# Stage wise modeling perspective

**Stage 1**

Availing of debt

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**Stage 2**

- Increasing count of loan facilities
- Increase loan utilisation levels due to intensifying working capital requirements - Working capital debt utilisation levels at 50-80%
- Increase in total outstanding debt on books
- Increase in total sanctioned limit
- Multiple bank loans
- Increase in charge ratio

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**Stage 3**

- Deteriotating financials for two or more periods:
  - Decline in revenue
  - Decline in operating profits at growing rate
  - Declining interest coverage
  - Increase in debt equity ratio
  - Decline in adjusted TNW (increasing interest in group concerns)
  - Increase in debt to adjusted TNW
  - Increasing inventory of finished goods
  - Increase in creditor days
  - Increase in debtor days
  - (Atleast two of the above happen)
- Appearance of unsecured debt in books
- Multiple collateral
- Working capital debt utilisation levels at 80-100%
- 1st adhoc and TOD instances
- Increase in ratio of (sum of interest debits for month/sum of total credits) in working capital loan account
- 1st instance of cheque bounce due to insufficient funds`

- Decline in total credits in working capital loan accounts and current accounts for three months continuous or more than X% drop in six months

  Or,

  Total credits is lower than average of previous three months for more than 2 continual periods
- 1st instance of cashflow routing
- Pending in non-financial covenants (submission of financial statements, stock statements)
- Non compliance to fillings - GST, MCA, Tax - EPFO delay
- Drop in internal/external rating
- Credit Summation for Current month / Sanctioned Limit < 5% for 50% of the even periods under consideration
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**Stage 4**

- Deteriorating financials:
  - Decline in revenue
  - Decline in operating profits at growing rate
  - Declining interest coverage for 2 periods
  - Increase in debt equity ratio
  - Decline in adjusted TNW
  - Increase in debt to adjusted TNW
  - Increasing inventory of finished goods
  - Increase in creditor days
  - Increase in debtor days
  - Decline in operating cashflow
  - (1. the same financial features show further decline
  - 2. Atleast 4 of the above)
- Decrease in sanctioned limit or drawing power amidst same utilisation levels without any increase in subsequent 6 months
- LC BG facilities fully utilised
- Working capital debt utilisation over 100%
- Increasing adhoc and TOD instances
- High value cheque bounce (more than 2% of sanctioned limit) or High frequency of cheque bounce (more than 2 in a month)
- Increase in interest rate (cost of borrowing)

- Pending in non-financial covenants (submission of financial statements, stock statements) : Increase in ageing
- Continual Non compliance to fillings - GST, MCA, Tax - EPFO delay
- Credit Summation for Current month / Sanctioned Limit < 5% for 50% of the even periods under consideration
- High contingent liabilities to TNW

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**Stage 5**

- 1 dpd ever
- Atleast 3 LC BG devolvement ever
- SMA reporting from other bank
- RFA, CIBIL, Other defaulter list
- Deteriorating financials:
  - Decline in revenue
  - Decline in operating profits at growing rate
  - Declining interest coverage for 2 periods
  - Increase in debt equity ratio
  - Decline in adjusted TNW
  - Increase in debt to adjusted TNW
  - Increasing inventory of finished goods
  - Increase in creditor days
  - Increase in debtor days
  - Negative CFO for 2 periods atleast
  - (1. the same 4 financial features show further decline
  - 2. Losses being recorded)

- Request placed for restructuring
- Increase in % of receivables greater than 6 months

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**Stage 6 (getting worse)**

- Increasing DPD for account (0-30 days); classified as SMA 0
- More than one account in DPD or increase in no. of accounts in DPD
- LC BG converted to fund based with increasing outstanding
- SMA reporting from other banks
- RFA, CIBIL, Other defaulter list

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**Stage 7 (getting worse)**

- Increasing DPD for account (60-90 days); classified as SMA 1
- Financials: - Losses - Interest coverage below 1.50 - Negative cashflows period after period

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**Stage 7 (getting better)**

- DPD declined from 0-30-60 to 0
- 0 DPD maintained for 6 months atleast for continual period
- All TOD/Ad hoc regularised in due date
- Not more than one account in DPD ever (given atleast 3 loan accounts were there)
- NCA/CPLTD increasing
- Interest coverage above 1.50 times