with going-concern loss absorption are typically deeply subordinated instruments with very low recovery prospects in liquidation or bankruptcy. Such an instrument will therefore be treated as being highly loss absorbing and rated lower than the issuer rating (IR) for most corporate issuers..

Related Criteria

Corporate Rating Methodology
(September 2012)

Scope and Limitations

The terms "hybrid instruments," "hybrid securities," and "capital securities" are applied interchangeably. India Ratings' definition encompasses all instruments that are neither common stock nor ordinary debt.

The criteria outlined in this report are directed toward hybrid instruments purchased by unaffiliated investors that are expected to exercise all available remedies.

Strategic investors recapitalizing a distressed company or companies injecting capital into a subsidiary frequently use hybrid structures to increase the tax efficiency of their investment. Also, privately issued, single-investor hybrids sometimes include special terms that make the instrument more debt like than it would otherwise appear. In these cases, the implications differ from ordinary capital market instruments, and India Ratings' rating committees may apply case-by-case analyses of such hybrids, based on the individual circumstances.

India Ratings' method for allocating hybrid instruments into debt and equity components applies across the rating spectrum, for issuers with both investment-grade and speculative-grade IRs. However, in the case of speculative-grade issuers, India Ratings frequently considers alternative cases and scenarios, some of which may vary from the pure application of these guidelines.

Rating committees retain flexibility in applying these criteria to specific situations not contemplated in this report.

The general limitations discussed in India Ratings' master criteria for corporates, "Corporate Rating Methodology," referenced in the Related Criteria section on page 1 of this report, apply to these criteria as well.

Background

India Ratings-Defined Equity Credit

Equity credit is an analytical concept that expresses the extent to which India Ratings views a security as containing debt like or equity like qualities when evaluating an issuer's capital structure and financial leverage in support of India Ratings' assignment of an IR to the issuer. Hybrid securities are evaluated as to their likely effect on the viability of the issuer, and on the issuer's obligations, under the condition of financial stress, regardless of the probability that such financial distress will occur.

Corporates and REITs Entities Differ from Other Hybrid Issuers

Entities in the corporate and REIT sectors are not subject to regulation of their capital adequacy or solvency, which sets them apart from financial institutions and insurers that are more prolific issuers of hybrids. Corporates and REITs are not as confidence sensitive as banks and insurers and thus are generally less vulnerable to signalling risk than those sectors.

Measures of debt leverage in the corporates and REIT sectors, such as the ratio of debt to EBITDA or debt to cash flow from operations, are primary credit ratios. The ratio of equity capital to assets is not employed, and debt-to-equity ratios are considered secondary measures. Thus, the focus of the analytical review of hybrids in the corporates and REIT sectors is whether a hybrid security is included in total debt and to what extent.

Another important distinction is the use of forward cash flow-based financial projections in the corporates and REIT sectors as a primary credit analysis tool. India Ratings models future debt issuance on retirement and transactions expected to alter debt leverage or capital structure in future years. For a corporate issuer, convertible instruments that will result in future issuance of common equity at a known price and date can play a meaningful role in the projected future financial condition, even in the case of some instruments that qualify for low or no explicit

equity credit. See the Mandatory Convertible Securities section for further discussion.

Objective of Hybrid Securities Issuance

Corporates and REITs entities issue hybrid securities in order to access cost-effective financing that provides the added benefit of minimizing the risk of default as a going concern during periods of financial distress. Some hybrids are designed to provide a more tax-efficient alternative to traditional equity. The avoidance of default can be achieved by eliminating or delaying the necessity to make any fixed payments, eliminating covenants and EODs, or forcing conversion into equity securities. Secondarily, hybrid instruments are typically deeply subordinated to senior debt and do not dilute the expected recoveries of senior creditors.

India Ratings Allocation May Vary from Accounting Standards

India Ratings' decision to allocate part or all of a corporate or REIT issuer's hybrid instrument to equity or debt is not driven by accounting rules or the classification of the instrument in the issuer's financial statements.

