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IL&FS case: Sebi slaps Rs 25 lakh fine each on ICRA, CARE, India Ratings

BY PTI | UPDATED: DEC 27, 2019, 10.17 AM IST

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Cracking the whip for their "lethargic indifference", watchdog Sebi on Thursday slapped a penalty of Rs 25 lakh each on ICRA, CARE, and India Ratings & Research in connection with lapses in assigning credit ratings to non-convertible debentures of IL&FS.

The crisis at diversified IL&FS, whose board was superseded by the government, came to light September last year and since then, the company as well as related entities have come under the regulatory lens.

In three separate but similarly-worded orders, Sebi said the default by IL&FS occurred due to "lethargic indifference and needless procrastination and laxity" of the rating agencies.

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The case relates to the default committed by IL&FS and its subsidiary IL&FS Financial Services on their obligations in respect of commercial paper (CP), inter-corporate deposits (ICDs) as well as on interest payments related to non-convertible debentures (NCDs).

According to Sebi, the exposure of IL&FS, at the relevant times, was critical to the financial stability as its share in total exposure of banks to NBFC sector was fairly high. There was substantial public interest involved in the affairs of IL&FS considering its importance for financial stability, it added.

The markets regulator examined the role of the credit rating agencies (CRAs), including ICRA Ltd, CARE Ratings Ltd, and India Ratings & Research Pvt Ltd, in assigning rating to various NCDs of Infrastructure Leasing and Financial Services (IL&FS).

In its orders, Sebi said IL&FS and its group companies' financial parameters, especially short-term borrowings, debt-equity ratio, current maturities of long-term debt, operating profit, and monetisation of assets were not as conducive or healthy as assumed by these rating agencies in their reports or rating rationale.

They failed in conducting independent professional assessment while rating the NCDs of IL&FS and placed undue weightage on institutional parentage, the watchdog said.

While assigning credit rating to the NCDs of IL&FS, the three entities "failed to exercise proper skill, care and due diligence while discharging its responsibilities as a credit rating agency and violated the provisions of... code of conduct of the CRAs," the regulator said in the similarly-worded orders.

They also "failed in exercising independent professional judgment in order to achieve and maintain objectivity and independence while 'rating' IL&FS and its instruments and in closely monitoring all relevant factors that might affect the creditworthiness of the issuers", it added.

Though there is no allegation of any mala fide intention on the part of these rating agencies, Sebi said the failure by them is blameworthy and serious considering the degree of responsibility bestowed upon it by the statute.

"Further, in the peculiar facts and circumstances of this case, the default has occurred due to lethargic indifference and needless procrastination and laxity," the regulator said in its orders against the three rating agencies.

On these grounds, a penalty of Rs 25 lakh has been imposed on the three rating agencies.

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