THE ECONOMIC TIMES

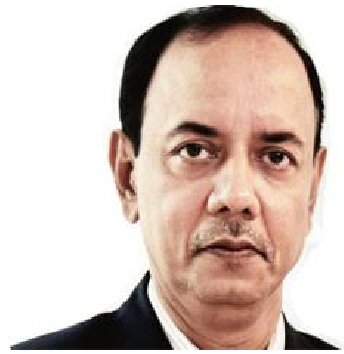
Disappointed with the international ratings given to India: Rajesh Mokashi, CARE Ratings

By ET Now | Updated: Nov 02, 2016, 02.22 PM IST

Post a Comment

*In a chat with ET Now, **Rajesh Mokashi,** MD & CEO, **CARE Ratings,** says relative to other economies, India stands out as a much stronger economy.*

Edited excerpts



"The new RBI regulations and the increasing shift towards raising money through bonds is a reality"

Tell us about the stricter guidelines from the Securities & Exchanges Board of India (Sebi). What is your take on these and especially on the non-cooperative issuer instruments?

These guidelines are basically looking at enhancing transparency, increasing the standards as such and improving the ease of understanding of ratings by the users as such. These are the three objectives of these guidelines and they will go a long way in improving the standards and improving transparency as we go forward.

Various aspects of the business or the processes have been addressed by Sebi and it is a commendable job. They have gone in depth of the whole subject and understood it very well. Things like rating criteria, accountability of rating analysts, standardisation of press release functioning and evaluation rating committees have been tackled and the ticklish issue of clients who are not cooperating with the rating agencies has been addressed by Sebi.

Related

- **Credit outlook easing, do not see sharp rise in NPAs**

According to the new regulation, one needs to continue the surveillance of the review of the ratings based on public information and continue it over the life of the instrument. Sebi has maintained a status quo vis-à-vis their earlier policy on this subject. But here again there are going to be practical challenges because rating industry has to deal with listed companies, non-listed companies and very tiny companies.

I want you to come in on the flashes that are on your screen and not from a perspective of what S&P has to say on India but the fact that rating agencies by and large are maintaining that stable outlook. What is your company's view as far as the India ratings go and as far as a few critical aspects like a) the external position on India as of now and b), the kind of things that the government will need to do in order to ring fence a highly troubled PSU banking sector?

As much as we see the international ratings commenting on India, somewhere there has always been this feeling that we have been highly underrated by the international rating agencies and somewhere there is a scope for improving the rating given the current fiscal and macroeconomic outlook for the Indian economy.

If you see the relative strength of India vis-à-vis other economies, India stands out as a much stronger economy. So, I am a bit disappointed with the international ratings given to India as such and given the kind of inflation rate, the current account deficit, the kind of reserves that we have, the GDP growth rate, the general state of the economy etc, there would always have been a case for a better rating than what is currently being handed over to India by the international rating agencies.

Coming to the banking system as such, on one side we have gone through a very strenuous, stressful NPA cycle and on the other hand we have this capital constraints coming in. But when a stressful cycle comes in at one go, there is limited chance for resolution of assets, all of this cannot happen at the same time and obviously you need time to get the assets resolved.

So obviously the RBI and the other regulators of the Government of India have constantly engaged the banks and other constituents through various mechanisms of resolving assets -- ARCs and other tools like CDR or S4A and so many other initiatives.

These are all working and it is a little simplistic to expect instantaneous results on resolution of such issues. But one thing is very clear that the regulators and other constituents are keen that these resolutions take place.

We, as a rating agency, do get enquiries or clients coming to us with a refinancing request to lengthen the maturity, with restructuring requests and sale of assets also are beginning to happen. A large oil company has a change of ownership coming in. so some of these things are just beginning to happen. You need to address the issue from both angles; one is resolution and on the other hand capital requirements. We are aware that the Government of India is firmly behind the PSU banks and that should be a comforting factor.

Your results are due in the next two or three days so I would not want you to comment on specifics. With a number of corporates raising money via the bond markets, and RBI is doing all it can to increase the corporate bond market as well. Does this mean a large number of issuances over the course of the next 12 to 24 months with the economy improving and therefore would it mean significantly higher business on a low base for rating agencies by and large?

Whether it translates into business or not is something that we will have to wait and see but the reality is that the new RBI regulations and the increasing shift towards raising money through bonds is a reality . Even before the changes take place, we find that the change in interest rates or reduction of interest rates has attracted lot of corporates who are willing to shift from the loan market to the bond market and that could mean a 100 to 200 bps saving in the interest cost which is very important for them. The economics of the whole transformation is driving borrowers to the bond market. The RBI guidelines also say that by 2017 or 2019 , eventually, the intent to have the exposure of large corporate to banking system reduce to avoid concentration of risk and this large corporates will be shifting to the bond market over a period of time. I think today the interest rates are a big driver and we are always seeing signs of corporates shifting to the bond market and in turn then approaching rating agencies for ratings. But please understand that today even a loan is rated by rating agencies as well as bond as rating. If you do not rate a loan you rate a bond that remains the either of the cases.