Acuité

RATINGS & RESEARCH

A Full Service Rating Agency

Registered with SEBI | Accredited by RBI

About Acuité Ratings and Research

- Acuité Ratings is one of the fastest growing and respected credit rating agencies in India
- Acuité Ratings currently undertakes ratings for all types of debt instruments including bond and bank loan ratings, it has also initiated credit research services. SMERA is a division of Acuité Ratings & Research, specializing in SME rating and other grading services
- Acuité (pronounced as 'a.kui.teh'), derived from French 'acuity', implies 'sharpness of thoughts and vision'
- Incorporated in 2005 as an initiative of Ministry of Finance (GOI) and Reserve Bank of India (RBI) to facilitate credit rating of bank borrowers with focus on Small & Medium Enterprises; earlier known as SMERA, it has been a pioneer in SME ratings in India
- Received SEBI registration in 2011 and accreditation from RBI for Bank Loan Ratings in 2012, thereby transforming into a full service credit rating agency
- Acuité today has a significant market share in bank loan ratings and is steadily increasing its presence in bond ratings; last year, it assigned its first bond rating in the municipal, banking and insurance sectors
- Acuité Ratings has rated 7,500 companies on their various debt instruments, over and above 46,000 SME ratings
- Acuité's understanding of Indian economy and various corporate segments – large, mid and SMEs have been strengthened through its access to large volumes of data across business cycles, helping it to provide insights through industry and corporate research services

Strong institutional ownership

Small Industries Development Bank of India

SIDBI is an independent financial institution set up on April 2, 1990 through an act of Parliament of India. SIDBI has also floated CGTMSE that provides guarantees to banks for collateral-free loans, SIDBI Venture Capital and ISARC an asset reconstruction company.

Dun & Bradstreet Information Services India Private Limited

Dun & Bradstreet is the global leader in financial data and information business and also is the pioneer of credit ratings. The first rating agency was established in 1841 by Lewis Tappan which was subsequently acquired by Robert Dun, who published its first ratings guide in 1859, thus forming Dun & Bradstreet. D&B also acquired Moody's in 1962 and owned the rating agency till 2000

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Board of Directors – Strong and Highly Experienced

