

‘Nearly Rs. 5 Lakh Crores of Outstanding Debt in Indian Market have been Rated by BWR’ Says Vivek Kulkarni, IAS (Retd), Founder MD of Brickwork Ratings.



Brickwork Ratings has rated nearly 10,000 companies across different size and industries.

Brickwork Ratings - a SEBI registered Credit Rating Agency, has also been accredited by RBI and empanelled by NSIC, offers Bank Loan, NCD and SME ratings. Brickwork has presence in Bengaluru, New Delhi, Mumbai, Chennai, Hyderabad, Kolkata, Ahmedabad and Guwahati as well as 70 other cities. Brickwork has rated issues of a large number of banks like State Bank of India, Bank of Baroda, Bank of India, Canara Bank, Corporation Bank, Punjab National Bank, Union Bank of India, Andhra Bank, Vijaya Bank, United Bank of India, etc.

In India, there are 6 active CRAs which are accredited by SEBI and/or recognised by

Reserve Bank of India or National Small Industries Corporation (NSIC) - CRISIL (A Standard & Poor's Company), ICRA, India Ratings & Research, CARE Ratings, BrickWork Ratings, SMERA.

In an interaction with Sujata Sangwan of BWDiSrupt, Vivek Kulkarni, IAS (Retd), Founder MD of Brickwork Ratings, shares his entrepreneurial journey and details about the company.

From a government official to entrepreneur, how has the journey been?

The IAS is one of best service one can experience in his/her lifetime. As an IAS officer you always occupy corner office and forever a CEO. You can only succeed if you are friendly with your junior officers, staff, politicians and people. Being friendly does not mean doing illegal stuff with which we now associate most of our politicians. The IAS also gives great satisfaction of knowing rural India. I had great posts as Municipal Commissioner, Deputy Commissioner, Finance Secretary and IT Secretary and am grateful to Government for giving this opportunity to me.

My journey as an entrepreneur has been quite smooth and I am enjoying what I am doing. I spend most of time in Brickwork Ratings that is now present in 150 locations in India. I spend most time developing courses, doing research and am a Visiting Professor at Indian Institute of Science as well as at Brickwork Finance Academy. My second profession has been as interesting as the first one.

2. How many companies has Brickwork Ratings rated until now?

Brickwork Ratings has rated nearly 10,000 companies across different size and industries. At present, nearly Rs. 5 lakh crores of outstanding debt in Indian market have been rated by BWR.

3. Please elaborate on your rating scale.

- a) All credit rating agencies (CRAs) follow a standard pattern in this. There are short term and long term scales.
- b) Short Term ratings have scales of A1 to A4, with modifiers + and -. Short Term Loans (< 1 year tenor) and market instruments like Commercial Paper have ST ratings.
- c) Long Term scales are from AAA to D, with modifiers + and -, except for AAA and D ratings. BBB- and above ratings are considered 'Investment Grade Ratings' and the rest are 'Non-investment Grade'. D is default rating. Term Loans, NCDs, bonds and Cash Credit facilities extended by Commercial Banks are considered as LT facilities.
- d) Short Term ratings are mapped to long term ratings, and also influenced by short term cash-flow capturing arrangement.

4. SEBI is coming out with few guidelines for credit rating agencies (CRA). How do you see that?

We are glad that SEBI has been putting lot of efforts in bringing up new regulation to enhance standards of CRAs in India. The proposed guidelines are expected to enhance clarity for the CRAs in their process and improve the transparency with additional standardized disclosure norms. We always welcome and support SEBI in its endeavors to bring new reforms in the sector.

5. How do you see the credit rating scenario in India?

I consider the scenario both positive and challenging. It is positive because both investors and lenders, having seen materialization of risks in the current economic environment, would like to take credit decisions based on an external and independent CRA's assessment of the risks. Hence, demand for ratings has increased – even where a rating is not mandatory. For example, we are now seeing Private Investors, Mutual Funds, etc., asking for ratings, in cases where they could have invested in unrated instruments. Many banks are seeking ratings even before they take credit decisions; earlier they would take such decisions, and ask rating only for Basel compliance for Capital Adequacy requirement.

It is challenging for CRAs, as they have to be on their toes to meet the expectations of investors / lenders. Despite competition among CRAs for market share, they need to be fair and objective in assigning the ratings, and not be influenced by commercial considerations. Also, they need to track the rated entities on a continuous and real-time basis, so that if there are developments that affect credit-worthiness of the rated entities, appropriate action is taken in a timely manner and investors alerted. CRAs, in general, do not get authentic information in time, and investors feel they were not cautioned on time.

6. In India startup industry is widening. How can credit rating play a role in this?

If the start-ups raise funds through borrowings, there is a need for rating. Most start-ups today get funded by venture capitalists or private equity investors, as they don't have a track record, and due to their riskiness, need to raise funds from equity-type instruments rather than debt-type instruments.

In India, currently, most of the start-ups are engaged in replacing the traditional intermediaries, and directly connecting the goods or service provider and the customer. Here, entry-level barriers are not great, and hence, the assumptions made while starting the business in terms of supply-demand, quickly change if many more players enter. This is a risk which is difficult to evaluate, and often becomes judgmental. Hence, credit ratings for start-ups are difficult. Few venture capitalists and private equity players do take a rating as third party validation of business projections of the start-up.

7. Recent ratings by Brickwork?

Brickwork rates a variety of clients – Manufacturing Companies, Infrastructure Companies, EPC Contractors, Banks / NBFCs / HFCs, MSME borrowers, and so on. Some of the large companies we have rated belong to the TATA, Reliance (Anil Ambani), Zee, Adani, Lodha Groups, 17 Public and Private Banks, many PSUs, Indiabulls, DHFL, Patanjali Ayurved, etc. All our rating rationales are in public domain, and can be accessed by interested parties by visiting our website.

8. Any major plans in pipeline that you would like to share?

We have our presence across 150 locations and offices in 9 major cities in India. We have been expanding our grading services from last few years and we are planning to add few more new services in grading. We have Brickwork Placement Reporting Services (BPRS) for MBA / Engineering colleges. Recently Brickwork audited the placement reports of the prestigious IIM Ahmedabad (IIMA) for the Final Placements 2016 and Summer Placements 2016 of its various management programmes. We also offer grading services such as hospital grading, real estate grading, NGO and MFI grading among others.

9. How is Brickwork different from other players in the same beat?

Credit Rating is a regulated business, and hence, all CRAs need to maintain certain standards, like rating criteria in public domain, separation of business development and rating teams, high degree of professionalism and integrity, etc. I am sure the Indian rating industry strives to maintain such standards.

Coming to Brickwork, we are an Indian owned entity, having operational freedom to develop our own criteria, models and rating methodologies. It is clear that models developed for US or European markets are not necessarily suitable for India, where a large number of small and medium sized businesses exist, transparency in financial statements is modest, and availability of data in public is limited. It is here, that a good knowledge of local business and environment in which they operate, becomes important.

In Brickwork, almost all our Senior Rating Executives are ex-bankers, with wide range of experience in credit risk assessment, lending, recovery, delinquency management, etc. They bring to table their knowledge and experience, and fill-in gaps which exist in risk evaluation as per rating models.

Secondly, we have decentralized rating teams, and our Analysts operate currently from 7 cities. This helps in getting in touch with the borrowers on regular basis.