

## RATINGS FIRMS COME UNDER SCANNER

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The role of credit rating agencies has come under the scanner in the wake of the Infrastructure Leasing & Financial Services Ltd (IL&FS) imbroglio.

IL&FS and its subsidiaries were rated AAA for their commercial papers as well as debt programmes until just a few months ago. Only after the companies started defaulting, ratings were downgraded one by one to junk.

The rapid downgrades well after it became known that the group was in trouble has raised a question mark on the methodology and processes adopted by the rating agencies in evaluating the companies and their papers. Four leading rating agencies-- ICRA, CARE, India Ratings and Brickwork-- were involved in rating papers and schemes of different IL&FS group entities.

“What are these credit ratings for? How many times can they go wrong? Every time some issue like this comes up, the rating agencies are caught off-guard,” said Ambareesh Baliga, stock analyst.

### Need for strict action

“Ratings are given to provide a clear picture to investors. If they cannot give correct ratings, then why does one need them. Without them, people can do their own investigation and invest accordingly. The ratings given by them may be misleading,” Mr. Baliga added. Shriram Subramanian, founder & MD, InGovern, a proxy advisory firm, said, “It seems the rating agencies had gone by the names of IL&FS’ shareholders while assigning the ratings. They should have looked at the cash flow situation carefully and evaluated individual projects.”

J. N. Gupta, MD, Stakeholder Empowerment Services, another proxy advisory firm, said “everybody is grappling with this issue now. The biggest challenge for credit rating agencies is availability of data.” Rating agency officials, on the condition of anonymity, said it was unfair to solely target them as over the years their ratings had been correct and there was no problem till recently.

“IL&FS is considered a quasi government company and it is in the public good space. The shareholders are reputed and we believed the management that they would mobilise the funds. Non cooperation of the shareholders led to this sudden collapse. The moment one of their SPVs defaulted, downgrades happened and it was only the rating agencies which raised the red flag,” an official said.

“All rating agencies gave the same ratings. All cannot go wrong. Any sudden downgrading could have unnerved the markets. We had to be careful and as and when we realised the situation was grim, we revised the ratings immediately,” the official added.

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