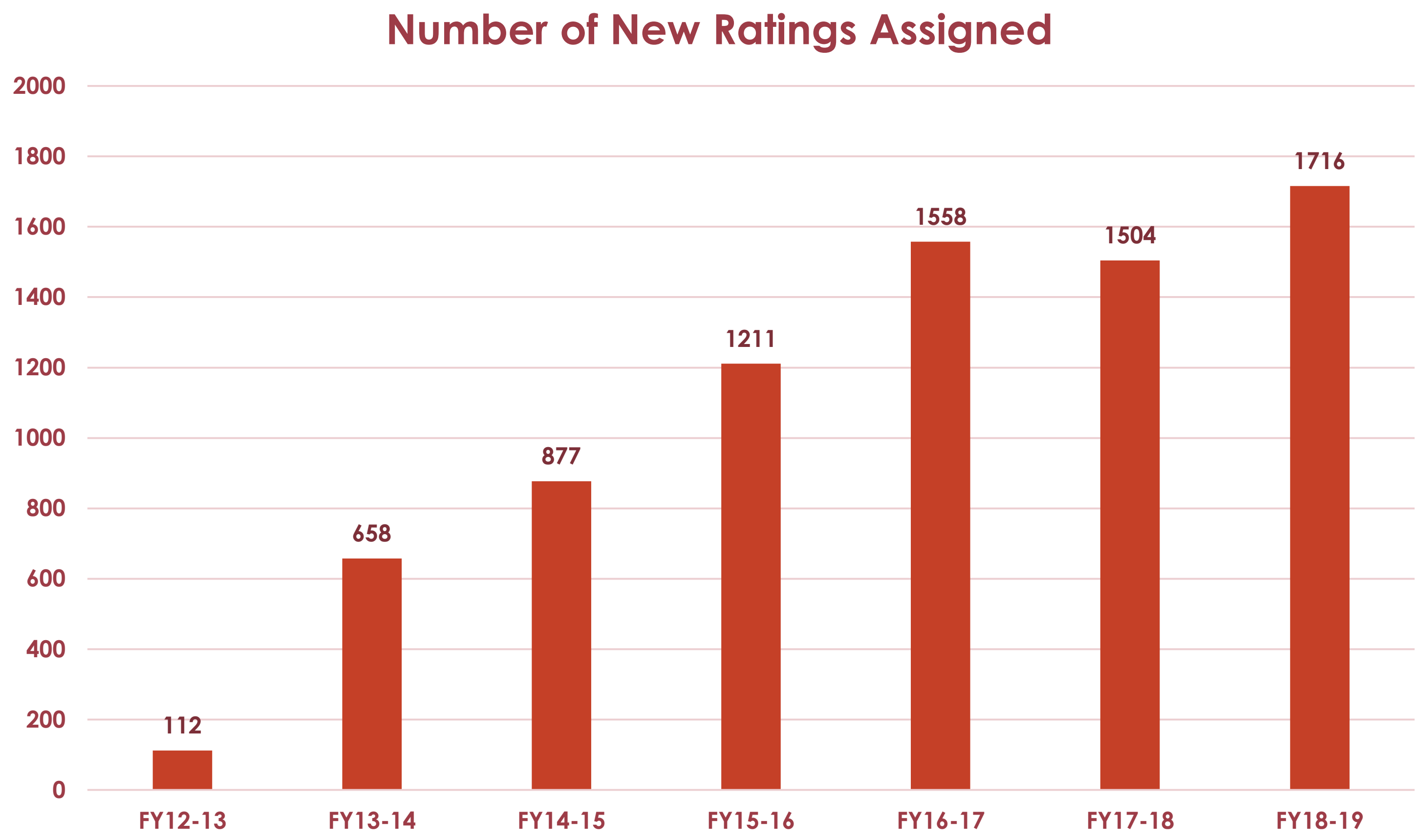
Mr. S.S. Mundra Non-Executive Chairman	Ex Deputy Governor of Reserve Bank of India. Ex Chairman & Managing Director of Bank of Baroda
Mr. Sankar Chakraborti CEO & Executive Director	22 year experience in credit ratings & research (CRISIL, CMIE); Independent Director – IOCL, Member – Working Committee of IBBI, Member – Capital Markets Committee of FICCI
Mr. Rajesh Mirchandani Director	CEO, D&B South Asia & Middle East
Mr. Arun Tiwari Director	Ex Chairman & Managing Director of Union Bank of India
Mr. Saurabh Shah Director	Director- Finance, D&B India
Mr. Chitta Ranjan Biswal (IAS) Independent Director	Chairman of Pay Revision Commission, Telangana state.
Mr. Hiren Shah Independent Director	Information Security Expert Ex-Chief Information Officer, CRISIL
Mr. A. K. Deb Director	Ex-CGM, SBI

Key Milestones

2018	• SMERA transforms to Acuité, completes 7,500 Bond & Bank Loan Ratings
2017	• Completed 50,000 Bond, Bank Loans and SME Ratings
2016	• Permanent registration with SEBI
2015	• 1st Commercial Paper Rated
2012	• Accreditation from RBI for rating Bank Loan
2011	• Initial registration with SEBI
2006	• DFID assistance under DFID UK World Bank for SME Financing and Development
2005	• SME Rating agency was incorporated

Overview of Acuité Ratings

Acuité has rated 7800 companies which includes Bank Loans, NCD/Bonds and Commercial Paper as on December 2019.

