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CIRRUS

'PENALTY OF ₹25 LAKH LESS THAN ANTICIPATED'

Rating Cos Rally as IL&FS Cloud Lifts After Sebi's Action

Firms will be the biggest beneficiaries of a deeper corporate bond market: Analysts

Currently Undervalued

Stock	CMP (₹)	5-Day Return (%)	PE FY21E	5Y Avg PE	% Chg Jan-Nov '19	Return on equity (%)
ICRA	3034.4	8.76	31.29	44.00	-11.79	16.09
CARE Ratings	682.4	39.04	17.22	26.20	-51.29	23.97
CRISIL	1947.9	4.10	39.53	45.73	-1.45	33.24

Our Bureau

Mumbai: Shares of CRISIL, Care Ratings and ICRA have climbed lately after closure of the adjudication proceedings against these rating agencies in the IL&FS case.

These 'undervalued' stocks are poised to gain further, with the regulatory push for an active corporate bond market seen benefiting the industry that assesses creditworthiness.

Shares of Care Ratings rallied 39% in the last five trading sessions, while CRISIL shares gained 5% in this period. ICRA gained about 9%.

The Securities and Exchange Board of India (Sebi) late last week fined ICRA, India Ratings and Research and Care ₹25 lakh each for not exercising due-diligence and failing to take timely rating actions on IL&FS. That brought an end to the adjudication proceedings against the rating agencies.

"The penalty at ₹25 lakh was much less than the amount anticipated," said Shradha Sheth, AVP, Edelweiss Securities.

"CRISIL has been re-rated by the market as it was less involved in the IL&FS debacle and even gained market share in the ratings space."

ICRA and Care Ratings lost market share amid sharp downgrades in IL&FS NCD ratings.

Shares of Care Ratings declined 51% between January and November while ICRA lost 12% in this period.

Separately, a recent Reserve Bank of India (RBI) task force report called for an active secondary market for corporate loans. Such an active secondary market would spawn an active corporate bond market, ultimately benefiting the rating agencies, analysts said.

"Rating agencies have corrected sharply after the IL&FS crisis and now investors see good opportunities in them as they are likely to benefit from the regulator's aggressive push for a better bond market in India," said Asutosh Mishra, head of institutional research, Ashika Stock Broking. "They are currently trading much below their historical valuations."

CRISIL trades at 40 times one-year forward earnings as against its five-year average PE of 46, while Care Ratings trades at 17 times, compared with the five-year average PE of 26. Similarly, ICRA trades at 31 times its FY21 PE against the five-year average PE of 44. "In the longer run, Sebi may tighten regulations on all rating companies, which is a positive for pedigreed rating agencies," said GV Giri, analyst, IIFL Securities.