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'Credibility of Credit Rating is a Must'

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Rating companies across the world are reassessing business models to restore their credibility that may have dented after the subprime mess in 2008. However, firms operating in this space in India are relatively more robust as the country was by and large insulated from the global financial tsunami. India has always been more conservative when it comes to rating of structured products that created problems in the past, says D R Dogra, MD & CEO at Credit Analysis & Research Ltd, a firm engaged in rating corporate equity and debt instruments.

"There is a lot to learn from any crisis as it helps us re-evaluate our systems and processes. Following the global financial meltdown, rating agencies globally have tended to be a bit more stringent with their ratings and at the sovereign level we have seen ratings lowered for some countries".

So, how does he perceive credit rating companies in India? Has CARE become more stringent in its rating system? "We have always been stringent with ratings as we believe that in our business the biggest differentiating factor is credibility. The market is fast expanding and with growing competition, any agency has to ensure that the industry views the rating as being credible. Some may say that the Indian agencies have been a bit conservative, but to my mind, that is better than being extravagant. The fact that we have a multi-stage rating process — starting from the analyst to the ratings head to the internal ratings committee to the external rating committee — provides the required filters to keep the system unbiased," says Dogra.

The firm's rating teams have distinct sector heads with expertise in their respective domains who oversee their own groups. Besides, it also has a rigorous quality control team that reviews in depth all rating proposals and acts as an independent filter in the rating process. Further, the criteria development team continuously reviews the methodologies and processes. "The basic idea is to ensure that the rating systems are ever evolving and synchronous with the developments taking place around us," he says.

Credit rating agencies in the country have performed quite creditably over the years and the regulation too has been proactive all through. "We have also been able to bring new products to the table and added value to investors and helped in decision-making. Besides, our default studies also show that we have done well even during the crisis years. But, now we are definitely more alert to the developments taking place around us and are continuously monitoring the enterprises that we rate to pick up early warning signals."

What are the credit rating companies doing in the wake of several scams, including the 2G spectrum scandal? Dogra says all internal irregularities have the potential to affect credit ratings of the concerned companies. "The rating agencies are following these developments and are re-assessing their options while evaluating any of these companies in the surveillance process. We do evaluate how the company's prospects may be affected by different scenarios emerging from such developments," he says.

CARE plans to go public by the end of next year to give an exit route to its existing investors. It is reportedly looking to raise over ₹500 crore, offloading at least a 25% stake. Currently, the company has no foreign shareholding. IDBI Bank, with an over 26% stake, is the largest shareholder in the rating firm. Canara Bank holds a 23.67% stake in the company, while SBI has a 9.97% equity stake. Other shareholders in CARE are Federal Bank, IL&FS and ING Vysya Bank. "The basic idea of the IPO is to unlock value and hence the divestment would be of the shareholders to the general public," says Dogra, declining to share details.

Since the second half of last year, a host of private equity firms have invested in CARE through secondary sales from its previous shareholders. While Milestone Religare Investment Advisors acquired about 5% stake in CARE for around ₹75 crore in August 2010, Aditya Birla Private Equity and Bajaj Holdings & Investment picked up about 10% stake in the rating agency for about ₹150 crore in September.

Industry trackers say the PE investors are unlikely to exit during the proposed IPO. The firm is reportedly valued at ₹2,000 crore, that makes it the second most valued financial ratings firm. Standard & Poor-backed Crisil has a market cap of ₹4,940 crore, while Moody's-backed ICRA has a market cap of ₹1,046 crore. As per the firm's website, CARE Ratings has completed over 8,488 rating assignments having aggregate value of about ₹26,60,900 crore (as on September 30, 2010). It has seven offices across the country located in Mumbai, Delhi, Kolkata, Chennai, Hyderabad, Bangalore and Ahmedabad. The firm's revenue currently stands at around ₹170 crore.