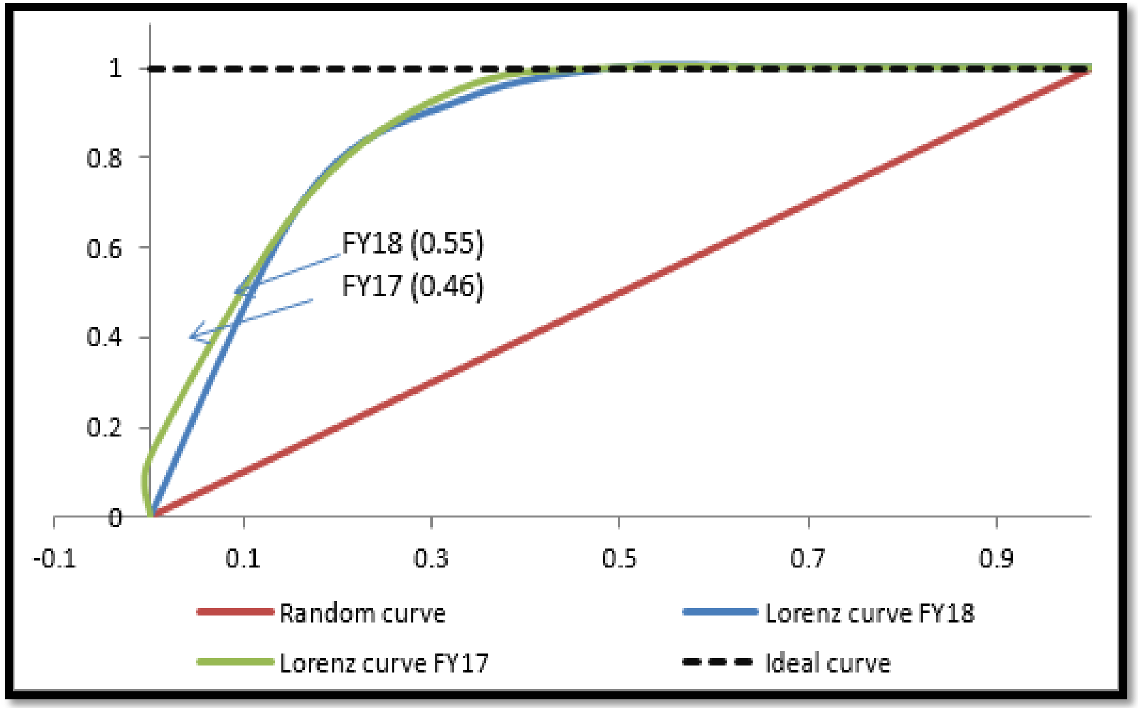


Acuité's Report Card : Default Rates & Gini Coefficient

One-Year Default Rate (%)	FY 2018
AAA	NA
AA	0
A	0
BBB	1.7
BB	2.2
B	8.7
Gini Coefficient	0.55

- **Acuité's Gini Coefficient** for one-year defaults stands at 0.55 in 2017-2018, which is calculated from a rating universe of 665 rated companies.

Acuité's Report Card : Lorenz curve



- A **Lorenz curve** closer to the Ideal curve indicates better predictive power of the ratings.
- **Random curve** is cumulative proportion of rated entities against cumulative proportion of defaulters.
- **Ideal curve is** cumulative proportion of rated entities against cumulative proportion of defaulters if ratings were assigned in a theoretically perfect manner and all defaults occurred only among the lowest-rated entities

One-Year Rating Transition Matrix: FY 2017-2018

	AAA	AA	A	BBB	BB	B	C	D
AAA	NA	NA	NA	NA	NA	NA	NA	NA
AA	0.0%	**100.0%**	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
A	0.0%	0.0%	**92.9%**	7.1%	0.0%	0.0%	0.0%	0.0%
BBB	0.0%	0.0%	2.5%	**90.7%**	5.1%	0.0%	0.0%	1.7%
BB	0.0%	0.0%	0.0%	7.7%	**87.1%**	3.0%	0.0%	2.2%
B	0.0%	0.0%	0.0%	0.0%	9.5%	**81.8%**	0.0%	8.7%
C	0.0%	0.0%	0.0%	0.0%	0.0%	28.6%	**71.4%**	0.0%

- Among the investment grade ratings, AA and A categories have recorded high stability rate
- The stability rate in "BBB" category is high at 91%, which is in line with the larger rating agencies
- All speculative grade ratings have stability rate in excess of 70%

Acuité's Use of Information Technology

- **Implementation of QR Code in all Rating Communications – An Industry First**

  Acuité's Press Releases and Rating Letter comes with an unique authentication feature of our QR code which eliminates fraud risk.

