Economy

LOAN RATING

About 50% of rated entities are 'issuer non-cooperating'

Surabhi Mumbai | Updated on May 19, 2021

Borrowers find it difficult to obtain NOC from banks

The number of companies being rated as 'issuer non-cooperating' has risen sharply for all rating agencies with as many as 45-50 per cent of the rated entities falling in this category.

Data shared exclusively with *BusinessLine* by Acuité Ratings and Research show that non-cooperating issuers accounted for about 25 per cent of the rated entities in 2017-18, rising to 42 per cent by 2019-20.

Suman Chowdhury, Chief Analytical Officer, Acuité Ratings and Research, said, “The average industry non-cooperative clients on a gross basis was 42 per cent of the rated universe as on March 31, 2020 and we estimate it to have risen to about 45 per cent by March 31, 2021.” According to him, almost all such cases pertain to bank loan ratings.

“Some banks do not insist on continuity of the ratings for smaller exposures. There are concerns on potential rating action in clients which leads to non-cooperation or delays in submitting necessary information,” he said.

Sachin Gupta, Chief Rating Officer, CARE Ratings, said about 50 per cent of the rated entities would be in the category of issuer non-cooperating (INC).

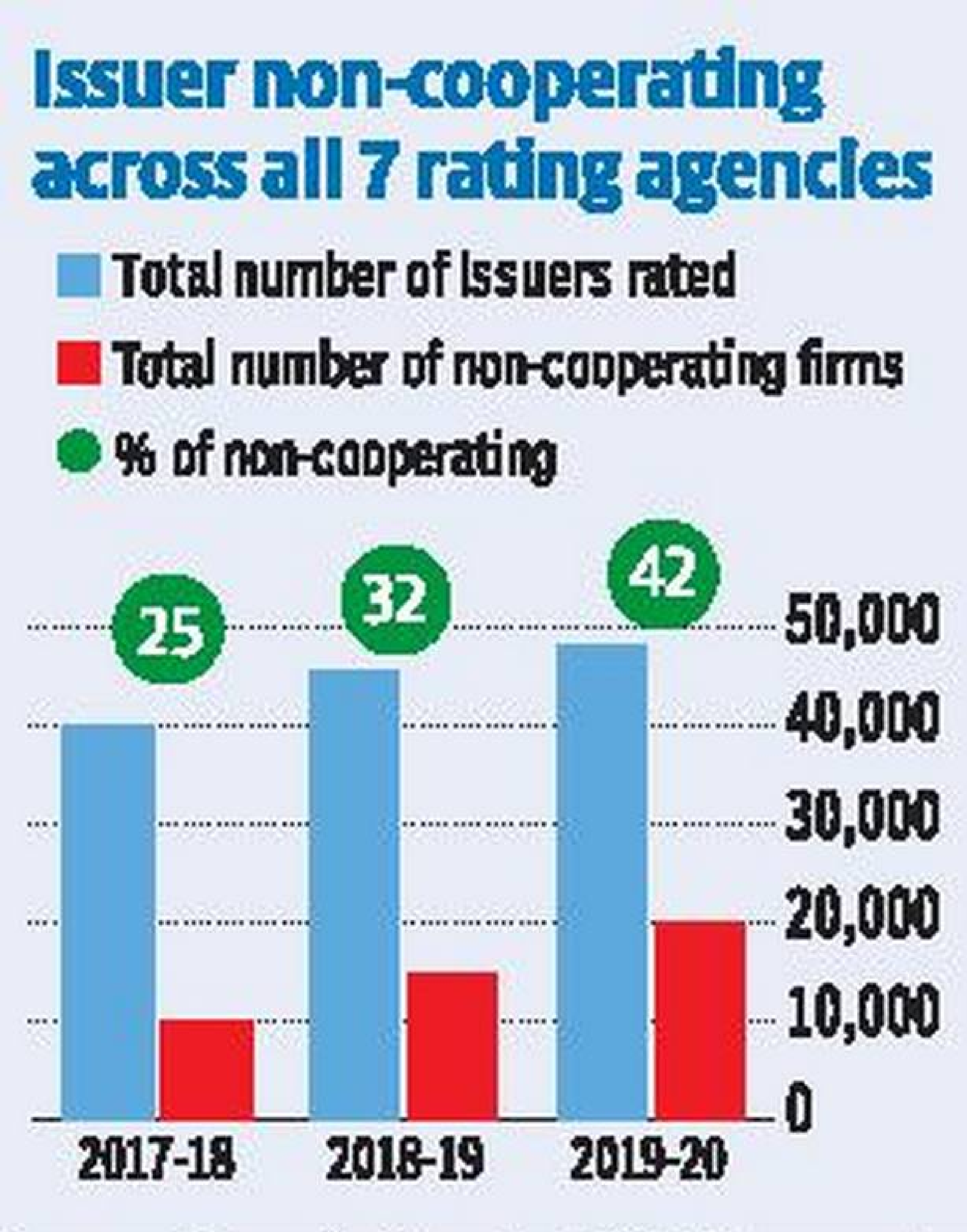
Reason behind the rise

“The reason for the increase in INC category across the industry is that often borrowers find it difficult to obtain NOC from banks. Furnishing NOC to withdraw ratings ranks low on the bankers’ priority. Meanwhile, the borrower may choose to go to another rating agency or not want to get rated and continue to not share information,” he said.

As per SEBI guidelines, a credit rating agency can withdraw ratings only after the debt is fully repaid. In case of bank facilities, the bankers give an NOC to withdraw the rating.

The aspect of repayment becomes challenging in case of facilities like cash credit where there is no defined maturity period, Gupta noted. Meanwhile, rating agencies continue to rate these firms based on publicly available data but most of them say it is a challenge. There has also been no further movement on a proposal by rating agencies to withdraw ratings of such non-co-operating companies.

"Maintaining the increasing portfolio of non-cooperative clients is a challenge for the credit rating agencies as very limited information is available in public domain on these entities which are largely unlisted or even partnership firms and proprietorships," Chowdhary noted, adding that a high proportion of non-cooperative client ratings can also pose a risk for banks as the application of the appropriate risk weight for these exposures becomes difficult in the absence of timely rating reviews.



Source: Compiled by Acuité Ratings and Research from public domain

Published on May 18, 2021