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# Global foray to improve growth prospects

**Raj Kumar Ray** Posted online: Wed Dec 11 2013, 03:23 hrs

The credit rating industry, dominated by a handful of players such as S&P and Moody's globally, is witnessing a major transformation after the US and EU authorities came down heavily on some of them post the Lehman crisis, when many 'AAA' rated institutions failed. Amid a tumultuous period, Credit Analysis & Research (Care) has drawn up ambitious global expansion plans through a joint venture that also comprise Brazil's SR Rating, GCR of South Africa, Marc of Malaysia and CPR Ratings of Portugal. ARC Ratings Europe, the joint venture, will launch its European operations next month and gradually foray into the US as well. Care Ratings CEO and managing director, DR Dogra, told Raj Kumar Ray that the venture will target EMEs as the economic balance is shifting from developed to developing nations. Excerpts:

After the Lehman crisis, ratings agencies have come under regulatory scanner globally as 'AAA' rated firms and banks started defaulting. Has this affected Indian rating agencies such as Care as well?

The rating industry in India has not really been affected by the developments in the West, which can be partly explained by the existence of strong regulation in this business from both Sebi and RBI. Therefore, the Indian credit rating industry has performed well with robust credit default ratios (CDRs).

However, admittedly when things went amiss in the West, it was in the area of structured products such as CDOs and ABS. And these products were not of the same importance in India, where regulation has been cautious when it comes to introduction of such exotic derivative products. Further, sovereign ratings are not assigned by any rating agency in India, where business is more towards conventional debt and bank loan instruments. But yes, the crisis has definitely made the regulators more alert and rating agencies conscious of these possibilities when conducting business with several firewalls being erected by Sebi.

Regulators are tightening the rules on risk assessment. RBI has been urging banks to go for external credit assessment as per Basel-II norms. Though banks have their internal rating-based approach to assess borrowers, 99% of them have now made it compulsory for getting external credit ratings even for loans of R5 crore. SBI has openly said it will go by ratings to decides on lending rates — higher the rating, lower the rate.

Care has recently forged a joint venture with counterparts in EMEs. What's the bigger plan?

Global rating agencies and their Indian subsidiaries always have an edge. Whenever an Indian company gets a global rating for their debt instruments, they are encouraged to get a local rating from the subsidiary of the global rating firm. Even for multinational corporations, this was the trend. The absence of a global presence was certainly coming in the way of our growth prospects.

Still, in terms of turnover, Care is number two in India after Crisil even though we came into the arena after six years in 1993.

We were planning a global presence for quite some time but it would not have been possible going solo. Looking at the potential of EMEs and the extent of investment flows into these markets, we decided therefore to forge tie-ups with our counterparts in EMEs so that we could mutually leverage opportunities across the globe to build a strong foundation.

We have now tied up with SR Ratings of Brazil, GCR of South Africa and Marc of Malaysia. All four agencies invested $0.5 million in the holding company ARC Ratings, incorporated in Singapore. We have also acquired CPR Ratings of Portugal, which has a licence from the European Securities Market Authority and access to 30 European nations. It was a cash-neutral deal — we offered CPR a 20% stake in our holding company for their entire stake. With this deal, we can now make forays into Europe. By January end, we will launch the EU holding company ARC Ratings Europe, based in Lisbon.

We will probably not immediately venture into US but would look at accessing it once we do build a minimum bulk beyond our domestic frontiers.

Going by the economic strength among EMEs, why did you not look at China and Russia?

We are searching for a partner there also. In fact, our model is based on the assumption that maximum business will come from EMEs in the coming years. We are confident that growth will be faster than our peers. Our peers charge somewhere between $50,000 and $60,000 per rating. We can do it at almost half the cost as we can outsource data and expertise from the EMEs partners. We can do hand-holding to companies in EMEs to get the global rating done when they go abroad. The same holds for MNCs, which are looking to increase their presence in EMEs.

Global rating agencies and brokerages have severely scaled down India's growth outlook. What's your outlook about the Indian economy in FY14 and coming years and how is it affecting the rating of companies in general?

You can't deny the fact that there has been a severe economic downturn, resulting in rating downgrades. More than anyone, it's the small and medium enterprises that have been hurt the most. We do, however, expect GDP growth to move towards the 5% mark by year-end, based on the assumption of recovery in both consumption and investment during the second half of the year. This should augur well for the prospects of Indian companies too, which would access the debt and credit markets progressively as the investment climate picks up. While one is not still sure of how the future will pan out for companies, we have seen the ratings ratio is looking to turn more positive this year.

The modified credit ratio (ratio of upgrades plus affirmations to downgrades plus affirmations) improved from 0.89 in Q1 to 1.03 in Q2. A clearer picture, though, will emerge in Q3 when more exercises are completed, as we are also aware of the build-up of NPAs in the banking system.