- **Acuité Ratings Mobile App – An Industry First**

  RatingsBuzz, a mobile app provides access to all Acuité Ratings

- **Online facility to submit Bankers/Investor Feedback against an Acuité rated entity**

- **RAMAN – Acuité's internal rating model and workflow**

  Acuité developed its own rating model and software workflow (named 'Raman' after eminent physicist and mathematician C V Raman)

- **Automated and Mobile Friendly Tool for collection of No-Default Statements from Clients**

  Acuité clients can submit their monthly No-Default Statement in just 3 clicks

- **Automated Workflows for Generation of Letter of Acceptance, Rating Letter and Press Release**

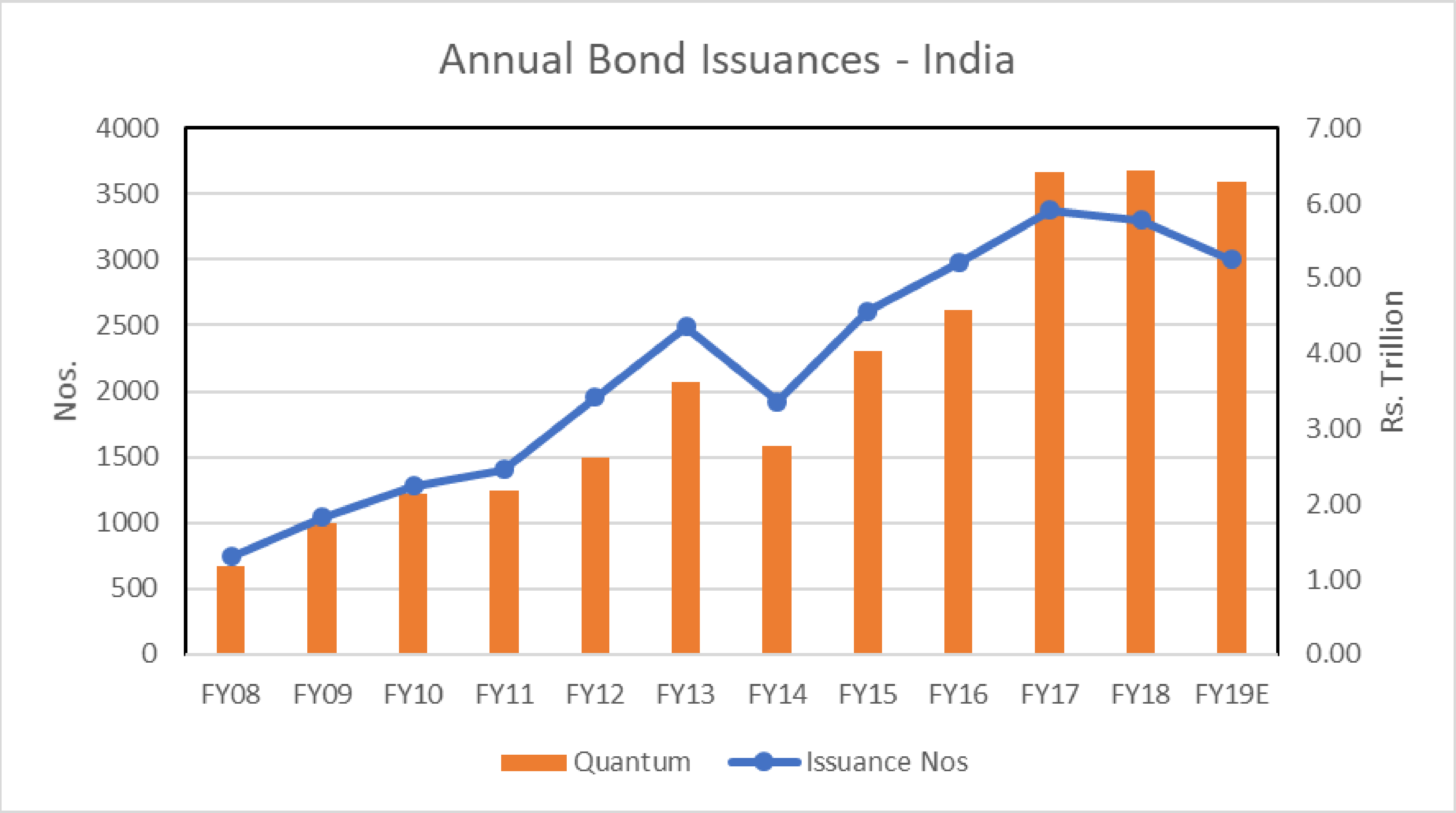
  Acuité uses automation in producing communication documents thereby reducing manual intervention and factual errors.