High-Level Principles

Common Equity Is More Versatile than Hybrids

Hybrids can be structured to replicate some of the key features of common equity. However, India Ratings views hybrids as less versatile than common equity. Common equity can absorb losses and provide cash flow flexibility with respect to dividend payments. It has no maturity or right for the investor to put the security back to the issuer and lacks any covenants, EODs, or cross-defaults. Among the potential debt like qualities of hybrid securities are the following:

- Management may feel obligated to continue making scheduled periodic hybrid payments during a period of distress, despite the existence of provisions that permit deferral.
- Many hybrids have either a contractual or an implied maturity, in the case of nominally perpetual instruments issued with an implied expectation of redemption.
- Many hybrids are structured to take advantage of tax regulations, and the issuer may suffer some economic consequences from changes in the tax regime.

In addition, many hybrids, including preferred and preference shares, lack going-concern loss absorption features and rank ahead of common equity in liquidation. This reduces valuations for common shareholders, and could hamper the ability of a financially distressed issuer to raise new common equity or hybrid securities in order to avoid bankruptcy. Coupon deferral on cumulative issues would increase the amount of obligations ranking ahead of new common equity investors.

A capital structure with a large reliance on hybrid securities could reduce the issuer's flexibility under the preceding circumstances.

No Limit on Equity Credit from Hybrid Securities in India Ratings' Credit Analysis

There is no explicit limit on the amount of equity allocated from hybrid instruments. Instead, rating committees will review the amount of hybrid equity eligible for inclusion in ratio analysis only in exceptional cases in which the committee considers the issuer's use of hybrid capital unusually great and likely to reduce the flexibility of the capital structure. For example, if a corporate issuer essentially restructures itself to replace all or a substantial part of its traditional equity capital with hybrids, the rating committee may limit the amount of equity attributable to hybrid instruments and treat the balance as debt.

For REITs, no threshold exists above which hybrid securities would be treated as debt.

Core Analytical Features of Equity like Hybrids

In India Ratings' view, a security's equity credit is derived from the financial flexibility provided

by the following core features:

- Liquidity flexibility/preservation, e.g. provisions for coupon payment omission or deferral, and no mandatory payments of principal within the rating horizon.
- Limited or no covenants.
- No EODs or acceleration that could trigger a general corporate default or cross-default that would spread to more senior corporate obligations.
- No maturity, investor put rights, or other features that would force repayment of principal within five years.
- Loss absorption after a general corporate default either by means of deep subordination or principal write-down.

Loss absorption on a going-concern basis (principal write-down or conversion to a more junior form of capital) can enhance the equity like features of a hybrid, but is not a required feature for equity credit.

These features may be present in preferred and preference shares and in deferrable coupon subordinated debt hybrids. Instruments with mandatory conversion into equity can fulfill many of these equity-like features by reducing interest and principal payment obligations, avoiding covenants and EODs, or absorbing loss. Mandatory convertible securities may receive a maximum 100% equity credit *(see the Mandatory Convertible Securities section)*. Meanwhile, optional convertible securities would typically receive no equity credit, except to the extent justified by other features of the instrument.

Application of Equity Credit to Hybrid Instruments

Figure 1

Allocation of Corporates and REITs Hybrids to Equity and Debt

(% Equity)	Corporates FLR	REITs RACR	REITs FLR
Preferred and preference shares			
With an effective maturity greater than five years:			
Noncumulative	100	50	100
Cumulative	50	50	100
Subordinated deferrable debt			
With an effective maturity greater than five years	50	50	50
High equity, noncumulative hybrid	100	100	100
Mandatory convertible, deferrable			
Subordinated, less than three years to exercise	100	100	100
Subordinated, 3–5 years to exercise	50	50	50
Senior, less than one year to exercise	50	50	50
Mandatory convertible (synthetic)			
Underlying debt	Based on the underlying hybrid features of debt.		
Forward contract before exercise	0	0	0
Forward contract in projections, as of exercise date	100	100	100
Optional convertible[a]	0	0	0

[a] Unless the underlying security would otherwise qualify for higher equity allocation. FLR Financial leverage ratio. RACR Risk-adjusted capital ratio. Note: This is an illustrative summary only, based on typical hybrid features. Please read the full text for further details
Source: India Ratings

India Ratings makes pro forma adjustments to an issuer's financial leverage (gearing) ratios based on the allocation of hybrid securities into debt and equity components. Instruments that are reported as debt or as equity on an issuer's balance sheet may be reallocated from that category and classified as entirely debt, entirely equity, or 50% debt and 50% equity for India Ratings' ratio analysis. India Ratings uses the resultant adjusted leverage ratios in its fundamental analysis of an issuer.

