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**IL&FS case: Sebi slaps ₹25 lakh fine each on Icra, CARE, India Ratings**

Sebi fined Icra, CARE Ratings and India Ratings & Research ₹25 lakh each for not exercising due diligence, and for lapses in their duty to investors by not taking timely action while rating the NCDs of IL&FS. **See Page 7**

# Sebi penalizes rating agencies over lapses in IL&FS

Icra, CARE Ratings, India Ratings fined ₹25 lakh each for lapses in their duty to investors by not taking timely action when they rated NCDs of IL&FS

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The Securities and Exchange Board of India (Sebi) on Thursday fined rating agencies Icra Ltd, CARE Ratings Ltd and India Ratings & Research ₹25 lakh each for failing to exercise due diligence and for lapses in their duty to investors by not taking timely action when they rated the non-convertible debentures or NCDs of Infrastructure Leasing and Financial Services Ltd (IL&FS).

Spokespeople for the two rating agencies did not immediately respond to requests for comments from *Mint*. *Mint* was

not able to reach out to India Ratings for comment till press time.

Such punitive actions are rare, as Sebi has responded to previous deficiencies in the conduct of rating agencies by either increasing regulatory compliances or allowing them to settle the issue via consent. Over the past three years, Sebi has

changed the regulations governing credit rating agencies, or CRAs, at least six times.

In the case of IL&FS' ratings, however, Sebi rejected the rating companies' settlement

applications on 3 July 2019, which would otherwise have allowed the CRAs to settle the lapses against a fee without admission of guilt.

The matter pertains to September 2018 when IL&FS defaulted on its debt obliga-

## THE CHARGES

**SEBI** found rating agencies guilty of excessively relying on assertions of IL&FS management

**THEY** were found guilty of not applying independent professional assessment and taking comfort from the company's parentage

**THE** agencies did not change their ratings despite deteriorating finances of IL&FS

tions, triggering a liquidity crisis in the financial services market. The default by IL&FS and its subsidiaries left a ₹99,354 crore hole in the financial systems.

India Ratings, Icra, and

Credit Analysis and Research Ltd (CARE), gave IL&FS the highest rating of AAA, even when its subsidiary, IL&FS Transport Networks, defaulted in June.

There was also an abrupt downgrade in the ratings of bonds sold by IL&FS and related entities, after they defaulted on payment obligations in September.

ber. CRAs had downgraded the bonds from high investment grade (AA+ in some cases) to default or junk.

The Sebi orders on Thursday found the rating agencies guilty



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India Ratings, Icra, and CARE gave IL&FS the highest rating of AAA, even when IL&FS Transport Networks, defaulted in June.

of laying excessive reliance on assertions of IL&FS management, not applying independent professional assessment, and taking comfort from the company's parentage. The rat-

ing agencies were also found guilty of failing to notice disparities in public disclosures made by IL&FS. The agencies did not alter ratings despite deteriorating financial conditions of the

group such as stress in balance sheets, lack of cash flows, and inability to monetize assets.

"Notices (CRAs) continued to assign the highest possible rating (AAA) to the NCDs issued by IL&FS, based mainly on institutional parentage of IL&FS and the assurances given by IL&FS management," Sebi observed in the order. There was laxity and complacency on the part of the rating agencies, Sebi added.

Sebi in the order also made a reference to a 22 November 2018 communication from the Reserve Bank of India (RBI) to rating agencies where the central bank observed that their ratings relied on commitments provided by the management on gradual reduction of group exposures through monetizing

and refinancing of project debts at the underlying Special Purpose Vehicles (SPVs) as well as on access to the shares treasury infrastructure of IL&FS by IL&FS Financial Services (IFIN) which had failed to materialize beneficially.

In their defence, the rating agencies said that rating is an opinion and reliance on company for facts is laid down in the regulations. Sebi did not find merit in these arguments.

"Such orders are a welcome step as these will instil a greater sense of responsibility and onus on CRAs as their product is relied heavily on by lenders and investors," said J.N. Gupta, co-founder and managing director, Stakeholder Empowerment Services (SES).