

Assessing Information Adequacy Risk

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Executive Summary

CRISIL's credit ratings on debt obligations represent its opinion on the likelihood of the obligations being repaid in full, and on time. The ratings indicate CRISIL's current opinion on the probability of default on the instruments. It takes into account public and non-public information about the firm to provide a forward-looking assessment of credit quality.

CRISIL believes that investor interest is best served if there is open and transparent information sharing and dialogue between the issuer and CRISIL. This enables CRISIL to incorporate non-public information into its rating decision and also helps it arrive at an independent, forward-looking assessment. CRISIL would like to emphasise that information sharing is not a one-time exercise but is an ongoing and continuous process that is critical to rating surveillance.

Conversely, for issuers who don't share information or engage in interactions with CRISIL, the rating decision is based only on public information, and that, too, only to the extent this information is available to CRISIL. Hence, the rating is based on past performance, lacks a forward-looking flavour, and may not reflect the robustness of ratings that enjoy the benefit of full management cooperation.

It is CRISIL's endeavour to elicit cooperation from issuers for the rating surveillance process to the best possible extent. In this context, CRISIL seeks information required for surveillance on an ongoing basis. If an issuer fails to respond to requests for information, CRISIL categorises the issuer as non-co-operative. This may mean that CRISIL lacks adequate information to rate the issuer, and in such instance, the rating will reflect this information adequacy risk.

Scope

This article details the criteria for arriving at credit ratings for non-cooperative issuers.

Assessment of Information adequacy

The Securities and Exchange Board of India's (SEBI) circular, '*Enhanced standards for credit rating agencies (CRAs)*' issued on November 1, 2016, makes it mandatory for CRAs to continue to rate non co-operative issuers on a best effort basis. To highlight the non-cooperation of issuers, SEBI has insisted that all such ratings will use the suffix 'Issuer not cooperating'.

CRISIL believes that investors, lenders, and all other market participants should exercise due caution when using the rating assigned/reviewed with the suffix 'Issuer not cooperating'. That's because these ratings lack a forward-looking perspective as they are arrived at without any management interaction, and are based on best available, or limited, or dated, information about the firm.

CRISIL believes that for market participants to have sufficient confidence in higher rated credits, ample information about credit risks should be available and incorporated into ratings. In the absence of such information, the confidence of investors and lenders in the credit quality of such issuers wanes. This represents a higher credit risk.

Therefore, non cooperative issuers may be rated in investment grade category with INC status on a case to case basis, on analyzing factors like stability of the cash flows, ability of the entity to service the debt in a timely manner and satisfactory feedback from the banker / lender. Furthermore, such ratings are unlikely to be in high safety category or above. In the absence of reasonable confidence on debt servicing ability, the rating may be downgraded to sub-investment grade.

Furthermore, in line with SEBI circular titled, 'Strengthening of the rating process in respect of 'INC' ratings' dated January 03, 2020 (effective July 01, 2020), the ratings on instruments of issuers who remain non-cooperative for six months , shall necessarily be downgraded to non-investment grade with INC status.

As time passes, on account of prolonged non co-operation, adequacy of information may deteriorate further and the rating may be subjected to further changes.

Conclusion

CRISIL periodically seeks information from issuers for rating exercise. If an issuer fails to respond to requests for information, CRISIL categorises the issuer as non-co-operative. This means that CRISIL lacks adequate information to rate the issuer, and in such instance, the rating reflects this information adequacy risk. With each passing year of non-cooperation, past information becomes dated and will get reflected in the rating.

For accessing the previous published document on 'Framework for Assessing Information Adequacy Risk', kindly refer to the following link:

https://www.crisil.com/content/dam/crisil/criteria_methodology/basics-of-ratings/archive/Framework-for-Assessing-Information-Adequacy-Risk.pdf

About CRISIL Limited

CRISIL is a leading, agile and innovative global analytics company driven by its mission of making markets function better.

It is India's foremost provider of ratings, data, research, analytics and solutions, with a strong track record of growth, culture of innovation and global footprint.

It has delivered independent opinions, actionable insights, and efficient solutions to over 100,000 customers.

It is majority owned by S&P Global Inc, a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

About CRISIL Rating

CRISIL Ratings is part of CRISIL Limited ("CRISIL"). We pioneered the concept of credit rating in India in 1987. CRISIL is registered in India as a credit rating agency with the Securities and Exchange Board of India ("SEBI"). With a tradition of independence, analytical rigour and innovation, CRISIL sets the standards in the credit rating business. We rate the entire range of debt instruments, such as, bank loans, certificates of deposit, commercial paper, non-convertible / convertible / partially convertible bonds and debentures, perpetual bonds, bank hybrid capital instruments, asset-backed and mortgage-backed securities, partial guarantees and other structured debt instruments. We have rated over 24,500 large and mid-scale corporates and financial institutions. CRISIL has also instituted several innovations in India in the rating business, including rating municipal bonds, partially guaranteed instruments and microfinance institutions. We also pioneered a globally unique rating service for Micro, Small and Medium Enterprises (MSMEs) and significantly extended the accessibility to rating services to a wider market. Over 1,10,000 MSMEs have been rated by us.

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