India Ratings does not make any adjustments to interest or fixed-charge coverage ratios for deferrable and non-deferrable coupon payments. India Ratings may use projections or

sensitivity cases in calculating coverage ratios for use in rating analysis to assess the flexibility afforded by hybrid instruments.

Perpetual or Dated Preferred or Preference Shares

Corporate Sector

India Ratings applies the criteria below to qualify a preferred or preference security as an equity instrument for a corporate issuer.

Subordination

Traditional preferred and preference shares do not have an explicit mechanism for going-concern loss absorption. However, the weak terms and remedies available to preferred and preference shareholders mean that the holders are not assured of principal or coupon recovery either before or after a general corporate default.

Remaining Term

The securities must be perpetual or have an effective or remaining maturity that is not less than five years. An instrument with a remaining effective maturity of less than five years would receive no equity credit.

Call Date Effect on Permanence

A call date will not be deemed an effective maturity date unless it is accompanied with a coupon step up. However, a coupon step up within India Ratings' threshold rate of 1% will not cause the call date to be deemed an effective maturity date if the instrument's offering documents used replacement language to disclose the issuer's intent to redeem the instrument at its call date with either the proceeds of a like instrument or equity. The potential scenarios and their effect on permanence are as indicated in the table below.

Figure 2
Call Scenarios

Coupon step up	Coupon step up greater than 1%	Replacement language	Call date is effective maturity date
No	N.A.	N.A.	No
Yes	No	Yes	No
Yes	No	No	Yes
Yes	Yes	Yes or No	Yes

N.A. Not applicable
Source: India Ratings Ratings

Ability to Defer Dividend Payments

An unconstrained option to defer or omit payments of coupons for at least five years is a prerequisite for equity recognition. Noncumulative preferred shares would be entitled to up to 100% equity credit, and cumulative preferred shares would receive no more than 50% equity credit.

The cumulative nature of the deferral is more onerous and less equity like than noncumulative. India Ratings is concerned that the build up in principal could make an issuer less able to attract new investors during a period of distress, except by means of a legal restructuring or bankruptcy.

India Ratings does not consider a dividend stopper a constraint to defer or omit coupon payments (*see page 15 for the definition of a dividend stopper*). Also, cumulative interest/coupon deferrals that may only be satisfied using common stock are viewed by India Ratings to be noncumulative and may be entitled to up to 100% equity credit.

Inability to Trigger a Default

Failure to pay a coupon or redeem at a stated redemption date is not a default. The only remedies available to an investor are limited to blocking payment of common distributions or

dividends and/or appointment of director seats.

Exceptions to 100% Equity Credit

Equity credit may not be applied when a deferral or non payment of principal or dividend, when due, triggers an event that India Ratings would view as sufficiently onerous to create an incentive for the issuer to redeem the security. This may include the following:

- Common shareholders lose all voting control.
- Mandatory conversion to common shares that would excessively dilute the exiting shareholders.

REITs Sector

India Ratings views perpetual noncumulative preferred and preference shares, with or without optional call provisions, as equity. The rationale for this treatment is that the noncumulative nature of the preferred stock dividend will not impede the payment of common dividends to maintain REIT status. However, the treatment of cumulative preferred or preference shares differs, depending on the type of credit ratio.

Risk-Adjusted Capitalization Ratios

India Ratings will add 50% of the principal of cumulative perpetual preferred or preference share to debt in risk-adjusted capitalization ratios. The rationale is that the seniority of accumulated and unpaid preferred dividends relative to common distributions, combined with a REIT's requirement to pay out 90% of its taxable income in the form of common dividends to maintain REIT status, makes these hybrids debt like. However, India Ratings has observed that certain REITs have deferred their cumulative preferred dividends due to cash flow stress. The issuers likely had net taxable losses and were likely not obligated to make common distributions to maintain REIT status. The ability to defer dividends without triggering default is a source of equity like flexibility.

Financial Leverage Ratios

In contrast, perpetual preferred or preference securities, whether cumulative or noncumulative, will generally be treated as equity in financial leverage ratios, given these securities' inability to trigger a default, combined with a lack of maturity or stated redemption date.

Subordinated Debt Hybrids with Coupon Deferral Features

Corporates and REITs Sectors — 50% Equity Credit

Subordination

The security must be subordinated to all senior creditors. The level of subordination must be consistent both before and upon bankruptcy.

