

# Credit Rating Agencies Defend Themselves Against Grant Thornton Allegations

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Jul 22 2019, 3:30 PM

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Credit rating agencies have denied any impropriety in assigning ratings to companies within the Infrastructure Leasing and Financial Services Group, days after a forensic report from Grant Thornton alleged a host of wrong-doings on the part of these agencies.

Grant Thornton had been appointed by the new board of IL&FS to review the role of credit rating agencies, which failed to alert investors of the impending collapse of India's largest infrastructure conglomerate. [In its report](#), Grant Thornton alleged that rating agency officials may have been influenced by senior IL&FS officials using pressure tactics, inadequate data and, in some cases, gifts.

BloombergQuint has reviewed a copy of the report.

Rating agencies have come out strong to deny the allegations.

ICRA Ratings Ltd, in a statement on Monday, said that Grant Thornton chose not to seek the input of rating agencies and instead relied on assumptions and limited procedures performed. "As a result, the report, which has no legal or official significance, demonstrates a severe lack understanding of the credit rating process," ICRA said.

In particular, ICRA said that assumption made on the basis of a few email exchanges are faulty. Grant Thornton had cited email correspondence to establish meetings between senior IL&FS officials and rating agency officials and alleged that these meetings had influenced final rating outcomes.

Credit rating agencies and the entities being rated communicate with each other throughout the credit rating process. To selectively read into this correspondence and arrive at observations would therefore be highly prone to inaccuracies and misinterpretation.

#### **ICRA Statement**

CARE Ratings shared that view.

In response to allegations that former IL&FS officials modified or edited draft credit ratings published by CARE Ratings, the agency said that clients are given a reasonable opportunity to review rating action. This, it said, is done as a matter of courtesy and to avoid any factual inaccuracies.

However, once such reasonable opportunity is provided by CARE Ratings, the decision in respect of the rating is final and is binding upon the client, and is made public by CARE Ratings. Such a formal process of representation is a part of CARE's rating process and is also an accepted market practice.

#### **CARE Ratings**

A spokesperson for India Ratings and Research Pvt. Ltd. in an email response to queries sent by BloombergQuint last week, said that Grant Thornton's report demonstrated a lack of understanding of the process.

"The report is based on partial and selective source material from IL&FS and demonstrates a limited understanding of the credit rating process. The report has no legal standing whatsoever. This report was produced without a request for our participation or involvement," the statement said.

#### **CARE Ratings: No Conflict Of Interest**

The Grant Thornton interim report also raised specific allegations that there was a [conflict of interest](#) between CARE and IL&FS Financial Services Ltd, as the latter had an equity stake in the infrastructure firm between 2007 and 2013.

In response, a CARE Ratings spokesperson, in an emailed response to BloombergQuint, said that ILFS and IL&FS Financial Services were only passive shareholders in the rating agency and did not have any representation on board or rating committee. As such, they had no influence on rating decisions.

“Further, as per regulatory guidelines, a Credit Rating Agency could rate the debt instruments of a shareholder till the time its shareholding in the Credit Rating Agency did not exceed 10 percent.”

At its peak, in 2012, IFIN had a shareholding of 9 percent in CARE Ratings. The spokesperson also said that no employees or analysts at CARE are in any way in conflict of extant regulations and in violation of codes of conduct.

### **CARE Ratings, Brickworks: Refuting Allegations Of Favors**

Brickwork Ratings Pvt. Ltd. said in an email response last week, that rating actions on the subsidiaries of IL&FS Ltd followed the due process and were not influenced by any commercial pressures. The companies' rating activities is clearly separated from its business development activities, the spokesperson said.

Brickwork also said that a detailed response on alleged favors taken by D Ravishankar, the founder of Brickwork, has been submitted to the new management at IL&FS. The Grant Thornton report had alleged that Ravishankar accepted football tickets to an international game from IL&FS.

Grant Thornton had also alleged that IL&FS officials may have offered a smartwatch to the chief executive officer of CARE Ratings, Rajesh Mokashi. Mokashi, when contacted, said that he was neither offered any gift nor did he accept any gift.

### **CRISIL: No Outstanding Ratings**

CRISIL, in its response, said that it has never rated IL&FS, IL&FS Financial Services or any debt issued by these companies. It had issued a rating on bank loan facilities of IL&FS Transportation Network in 2011 but this was withdrawn in 2016.

The rating agency said that it has ratings on two road projects, which are operating through special purpose vehicles. These include North Karnataka Expressway Ltd, and Jharkhand Road Projects Implementation Company Ltd, that are sponsored by ITNL. The ratings rationale for these are publicly available, the agency said.

“CRISIL follows the highest standards of governance, maintains exemplary analytical rigour, and robust processes to ensure independence of its opinions.”

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