Corporate Bond Market - India

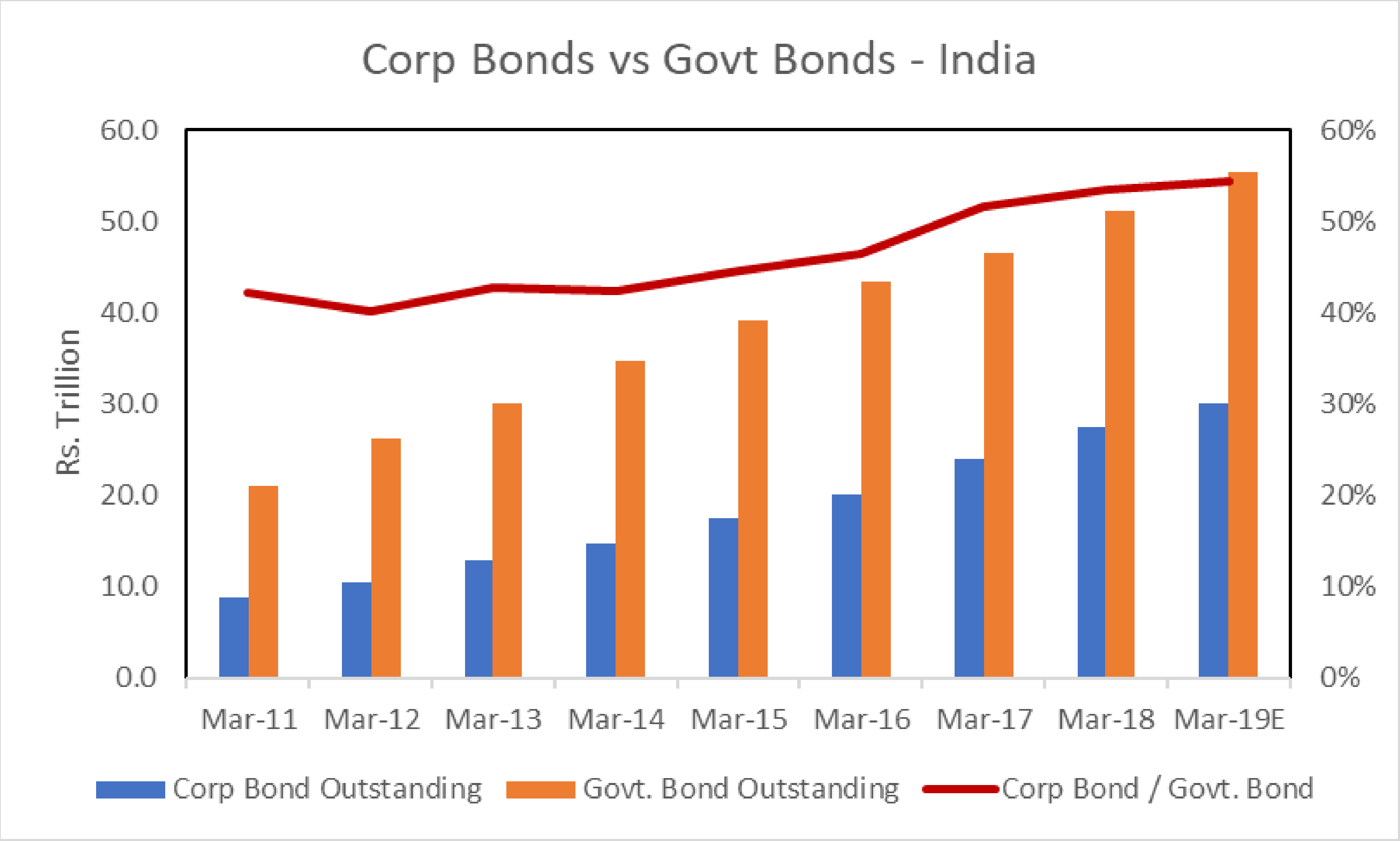
Indian Local Bond Market

- Indian local bond market has continued to grow steadily over the last 10 years with stronger corporate balance sheets and growth of domestic investor classes such as mutual funds and insurance companies
- Gross issuances has grown from Rs. 1.7 trillion in FY09 to Rs. 6.3 trillion in FY19E, a compounded annual growth rate of almost 14%
- Corporate bonds account for almost 30% of aggregate credit in FY18 as compared to 21% in FY13
- There has been a slowdown in fresh bond issuances in FY18 and FY19 due to tighter liquidity in the financial markets and more competitive pricing from banks
- Nevertheless, regulatory and government initiatives are expected to lead to a steady growth in the market over the medium to long term
- The new bankruptcy code is also expected to lead to the entry of new investors in the corporate bond market including overseas funds
- Indian domestic bond market, nevertheless continues to be relatively small in size and as a proportion of GDP, it is at 16% as compared to 46% in Malaysia, 73% in South Korea and 120% in USA

Indian Local Bond Market



Indian Local Bond Market



Challenges– Indian Bond Market

- Government bonds continue to "crowd out" the corporate bond issuances although the proportion of the latter has steadily increased vis-à-vis the former over the last 5 years
- Over 75% of the corporate bond issuances are from large government and large private sector companies with the highest rating of AAA (local scale)
- Further, the financial sector particularly the highly rated non-banking institutions dominates the issuance volumes
- There is a negligible market for high yield bonds given the investment regulations for pension funds and insurance sector which require "high safety" ratings
- Lack of appetite for long term bonds in infrastructure sector leading to limited private sector participation therein

Future Drivers– Indian Bond Market

