INTERVIEW: RAJESH MOKASHI, MD & CEO, CARE

'We are at fag end of cycle, economy is expected to grow faster'

Rating agencies increasingly under the scanner, given the non-performing assets crisis in the banking system. ***Rajesh Mokashi****, MD & CEO of CARE, tells* ***Shakti Patra****, at the current juncture the issuer-paid model makes more sense rather than the revenue model. Edited excerpts:*

How would you rate the performance of rating agencies over the last few years when the NPA crisis has been at its worst?
Rating agencies rate a large number of corporations and make certain prognosis for the future. Their thinking is shaped up by own research as also by view of experts and ratings do take into account information available at a point in time. If there are structural transformations or rapid changes in the economy, prognosis becomes that much challenging. In hindsight looking at the macro-economic cycle that the country went through, rating transitions have increased.

What about the inherent conflict of interest in the ratings business? Wouldn't a different revenue model make the rating agencies more independent and hence better at their work?
Sometime back, there was a Sebi-appointed Krishnan committee which delved into this aspect very closely. After evaluating the pros and cons of each of the models, it reached the conclusion that at this juncture, only the issuer-paid model makes sense, provided that proper checks and balances are put in place.

Where do you think we are in the cycle? Is the worst over or do you think a lot of dirt is yet to come out?
I don't think we will see any large, chunky NPA anymore. It looks like we are at the fag end of the cycle, and the economy is expected to grow faster this year.

How much is CARE dependent on publicly available data for its analysis and how much does it depend on primary research?
There's always some degree of information asymmetry. Our clients are required to share much more information with us than what they do in public domain. Regulations prohibit a company from sharing business plans/projections, but such information is often shared with rating agencies all over the world.

With increasing focus on the personal liability of promoters/directors in case of default by a company, what's your take on the rating of a parent impacting that of its subsidiaries and vice versa?
Rating agencies have, over the years, built criteria as per which they give weightage to parentage. The level of business integration and interdependence, sharing of common name or brand, parent's demonstrated track record of support provided to subsidiary, legal / moral obligations of parent to support a subsidiary etc are factors which influence the parent/subsidiary rating and may result in giving a higher rating than what it deserves to the subsidiary on a standalone basis.

Rating agencies are increasingly dropping their ratings on companies that don't cooperate. Doesn't this leave an investor in the lurch?
In cases of non-cooperation by client, there's not much we can do other than checking directly with the banks or the bond trustees. In many instances, even the banks are not forthcoming with default-related information. The additional suffix of "Issuer Not Co-operating" while assigning these ratings sufficiently cautions the user that the rating so assigned has been only based on best available information, which means that such ratings are obviously inferior compared to normal ratings.