Remaining Term

The securities must have an effective, remaining maturity that is not less than five years in the future. An instrument with a remaining effective maturity of less than five years is not eligible to receive any equity credit.

Call Date Effect on Permanence

A call date will not be deemed an effective maturity date unless it is accompanied with a coupon step up, subject to the criteria discussed below.

A coupon step up less than or equal to India Ratings' threshold rate of 1% will not cause the call date to be deemed an effective maturity date if the instrument's offering documents used replacement language to disclose the issuer's intent to redeem the instrument at its call date with the proceeds of a like instrument or with equity. The table on page 6 illustrates the potential scenarios and their effect on permanence.

India Ratings' step-up threshold is 1%. Where the step-up involves a switch from fixed-to floating-rate, India Ratings will review the effective change in spread to the floating index

relative to the implied spread to the index rate at the inception of the financing and compare this with its threshold step-up level.

An issuer's options to redeem an instrument on the occurrence of certain events that change the accounting, tax, regulatory, legal, or rating agency treatment of this instrument will not have an effect on the effective maturity date.

Ability to Defer Interest Coupon Payments

Debt-based hybrids that allow optional cumulative deferral of coupon payments for at least five years or noncumulative omission of coupon payments for a similar period are eligible for up to 50% equity credit.

Full Discretion to Cancel or Defer Coupons for at Least Five Years

Constraints such as look-back/dividend pusher clauses and parity securities language would negate a security's ability to obtain equity credit.

India Ratings does not consider a dividend stopper a constraint to defer or omit coupon payments *(see page 15 for the definition of a dividend stopper)*.

No Covenants and Limited EODs

Material affirmative or negative covenants, cross-defaults, or cross-acceleration to other capital instruments cause the instrument to be allocated entirely to debt.

EODs that are consistent with the 50% equity and 50% debt treatment include the following:

- Events of bankruptcy and liquidation.
- Failure to redeem the securities after the invalidation of the basic structure.
- Failure to pay amounts due after application of all permitted deferrals.

An example of invalidation would be if a security is structured as a preferred note issued by a special-purpose entity that gains its credit support from its parent company's subordinated guarantee. The invalidation of the underlying subordinated guarantee would render the security's basic structure invalid.

Corporates and REITs Sectors — 100% Equity Credit

A debt-based hybrid would have to replicate all features of noncumulative preferred or preference stock in order to achieve 100% equity credit. The features of such an instrument are similar to those listed earlier for treatment as 50% equity and 50% debt, with the modifications outlined in the following sections.

Subordination

The securities must be subordinated to all senior creditors and senior only to common equity.

Noncumulative Deferrals

A noncumulative deferral hybrid permitting omission of coupons for an unlimited period would be eligible for up to 100% equity credit. Cumulative interest/coupon deferrals that may only be satisfied using common stock are viewed by India Ratings to be noncumulative and may be entitled to up to 100% equity credit.

EODs

Failure to pay amounts due after application of all permitted deferrals may not be an event of default. One way this condition could be met would be by means of the mandatory conversion of the instrument to an equity security in lieu of a payment default, in which case this instrument would be a contingently convertible hybrid.

Exceptions to Equity Credit

An exception would be in the case of a corporation operating in a confidence-sensitive

business, whereby the deferral or omission of dividends or failure to redeem or call an instrument could undermine viability. In this case, India Ratings may view any call date as an effective maturity date and/or apply either 50% equity credit or no equity credit, depending on the situation and as determined by a committee. India Ratings does not expect this to be common in corporates or REITs sectors.

Mandatory Convertible Securities

Corporates and REITs Sectors

IRs in the corporates and REITs sectors are determined by an analysis that focuses on forward projections of the issuer's financial condition and cash flow. Thus, equity credit for hybrids is not the sole means of reflecting the effects of hybrid instruments on capital. Using the financial projection model, India Ratings can model the exercise of mandatory convertible securities or synthetic equity units if these instruments are present in the capital structure. Instruments of this type are used to some extent in the corporates sector but are uncommon in REITs.

100% Equity Credit

Conversion or Exercise

Conversion or exercise has been established at a predetermined date and does not hinge on a trigger event.

Resulting Instrument

Instruments must convert to common equity, preferred or preference shares, or a hybrid instrument that would receive 100% equity credit under this criteria report.

Conversion Date

Instruments subordinated to all senior creditors must convert within three years of issuance or have remaining tenure of three years.