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- The aggregate corporate bonds outstanding is projected to nearly double from Rs. 27.4 trillion as on March 2018 to Rs. 52.0 trillion as on March 2023
- With larger share of financial savings channelled into capital markets through mutual funds and insurance companies rather than bank deposits, the demand side expected to strengthen significantly
- Successful implementation of the Insolvency & Bankruptcy Code (IBC) to boost investor confidence and facilitate investment in lower rated companies going forward, bringing in new classes of investors
- Regulatory push to large borrowers to raise at least 25% of their additional borrowings through the bond market will work to expand the supply side
- Many public sector banks will have limited ability to provide credit given their weak capital position, generating further supply side opportunities
- Continuing growth in the non-banking and housing finance sector along with need for long term funds in the banking sector (including tier II capital) will ensure large share of the financial sector in the issuances
- Improvement of liquidity and trading volumes in the corporate bond market critical for its sustainable growth
- Regulators need to encourage innovative structures and tools such as securitisation, bond guarantee fund (particularly for infrastructure projects), interest rate and credit default swaps

Credit Ratings – India

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Credit Ratings in India - History

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- Credit ratings started in Indian in 1987-88 with incorporation of CRISIL

Another 3 CRAs viz ICRA, CARE and India Ratings commenced operations in the 1990s but low growth

Innovations like the introduction of structured finance and securitisation ratings in late 1990s

Adoption of Basel II norms in 2007 led to significant penetration of credit ratings from 2007; mandatory use of external ratings for determining the capital risk weights in bank corporate loans (> Rs. 100 million)

