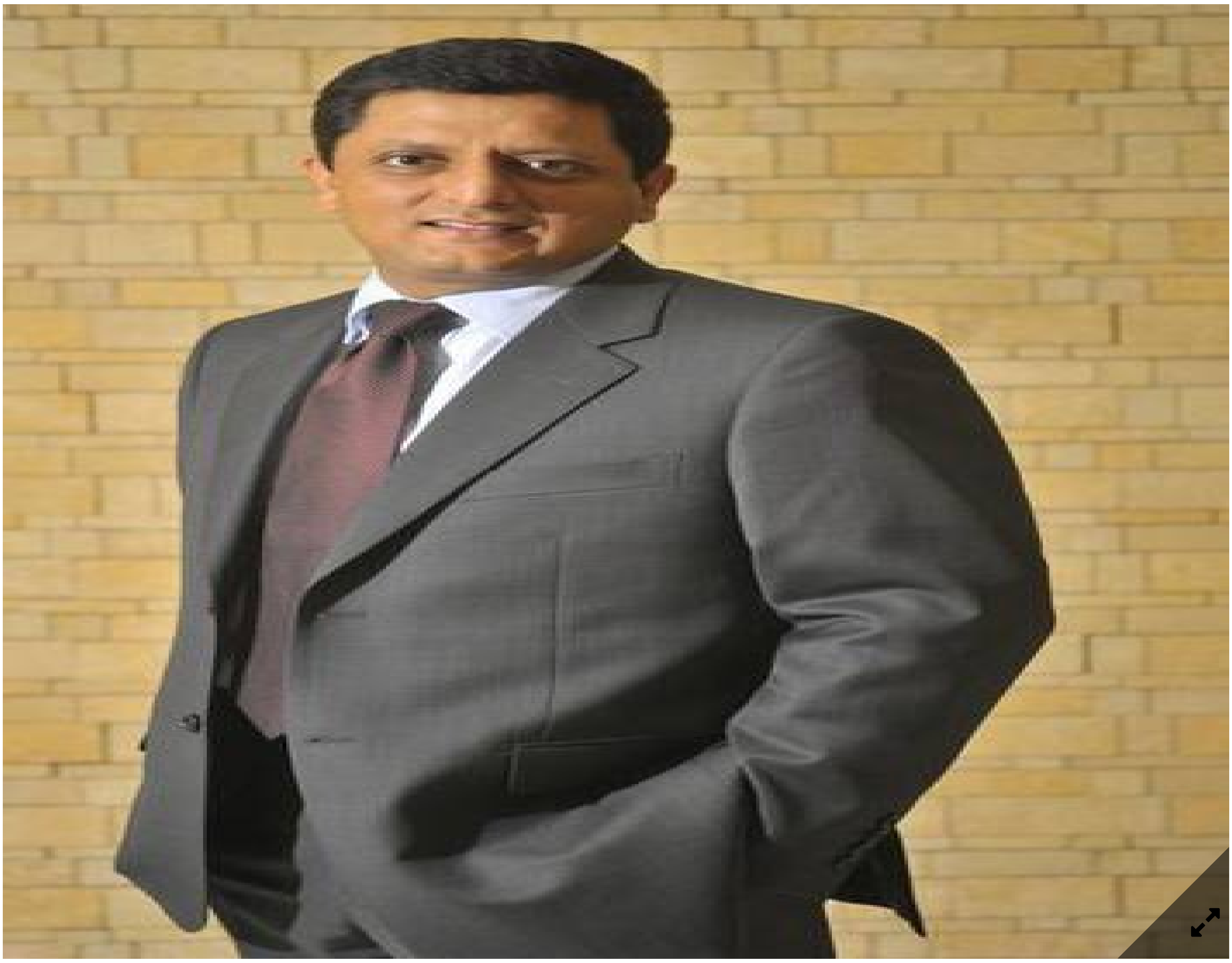
Companies

CARE Ratings will scale up risk solutions and advisory business: Ajay Mahajan

K Ram Kumar Mumbai | Updated on August 31, 2021



The actual health of banking sector can be assessed only after Covid crutches are withdrawn, says MD and CEO

CARE Ratings has embarked on a transformation journey, hiring top talent who bring in the best practices and knowledge to the table, and scaling up risk solutions and advisory business, says the MD and CEO, Ajay Mahajan.

In an interaction with *BusinessLine*, he observed that the asset quality of banks is relatively in better control because of the timely Covid-related measures taken by the Reserve Bank of India and the Government.

Regulatory bite gets sharper for banks and non-banks

Mahajan, however, underscored that eventually, when these crutches (Covid-related measures) are withdrawn, the actual truth of the health of the enterprises will be known. Excerpts:

What structural changes are you making in CARE Ratings so that it can up its game in the competitive credit rating space?