Exchange Price or Ratio Fixed

The conversion rate or ratio is fixed at issuance or has limited flexibility within a predetermined band.

An issuer should have authorization or capacity to issue the required number of shares to complete any conversion. Equity credit may be reduced to 50% or to zero if India Ratings has concerns that the exchange terms might create significant incentives to take actions that would weaken an issuer's credit quality in order to avoid excessive dilution (e.g. securities repurchase or asset sales).

Full Discretion to Cancel or Defer Coupons for the Remaining Life of the Instrument

Features such as look-back/dividend pusher clauses and parity securities language would negate a security's ability to obtain any equity credit.

India Ratings does not consider a dividend stopper a constraint to defer or omit coupon payments *(see page 15 for the definition of a dividend stopper)*.

Remedies for Any Event Defaults Are Limited to an Accelerated Conversion

EODs should only trigger an accelerated conversion. The only permitted exception is an event of default triggered by bankruptcy or liquidation. Under this event, remedies do not need to be limited to an accelerated conversion.

50% Equity Credit

The following features modify the list of requirements above for mandatory convertible securities to achieve 50% equity credit.

Resulting Instrument

The instrument must convert to common equity, preferred or preference shares, or a hybrid

instrument that would receive at least 50% equity credit under these criteria to achieve equity credit.

Conversion Date

Conversion must take place within five years of issuance if the instrument is subordinated to all senior creditors. Conversion must take place within one year if the instrument is a senior obligation.

Exceptions

Such securities may be treated as 100% debt if India Ratings has material concerns about the near-term viability of an entity and there is no automatic conversion to the resulting instrument upon the issuer's bankruptcy.

Synthetic Units

Synthetic equity units are offerings that combine a fixed-income instrument such as a subordinated hybrid note, a senior note, or more rarely, preferred or preference shares with a forward purchase obligation to purchase equity or similar securities at a known exercise price, so as to simulate the features of a mandatory convertible instrument. The fixed-income instrument serves as collateral for the investor's commitment to the stock purchase agreement.

India Ratings will treat the synthetic units according to the equity credit justified by the terms of the fixed-income instrument based on the criteria discussed earlier for hybrid and preferred securities.

More commonly, the instrument is a junior subordinated debt instrument with a coupon deferral option, which may be allocated 50% to equity. No equity credit is available (100% debt treatment) if the fixed-income instrument is a senior note.

India Ratings will model the exercise of the forward stock purchase commitment on the exercise date in accordance with the terms of the transaction in forward financial projections, regardless of the equity credit allocated to the fixed-income instrument used in the synthetic unit.

New equity is contributed upon exercise of the stock purchase agreement, which is reflected as common equity both in the issuer's financial statements and in India Ratings' equity credit analysis. India Ratings will evaluate the fixed-income instrument's eligibility for equity credit if the instrument remains outstanding after the exercise date of the equity purchase agreement.

No Equity Credit

All instruments that do not fall into the categories above will be treated as 100% debt in ratio calculations.