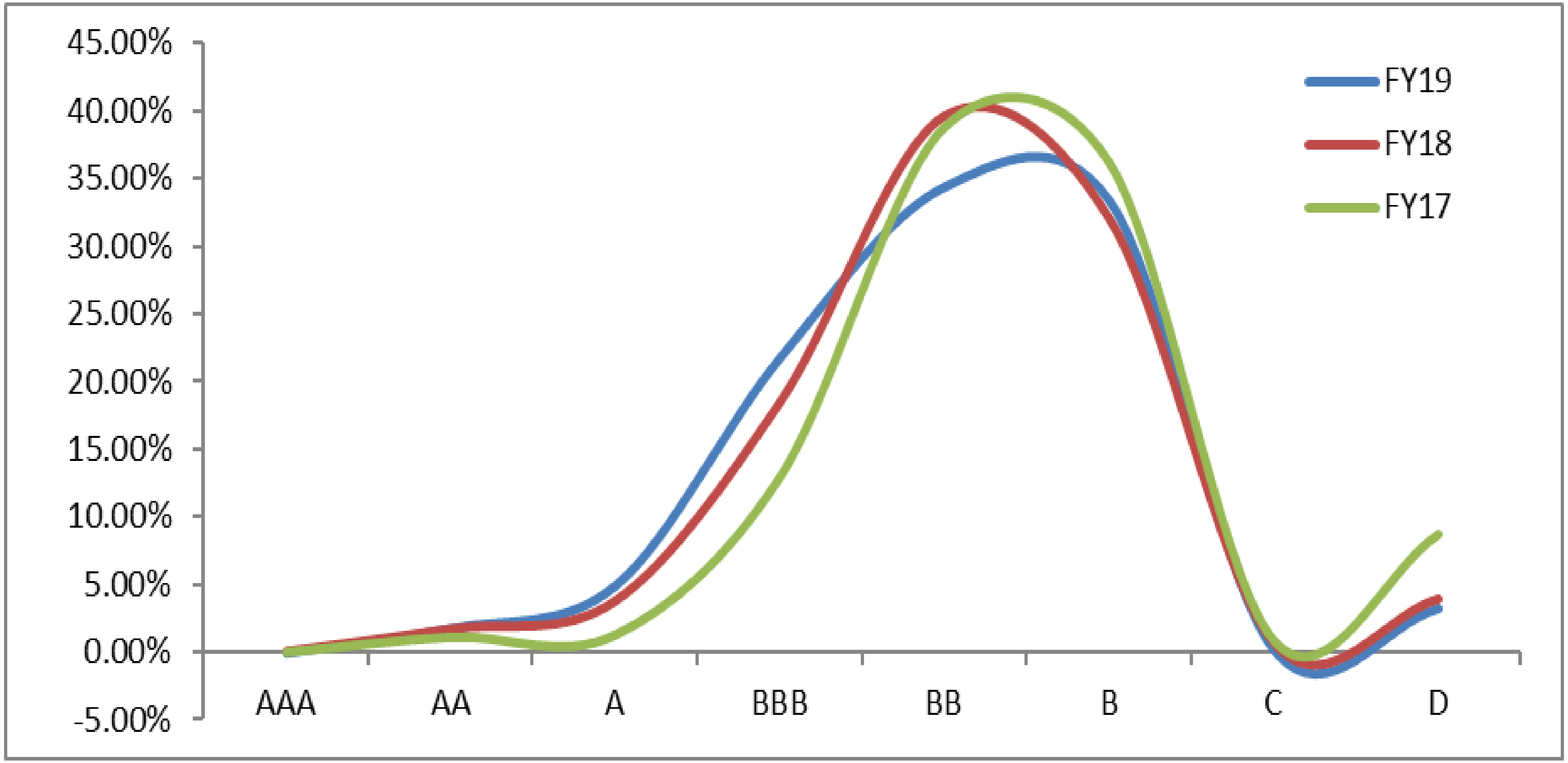
Another 3 CRAs including Acuite Ratings received approvals from the regulators in early part of the decade to ensure adequate capacity in the industry to rate a growing number of bank loan clients

By 2016, the rating coverage had increased significantly with outstanding ratings on over 40,000 enterprises

However, the share of bond ratings continued to be low as the number of issuers in the debt capital market grew slowly as compared to the bank rating clients

With a large coverage of mid and small corporates including small enterprises, the credit spectrum developed well with the median industry ratings currently in the BB category

Rating Distribution – Acuité Ratings



Indian CRAs – A Snapshot

- Currently, there are seven CRAs in India registered by both SEBI and RBI
- While Acuité Ratings is one of the smaller CRAs, its rating volumes has given it a deep perspective of the Indian economy and the corporate eco-system over the last 5 years
- Larger CRAs have a more diversified revenue profile due to their foray into domestic and global research services; some of them have also set up advisory and risk management consulting divisions which may need to be demerged in line with regulatory guidance
- By broad estimates, credit ratings revenues in India stand at Rs. 12 billion (USD 170 million) in FY19 and is growing at a rate of 5%-7%; long term growth prospects depend on the expansion of the bond market
- The operating margin in the industry averages around 40%; however, rating fees have been subject to competitive pressures due to low industry growth and the presence of 7 CRAs

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