# RBI rating rules split local credit agencies

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**MUMBAI:** A new Reserve Bank of India (RBI) rule linking banks' assessment of borrower risk to the past track record of local rating firms has split the credit rating industry down the middle, with smaller players warning it could severely hurt their business.

The guideline, issued in April, and applicable from April 2027, effectively penalises rating agencies whose default rates breach prescribed thresholds for various categories of ratings. This means that if a rating agency's default rates exceed RBI thresholds, lenders will have to treat borrowers rated by it as riskier than their assigned ratings suggest, leading to higher borrowing costs.

For instance, the RBI has set an acceptable default rate of 0.2% to 0.4% for 'BBB'-rated borrowers. If a rating agency's default rate exceeds 0.4%, banks will treat its 'BBB' ratings as 'BB'—one bucket lower. This means banks would need to set aside more capital to cover potential losses, making them either reluctant to lend or more likely to charge higher interest rates.

This means that banks will have to assign a risk weight of 100% for such a borrower ('BBB' becoming 'BB'), for which it would have otherwise assigned 75%, leading to higher capital consumption.

Industry executives said this will be applicable to existing ratings as well as fresh ones.

"This will badly hit our business as companies will not be willing to come to us anymore," said a rating agency executive who spoke on condition of anonymity. "The smaller agencies rate fewer companies and, therefore, even if the same borrower defaults across big and small rating agencies, our default rates will be higher since our denominator is smaller than larger ones."

India has seven rating agencies. These include Acuité Ratings and Research Ltd, Brickwork Ratings India Pvt Ltd, CareEdge Ratings Ltd, Crisil Ratings Ltd, Icra Ltd, India Ratings and Research Pvt Ltd, and Infomerics Valuation and Rating Ltd. Of these, Acuite, Infomerics and Brickwork started operations after 2000.


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"The credit rating industry via its association AIRA (Association of Indian Rating Agencies) has made a submission to RBI seeking clarification on a number of points including what can be included in probability of default calculations, the cohort duration etc. We have not yet received a final response from the RBI," said Manu Sehgal, chief executive officer, Brickwork Ratings.

Sehgal said that based on internal reviews and calculations, Brickwork's default rates are within RBI-prescribed ranges across all borrower cohorts.

"Once we get the final clarity from RBI, that updated data of default rates will be published on the website."

The data shows otherwise. Industry executives said that in order to check the default rates, one needs to look at the one-year transition rates of ratings, averaged for the past five years.

These show how many ratings from a particular category have been downgraded, with the number of ratings moving to the default category acting as a proxy for the levels specified by the RBI. Based on these calculations, all seven rating agencies' 'AAA' and 'AA' ratings meet the RBI benchmarks, meaning borrowers in these categories show default rates within acceptable limits.

However, Acuite, Infomerics, and Brickwork fail to meet A rating of the RBI-prescribed default thresholds.

These three along with India Ratings fail the 'BBB' category, and all fail the 'BB' category.

K. Ravichandran, executive vice-president and chief ratings officer at Icra Ltd, said that the RBI is currently engaging with credit rating agencies on the methodology for computing observed default rates.

"As these discussions are confidential, Icra is not in a position to comment on the specifics," said Ravichandran.

Icra, Ravichandran said, views the proposed framework as a constructive step towards strengthening analytical standards and enhancing differentiation across credit rating agencies.

A spokesperson for CareEdge Ratings said that the performance for the investment-grade category is fully compliant with RBI's benchmark ranges, reinforcing the robustness of its rating framework.

Emails sent to Infomerics and Acuite remained unanswered, while a spokesperson for India Ratings declined to comment. An email sent to the RBI remained unanswered. A spokesperson for Crisil directed *Mint* to a note on its website that said steps that differentiate credit rating agencies by quality are welcome.

At this juncture, the industry is divided between the older agencies that see the RBI rule as a clear differentiator.

Industry executives said that the regulator has already circulated a draft proposal among rating agencies but is yet to make it public.

Under the draft norms, the RBI is in favour of using one-year default rates, averaged over the past four years.

They said that this new guideline will ensure that no rating shopping happens.

Rating shopping refers to the practice of getting rated by multiple agencies but disclosing and using only the favourable ones.