Credit Rating Advisory

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Indian debt market was introduced to Credit Appraisals by designated Credit Rating Agencies way back in 1987. However, the importance of ratings and getting rated has heightened post implementation of Basel – II norms by RBI in 2006-07. The Capital Adequacy of Banks is linked to the external credit ratings of their borrowers, as per Basel-II norms. The lower usage of external credit rating in pre-Basel-II era was also due to very nascent stage of India Debt market. Besides, borrowings from Indian banks, which was a major source of funding, were not subjected to external credit rating. Post Basel-II era, the bankers started linking lending and pricing decisions to the credit rating of the borrower. Many banks today have a *"minimum rating"* criteria to accept any new financing proposal. As such, the corporates are increasingly worried about proper evaluation of their credit profile by the Credit Rating Agencies (CRAs), failure in which could adversely affect their cost of borrowings and in worst scenario, their whole capital expenditure program and future growth plans.

Further, with volatile markets and periodic blips in ratings adversely affects lenders resulting in increasing risk weight which they pass on to borrower by increasing its cost of borrowing.

With the emergence of many NBFCs (Non-Banking Finance Corporations), though it is still possible to raise required debt without a rating, the borrower gets affected on the pricing of such loans. Even some of the NBFCs do prefer a highly rated borrower compared to the unrated entity. Besides, not having a rating limits the financing options for the corporate entity.

Having a good and sustainable credit rating basically helps corporates in 3 ways –

1. it opens up the access to the wide range of lenders including banks and financial institutions. Having good rating removes the "being known bias" wherein even smaller entities with good credit standing are sought after by the lenders and can easily tie up for debt for their capital expenditure requirement
2. helps to optimize the cost of the borrowing where the cost of borrowing is inversely related to the credit ratings, and

3. it enhances the brand image of the borrower in the market with more bargaining power with all the stakeholders of the corporate borrower

In today's competitive world, where corporates are struggling for cost reduction of few basis point and project lending becoming more and more stringent, credit ratings have gained a lot of importance with Finance Heads of corporates than a mere regulatory requirement for bank borrowing. Given that the approach of credit evaluation by credit rating agency is more based on probability of default concept rather than collateral or security based as seen in banking appraisal, corporates needs professional credit rating advisors to manage their credit rating on sustainable basis. In the international market, Credit Rating Advisory is a well-known and accepted form. Most of the multinational investment banks do have a dedicated Credit Rating Advisory desks which takes care of all the bond placements for their clients and advise them of likely rating implication on any big corporate actions like Merger & Acquisition, capital expenditure plans etc.

In India, corporates are accepting the role of a Credit Rating Advisor in the overall credit rating management of the company to iron out any data asymmetry and communication gap while handling the rating transaction as this could jeopardize the whole rating exercise. As advance stage of credit rating advisory, corporates are seeking advice on their capex plans, growth plans, funding pattern and other such corporate actions which can have a bearing on rating. As such, during last three years Credit Rating advisory is gaining lot of momentum with the increasing linkages between the lending decisions, pricing of the borrowing and the credit ratings of the company with borrowers clearly seeing the merit of good and sustainable ratings.

XMPUS has been providing Credit Rating Advisory services for over 3 years and has already handled more than 160 rating advisory assignments encompassing total debt of over Rs.50,000 crore. With a success ratio of over 95%, XMPUS has its clients in more than 15 cities and covers over 17 sectors. With the combined experience of over 13 years in the Rating Agency, the promoters of XMPUS has handled rating assignments from almost all the sectors and has worked in Rating Agency in senior positions.

The XMPUS Rating Advisory helps corporates to understand the credit profile in detail and find out the probable rating implications of various corporate actions. With its deep rooted understanding of various sectors, Team XMPUS provides hands-on rating advice to the companies at all stages of the ratings process. This helps companies to strategies the rating assignments. Besides, XMPUS helps companies to structure specific transactions by adding various credit enhancement elements in transaction so as to achieve better rating compared to underlying entity rating. XMPUS does not only provide its views on the probable credit profile, it also facilitates all the communications between the company and the rating agency. Besides, XMPUS presents the entire rating proposal to the rating agency, post its own "Independent Credit Profile Evaluation (ICPE)". ICPE is a very strong tool which helps XMPUS to understand the credit profile in greater details and also aids in making the company understand the inherent rating weaknesses. This also helps companies to prepare strategies to overcome these weaknesses on a sustainable basis. Besides, XMPUS provides a clear roadmap to the corporates in terms of very objective evaluation of the parameters which would be very critical for the sustainability and further improvement in the credit ratings.

As such, Credit Rating Advisory not only releases the valuable bandwidth at the corporates, it also provides a dedicated rating desk to take care of all the rating requirements, throughout the year, on continuous basis.

Contact us

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