Optional Convertible Securities

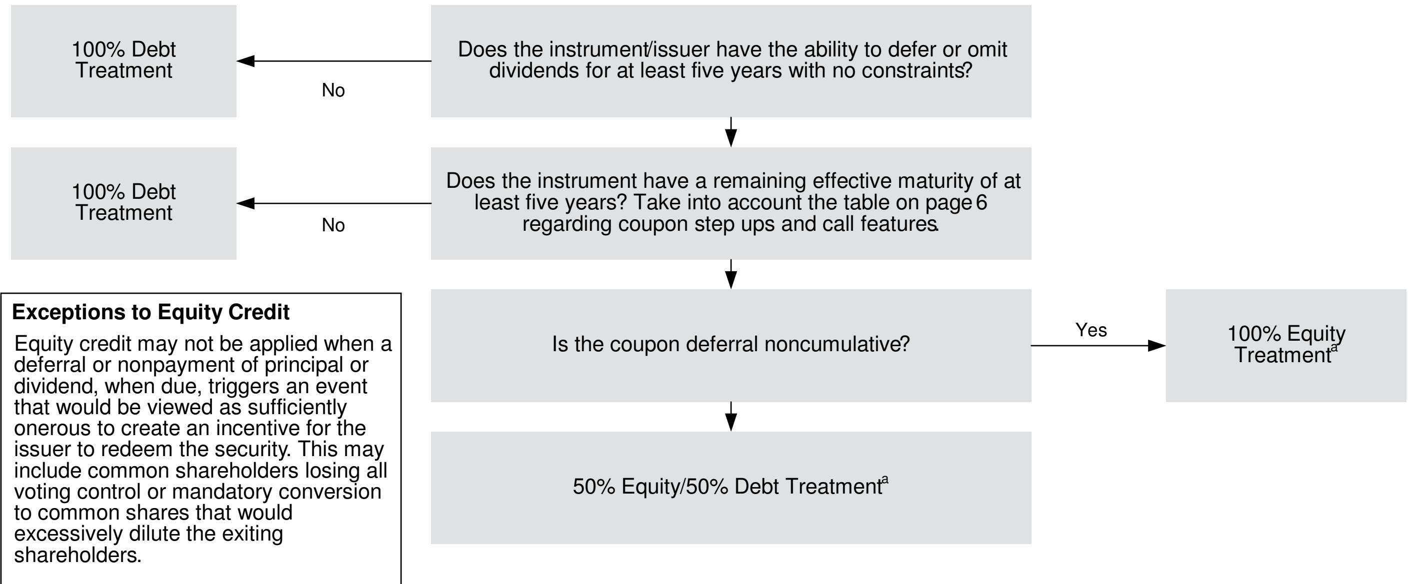
These instruments will be treated as debt in all cases, unless the instrument has other features that would allow it to fit into one of the categories listed above. This reflects India Ratings' continued view that optional conversion cannot be relied upon during stressful circumstances, and in many cases, conversion would be viewed as unlikely. If a portion of the principal of optional convertible securities is classified as equity in the issuer's balance sheet, India Ratings will reduce equity and allocate the full value of the instrument as debt.

Appendix A

The following three decision trees are intended to help readers and users evaluate instruments using the criteria outlined in this report.

Figure 3

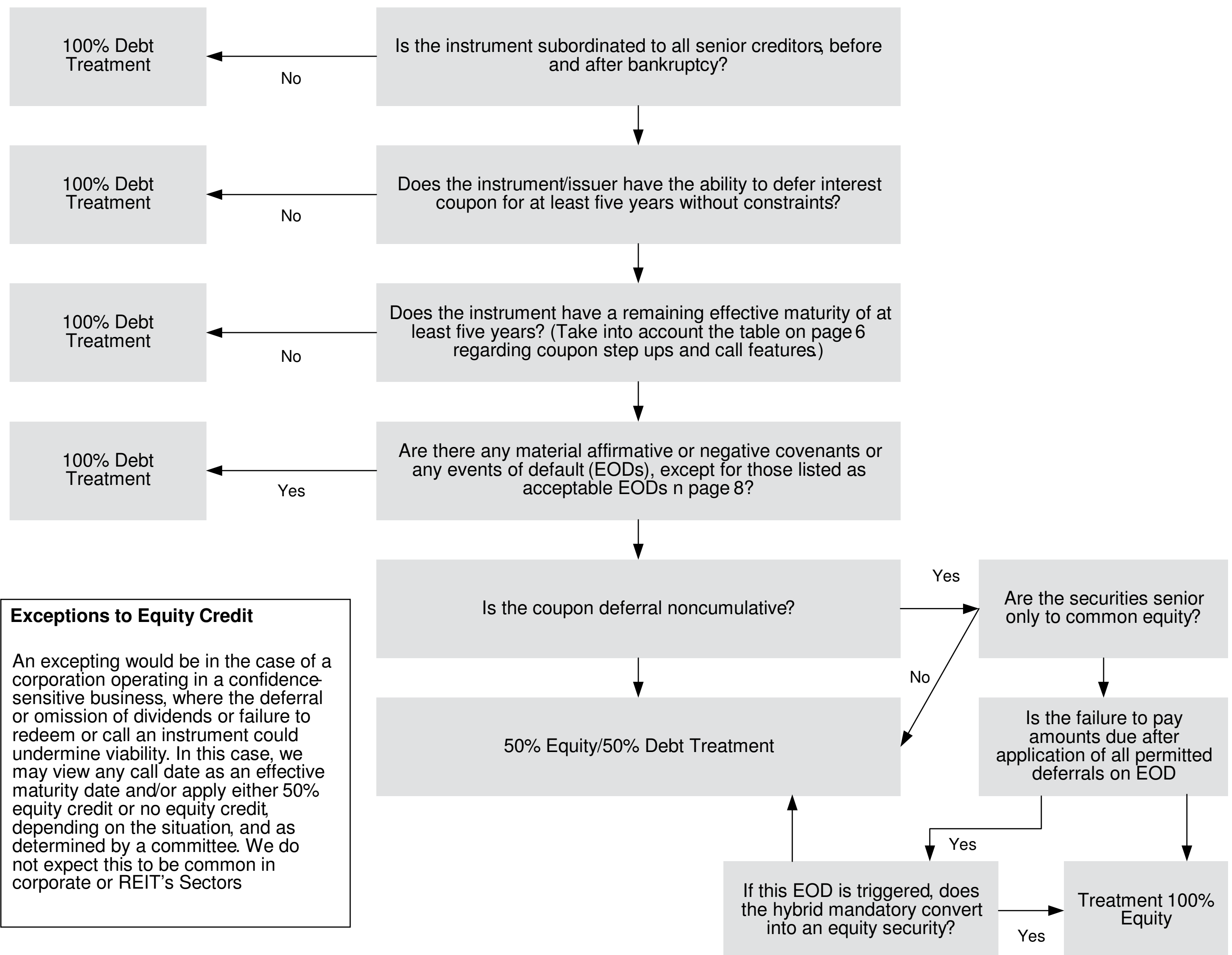
Decision Tree for Corporate and REIT Preferred or Preference Shares



