

Rating SMEs not profitable: CARE

'Can't cover costs at current level of pricing'

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Credit Analysis & Research Ltd (CARE), the country's second-largest credit rating agency, feels that rating of small-scale units is a loss-making proposition.

"We are not turning down any rating proposal from small units, but at the current level of pricing, there is no way any rating agency can cover costs," CARE's Deputy Managing Director, Mr D.R. Dogra, told *Business Line*.

Rating agencies typically charge between Rs 50,000 and Rs 2 lakh for rating a small-scale unit that has bank limits of between Rs 10 crore and Rs 20 crore.

At this level of pricing, the only way a rating agency can hope to make profits is if it outsources the rating process, Mr Dogra observed.

Mr Dogra's comments are to be viewed against the backdrop of the huge demand for rating created essentially by Basel-II norms of the RBI.

'Basel-II norms' set out the methodology for measuring the risks a bank faces, and determine how much of own capital a bank needs to bring into its business.

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As of today, all loans above Rs 10 crore will need to be rated. For loans to unrated borrowers or loans given to borrowers who have not been rated as credit-worthy, the lending bank will need to bring in more of its capital.

These stipulations have spawned a huge demand for rating. One estimate says there are at least 50,000 entities waiting to be rated.

It is expected that the RBI would bring down the threshold exposure for rating to Rs 5 crore. When that happens, the demand would be substantially higher, though there is no clear estimate as to how big the market will be.

Given this situation, at least one rating agency, ICRA, has set up a separate company to do SME ratings.

But going by what Mr Dogra says, CARE is clearly not in the game. He said that CARE's charges for rating SMEs would

be commensurate with the costs involved.

BUSINESS IS GROWING

Mr Dogra said that in the nine months ended December 2008, CARE rated 1,040 entities, compared with 778 in the whole of the year 2007-08. Business is growing. So is turnover. Mr Dogra expects turnover to go up 80 per cent in the current year. He did not wish to disclose the company's turnover for last year, given that CARE is closely held. But it is learnt that CARE reported a turnover of Rs 51 crore for 2007-08.

In December 2006, CARE had 75 analysts on its rolls. Today it has 150 and expects to recruit at least another 50 this year, Mr Dogra said.

CARE was promoted by IDBI and Canara Bank, which hold 27 per cent and 24 per cent stake respectively. State Bank of India and three com-

panies of the IL&FS group hold ten per cent each. The rest is held by an assortment of banks and financial institutions.

The other rating agencies, CRISIL and ICRA, have international partners (S&P and Moody's respectively). Asked if not having an international partner was a handicap, Mr Dogra said that no foreign analyst could read an Indian balance sheet like Indian experts. However, he said that when it comes to products such as rating an insurance company's ability to pay claims, structured financial products or mutual funds, foreign partners' expertise might help. But today there is not a big demand for these rating products, he said.

ADVISORY SERVICES

Both CRISIL and ICRA also have consultancy arms, but CARE does not. Asked about this, Mr Dogra said that CARE had an advisory business division, but closed it down after it realised the embedded conflicts of interest between rating and consultancy businesses. He said he did not believe that it is really possible to keep the businesses distanced from each other.