THE ECONOMIC TIMES

Economy is going to pick up in the second half: Rajesh Mokashi, CARE Ratings

BY ET NOW | UPDATED: OCT 03, 2017, 02.06 PM IST

*Talking to ET Now, **Rajesh Mokashi** , MD & CEO, **CARE Ratings** , says there is already a huge uptick in the bond markets and substantial substitution of bank finance with bank bond markets, NCDs and capital market instruments, even commercial paper has become an important source of issuance.*

Edited excerpts:

The pickup is all round, infrastructure, financial sector ratings and general large corporate growth, all these augur well for the rating companies like CARE.

We believe business is shaping up well. Many triggers are seen for growth uptick. There is the anticipated uptick in the corporate bond market, improving macroeconomic outlook and host of initiatives coming in from the government. How do you see the quantum of the business increasing in CARE on the back of all these and also the latest being the default norms that Sebi is addressing?

We have always said that post the mega reforms which are underway in India, there could be some transitioning impact on the economy and which could lead to a bit of slowdown but eventually things will recover and as we have already seen a huge uptick in the bond markets and substantial substitution of bank finance with bank bond markets, NCDs and capital market instruments, even commercial paper has become an important source of issuance.

Particularly because the bond market coupon rates are much lower than the bank cost of capital, there is increasing incentive for larger, stronger corporation shift to the bond market. If we look at the kind of aggregate kind of credit offtake in the first half including the capital market, it is roughly around 9.5% against a rough growth of around 7.5% for the bank loan credit growth.

This augurs well for the rating companies also. In addition, we have something called dual ratings required for CPs which are applicable from October 1 that augurs well for the rating agencies like CARE.

We have the insolvency and bankruptcy code proceedings which again require two ratings from rating agencies for those cases which are referred to NCLT as well as those which are not yet referred but are in the joint lenders forum and things like that.

All these are additional sources of revenues apart from the normal credit offtake which I said on aggregate basis is around 9.5%. This means that there is a reasonable good uptick taking place in the debt markets. Add to it, the huge recovery in auto sales and all these things eventually mean that the economy is going to pick up in the second half. That again augurs well for the rating companies like CARE.

For FY19, numbers may not be there. How much of your top line and bottom line do you think will come from new businesses in FY19?

We are a pure rating company which is one amongst the two largest rating companies of India. Our business is quite spread out. There is banking sector, finance companies, microfinance. corporate sector, infrastructure and we are present everywhere, even the small companies. We expect it to take place across the board. NBFCs and financial institutions are the biggest provider of income for the rating companies because for them capital or money is raw material and they are the biggest borrowers in the financial system as such. The pickup is all round, infrastructure, financial sector ratings and general large corporate growth, all these augur well for the rating companies like CARE.

New NCLT norms and other new norms which have been announced by SEBI, new business streams which earlier did not coexist?

That is incremental. It is early days for us to say that...we can attribute a number because it all depends on the flow of cases. Just one or two cases have reached out to the rating companies right now but I guess several cases are in the pipeline. In the next few months, December 15th is the deadline for reporting to RBI on these ratings. I guess it will suddenly be a pickup of large volumes taking place but we are not yet in a position to give an exact estimate as to what is the quantum of fees or business that is going to come from this. This is an additional source of income compared to the traditional growth that rating agencies ride on credit offtake and bond market offtake. This is going to be an important number.

A couple of years ago, it was compulsory for companies to get a rating ifthey are going to the IPO market. Now it is not compulsory, it is an option. Anything which could change for the IPO market from a rating agencies standpoint both in terms of business and opportunity?

No, the IPO market has gone through a complete cycle so far. At one point of time, ratings were voluntary, then they became mandatory and then after a long dialogue with several market participants, Sebi decided to make it not mandatory. Anyway that particular piece of business was very small fraction of the rating fees that rating companies used to earn so it was not a very material number as such.

I am not sure whether going forward IPO ratings are going to be mandatory at all because we have gone through the complete cycle and I am not sure whether that will again revive as such.

Do you believe that there is opportunity for a collaboration at this stage given the kind of growth momentum that you are seeking? There are many media reports suggesting that global ratings agency like Fitch are looking to buy a stake in your company, any comments on that?

No, no, I am not aware of anybody wanting to buy stake in that sense. I do not think that is factually correct.