

'NPAs may move up by 5 per cent'

CARE Ratings is starting afresh after having hit an air pocket earlier this year that saw changes at its helm. These were the fallout of enquiries which revealed interference in the ratings' process. **AJAY MAHAJAN**, managing director and chief executive officer, spoke to **Raghu Mohan** on how he views the business and the regulatory topography ahead. Edited excerpts:

On challenges in the ratings business

We need overall growth in the credit and debt markets. Grabbing market share from others can work only up to a point as there are seven rating agencies. We are also aware of the regulatory challenges ahead. The central bank had spoken of banks doing their own ratings for assigning risk-weights for reckoning capital requirements. This hasn't moved very well as banks have been fire-fighting other challenges. That said, getting ratings from external agencies is still a better option given its independence.

On the positioning of CARE Group going ahead

I would like to position CARE Ratings as the most preferred credit rating agency. And the fact that we have no foreign lineage means we need to reinforce faith and confidence among customers, regulators, government departments and the media. CARE is already much respected in terms of the quality of ratings. The last couple of years have been disruptive, given the crisis in shadow banking; and the sharp downgrades and defaults. Credibility first, and growth next is the paradigm that I believe in.

On how the loan moratorium may play out

I expect non-performing assets (NPAs) to build up and we will know of its extent only after the moratorium ends. It remains to be seen whether restructurings will be permitted across-the-board or only in some critical sectors. At worst, I see NPAs increasing by about five per cent over the current 9-10 per cent from unsecured and partly-secured retail exposures.

On access to Central Repository of Information on Large Credits (CRILC) for rating agencies

While there is the argument that rating agencies should indulge in ex ante studies and not ex post, the reality is that unlike capital market instru-



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ments, where one-day late is construed as default, the same doesn't necessarily work in bilateral bank loan business. This needs to be thought through by all concerned, and there is need for giving access to the CRILC so that delays are transparently shared with the rating agencies

as they carry the responsibility of guiding investors not only with distance-to-default on an ex ante basis, but also in the event of default.

On the 'investor-pays' model for ratings

The general consensus is that the 'issuer-pays' model is the best and most feasible. And these ratings can be tracked on the website. In an 'investor-pays' model, what happens when the initial investor sells the instrument to another investor who may or may not want the rating? The general public cannot see the ratings and hence, we think the answer lies in the current model being made more robust and transparent than a switch to 'investor pays'.



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