

OTHER NEWS OF THE DAY

Credit Rating Firms told to List Cos Hiding Info



RBI has asked credit rating firms to list the companies holding back information used to assess creditworthiness of a borrower, reports

Sugata Ghosh. Of the 40,000 companies rated in India, about half do not cooperate with credit rating agencies. >> 10

'60% CLIENTS NON-COOPERATING' >> 10

MOST UNLISTED ENTITIES REFUSE TO SHARE INFO; EXISTING REGULATIONS DO NOT ALLOW WEEDING OUT SUCH ISSUERS, SAY EXECS

Rating Cos Term 60% Clients Non-Cooperating

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Mumbai: A large number of companies rated by credit rating agencies are classified as non-cooperating as many of them refuse to share information or do not see value in continuing a rating relationship.

Data shared by Prime Database show that of the total 41,271 issuers across seven rating agencies in India, as many as 60% or 24,877 issuers were classified as non-cooperating as of FY23. The total number of issuers stood at 34,646 in FY18 of which the proportion of non-cooperative issuers was at 28%.

Rating agency executives say the trend has been building up as regulations do not allow them to weed out legacy non-cooperating issuers.

"There are many reasons for it like some PSU banks increasing the loan cut-off for mandatory rating requirement from ₹10 crore to ₹50 crore, which means small borrowers no

longer feel a rating is necessary. Borrowers also need a no-objection certificate (NoC) from all lender banks to withdraw the ratings, which is sometimes not forthcoming. Some companies also change their rating agency to look for a better rating or in favour of a cheaper option," said Sachin Gupta, chief rating officer at Care-Edge Ratings.

Credit rating executives say most non-cooperating issuers are unlisted companies for which a lot of public information is not available, making it difficult for agencies to assess their credit profile if they do not share information.

Rating executives say that their hands are tied because regulations do not define any timeline for these ratings to be active from the time issuers stop sharing information.

Some banking regulations also discourage lenders and companies from continuing a credit rating.

"For example, the risk weightage on an unrated loan is 100% but is

Knotty Problem

41,271

No. of issuers in **FY23**, up from **34,646** in **FY18**

24,877

Issuers classified as non-cooperating, or **60%**, up from **28%** in **FY18**



Source: Prime Database

150% for a loan below investment grade. Naturally, borrowers would prefer to not update ratings and enjoy benefits of lower risk weightages," said K Ravichandran, chief rating officer at ICRA.

Risk weight is capital required to be set aside by banks as stipulated by the Reserve Bank of India (RBI), based on the risk perception it has on loans for different sectors.

For example, credit cards carry a high risk weight of 125%, which means banks have to set aside ₹125 as capital for every ₹100 lent on credit cards. Home loan risk weights on the other hand are lower with mortgages less than ₹30 lakh carrying only a 50% risk weightage.

A large number of legacy ratings where borrowers are non-cooperative have also skewed the balance in favour of inactive ratings.

Pranav Haldea, managing director at Prime Database said a clean-up operation is required to remove unresponsive borrowers.

"For a lot of companies, getting a rating is just a one-time exercise. Many borrowers become non-cooperating due to fear of a downgrade. While it is true that many small companies have disappeared due to Covid, on the whole, there is a massive clean-up required. Having 60% of the rating universe as non-cooperating is not an ideal situation," Haldea said.