[a] For REIT RACR: 50% equity/50% debt treatment
[b] REIT FLR: 100% equity treatment. RACR – Risk adjusted capita ration. FLR – Financial leverage ration
Source: India Ratings

Figure 4

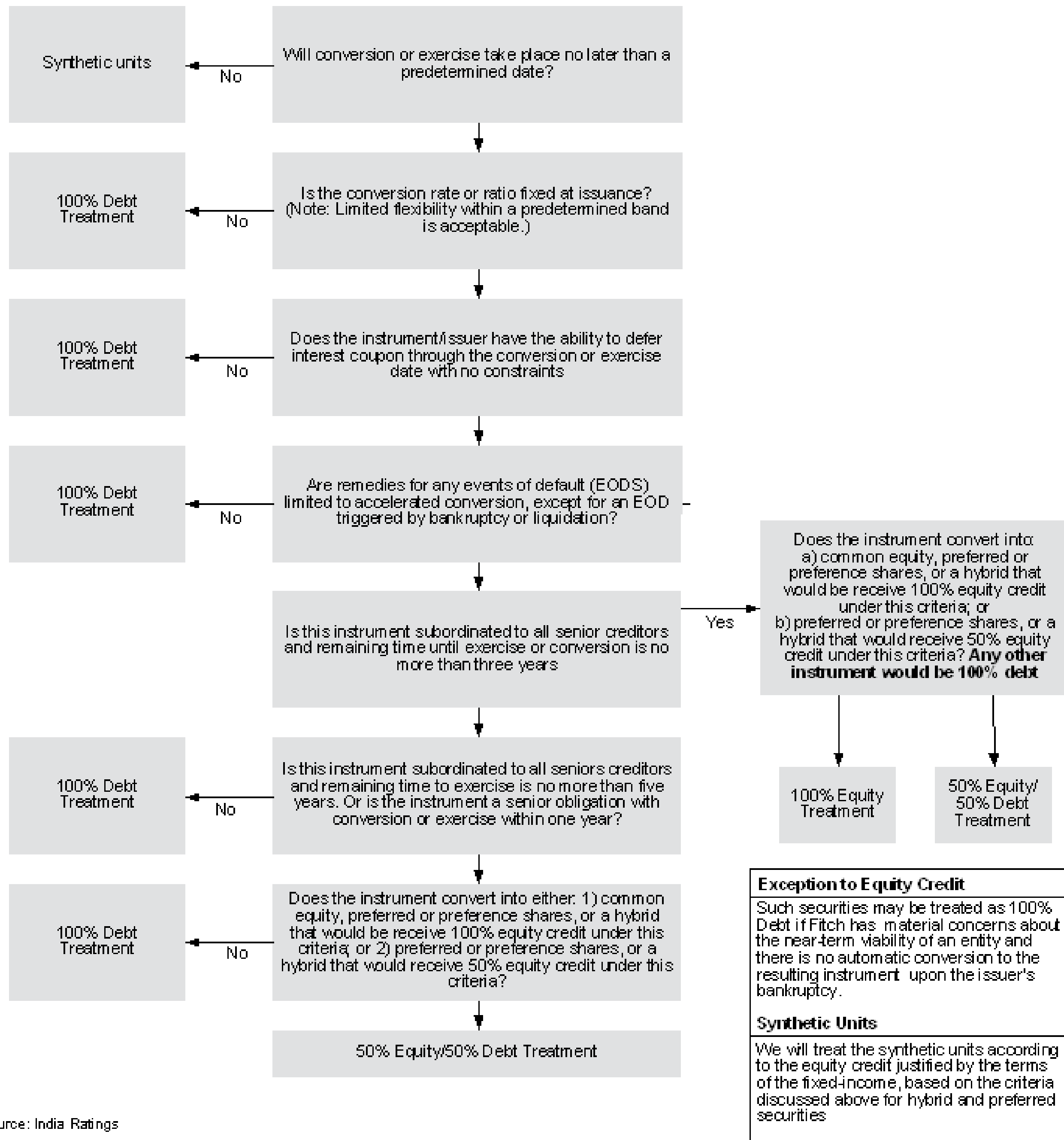
Decision Tree for Corporate and REIT Debt Based Hybrids



