Brickwork Ratings welcomes easing requirement for FPIs, says more steps may be needed

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New Delhi, Aug 23 () Credit rating agency Brickwork welcomed the recent relaxation of requirements for FPIs but said it needs to be watched if that will raise foreign investments in the country as these are primarily driven by interest rates differential among various countries.

In the board meeting on Wednesday, Sebi announced easing of the regulatory framework for foreign portfolio investors (FPIs) and simplified KYC requirements for them and permitted them to carry out off-market transfer of securities.

"Simplification of procedure for FPI is welcome, however, we need to watch if this will materially push up such investments as these are primarily driven by interest rate differential between other well-regulated countries and India with respect to debt instruments and expected earnings in equity investments," said Balkrishna Piparaiya, senior director, Brickwork Ratings.

"With Indian debt yields still being relatively higher compare to other countries, FPI investments may continue to grow and the simplification in procedure may neutralise the impact of recent downward trend in yields," Piparaiya said.

However, owing to trends of downturn in the economy, the returns in equity investments by FPI may not be in line with their expectations and more steps may be needed to attract the same, he added.

Besides, the regulator also decided to amend its regulations for credit rating agencies (CRAs) to ensure that any listed or unlisted entity, before getting rated, gives an explicit consent to obtain from their lenders and other entities full details about their existing and future borrowings as also their repayment and delay or default of any nature and provide the same to the rating agencies.

"When a CRA seeks information from a lender or investor whose specific debt is not rated by the CRA, such sources are generally reluctant to provide details, and this results in the data collected by the CRA incomplete," said MSR Manjunatha, chief ratings officer, Brickwork Ratings.

"If there are guidelines to them to share data with CRAs promptly, particularly regarding delays or defaults, it would be more effective," he added.

The new guidelines by Sebi come amid numerous cases of huge loan defaults by corporates, including in cases such as Infrastructure Leasing and Financial Services Ltd, credit rating agencies have also come under the scanner for failing to flag potential credit risks of the securities and entities rated by them. VHP HRS