Whenever a transformation is in the works, you have to make it happen across the board – governance, people, culture, products, processes, and technology. It is not easy. A few people from outside have joined and that is good. It is a sort of pollination and cross-pollination of ideas, thought processes and experiences that we now are getting across the table, with the new Chief Rating Officer, Chief Technology Officer, Chief Data Officer coming on board.

In regulated business, we needed people who can operate with the mindset of the top leaders in the business so that they bring the best practices and knowledge to the table. This is all a part of our effort to further strengthen the three pillars of our overall business: credit ratings, risk solutions and advisory services.

Which new non-regulated businesses are you planning to foray into?

Actually, the businesses are already there, but they are on a very small scale today. We offer a lot of risk-related technology solutions for managing the credit, market and operational risks of the domestic BFSI (banking, financial services and insurance) segment as well as global banks. And these solutions sit very contiguous to our core skill, which is basically assessment of credit ratings.

Our strength is that we have domain expertise across multiple sectors. So, how to extend this expertise to customers like big banks, insurance companies, non-banking finance companies, and other financial services providers? This is through the risk solutions business where we sell risk management solutions to the BFSI segment.

The other business that we are spending a lot of time and effort on is the advisory side of the business. This is very hard to build but we are building it.

Can you throw more light on the advisory business?

We believe that a lot of investors outside the country, who invest in India, and a lot of issuers in the country will need more and more of knowledge experts to handhold them.

Acuité Ratings and CARE Ratings come together to set up Association of Indian Rating Agencies

In the case of overseas investors, our experts will tell them as to what they should be doing better in order to manage the risk to their portfolios. And in the case of issuers, what corrective action they should be taking in order to, let us say, issue a green bond in the future or expand in their lines of business or outside their lines of business in the future.

We believe that there is a lot of work we can do in helping customers go to market with new thoughts, ideas and understanding the sectors in detail. We can bring that knowledge to these customers. So, we are building a corporate advisory and an investor advisory business.

Is the advisory business not in conflict with credit ratings business?

No. Not at all, because we will not guide anybody on the ratings. We guide them about the new businesses they are looking to build. We will largely be investor-focussed within the advisory business actually and less issuer-focussed.

Our objective is to really add value to overseas investors, who are unable to travel because of Covid. Some of these overseas investors have portfolio investments of the order of half a billion dollars in India. We provide handholding as an unbiased, third-party entity tracking the Indian economy very closely by nature of its business. So, we bring that knowledge to help offshore investors manage their portfolio better.

How is the credit quality of the entities you rated panning out?

In the second half/H2 (October-March) of FY21, the modified credit ratio (ratio of rating upgrades and reaffirmations to downgrades and reaffirmations) was at 1.03 vis-a-vis 0.92 in H1 (April-September) of FY21. A ratio above unity (one) means that there was a higher number of upgrades and lower number of rating downgrades. This means definitely economic recovery was taking root prior to the second wave of Covid-19.

The MCR for Q1FY22 was at 1.02. India Inc has fortunately not suffered much in Q1 (April-June) FY22 because, I think, the essential services this time were managed very well by the Centre and the States, and the lockdowns were region-specific. So, I think, by and large, the large and medium enterprises have been able to sail through reasonably well and we believe things can get better.

However, the retail, particularly unsecured retail, and smaller end of the small and medium enterprises (SMEs) is where we expect problems to be. We also feel there is possibly some stress in the microfinance portfolio of lenders because, again, unsecured lending is where the hit is likely to come. This is because people have unfortunately not been able to support their livelihood through this period as well. Moreover, the second wave impacted rural India more than the first wave.

We expect that even if there is some stress in some select sectors such as hospitality, tourism, entertainment, retail malls, I think, this time the stress will be shorter and less grievous as compared to the first wave.

What is your assessment of the asset quality of banks?

Profitability of the banking sector has been reasonably good. So, there have been some write-offs also through the (Covid) period. You will see gross non-performing assets (NPAs) and net NPAs to be in relatively better control because of the timely Covid-related measures taken by RBI (for example, one-time restructuring scheme) and the Government (for example, loan guarantee scheme).

The only caveat is that eventually, when these crutches – the support measures – are withdrawn and businesses are back to normal, the actual truth of the health of the enterprises will be known. So, while the measures are very welcome and they have averted significant problems for the banking sector in the short to medium term, we believe that eventually businesses have to become self-sufficient to be able to pay back, post the restructuring and post the guarantees expiring.

Published on August 31, 2021

COMMENTS