Source: India Ratings

Figure 5

Decision Tree For Corporate and REIT Mandatory Convertible Securities



Source: India Ratings

Appendix B — Glossary of Terms

Constraints on Deferral: Hybrid instruments may include terms that limit or constrain the issuer's right to exercise the option to defer coupon payments. The existence of such constraints will result in an instrument being treated as 100% debt. Constraints include limitations on the deferral period; look-back provisions, also known as dividend pushers (*see below*); provisions requiring the issuer to attempt to issue equity securities in the market; and use the proceeds to pay the deferred or omitted coupons (alternative settlement mechanism). India Ratings does not consider a dividend stopper a constraint to defer or omit coupon payments.

Dividend Stopper: Refers to a clause in the security agreement that if an issuer omits or defers a distribution to hybrid or preferred holders, the issuer is barred from paying distributions or dividends on common shares or more junior classes of capital securities until it resumes or comes current on the hybrid payments.

Dividend Pusher: Another term for a look-back provision. (See *below.)*

Effective Maturity: Represents India Ratings' opinion as to the most likely length of time the instrument or equivalent replacement will remain within the issuer's capital structure. Effective maturity is driven by a number of factors, including the final scheduled maturity, if any; call options and related incentives to call; and replacement language, including replacement capital covenants (*see below*).

Look-Back Provision: The most common form of deferral constraint is the look-back provision, sometimes referred to as a dividend or coupon pusher. Under a look-back provision, the issuer cannot take advantage of its option to defer its payment obligation to the investors of the hybrid security if a specific reference event (or events) has occurred within a certain time prior to the hybrid payment date.

The most common reference events are the declaration or payment of a dividend to holders of common equity, share repurchases, or any other form of distribution to common shareholders. In some cases, the reference event may include coupon payments on any instruments that are at a parity with or junior to the hybrid instrument in question, rather than just ordinary share capital. A provision of this sort can effectively eliminate the issuer's ability to defer. Such provisions often require prospective planning on management's part to enact a deferral, which is inconsistent with having flexibility to defer or omit the payment on the hybrid instrument. Look-back provisions are sometimes called dividend pushers, since the occurrence of the reference event results in a fixed obligation to pay the hybrid coupon on the required date, eliminating the opportunity for deferral.

Replacement Language (or Replacement Intention): An intentional commitment or legally binding covenant that informs investors of an issuer's intent and commitment not to redeem the hybrid security at the hybrid's optional call date unless the instrument is redeemed using the proceeds of an equally or more equity like instrument. Clear disclosure to investors in the offering materials is adequate, and India Ratings does not require the replacement disclosure to be in the form of a legally binding replacement covenant. India Ratings presumes the date of an issuer's call option, in combination with a coupon step-up, is the effective maturity of the hybrid instrument, absent such replacement language (*please refer to "Call Date Effect on Permanence" sections for preferred and preference shares and subordinated debt hybrids*).

Step-Up: A provision for increasing the hybrid's coupon rate at specified times, or upon certain events.

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