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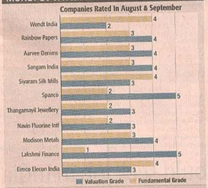
Cos rush to get rated for funds, better standing

Cos not widely tracked by broking houses are tapping rating agencies

MONEY SPINNER



Fundamental grade - Out of 5, with 5 bring highest grade
Valuation grade = 5 - Considerable Upside Potential; 4 - Moderate Upside Potential; 3 - Fairly Priced; 2 - Moderate Downside Potential; 1 - Considerable Downside Potential
Source: Crisil / Care

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INDEPENDENT equity research is evolving to be a deep revenue stream for rating agencies. Companies — that are not widely tracked by broking houses — are approaching rating agencies to get themselves rated on the basis of fundamentals and valuation. A higher rating from an unbiased agency helps companies attract strategic investors, bid for mega projects and raise easy working capital, say raters.

Crisil Research, which started independent equity research (IER) in the country, has initiated coverage on 48 companies since the inception of its IER vertical last September. The rating major has received 28 fresh mandates (from companies, to cover the stock) since April this year. The NSE, on its own, has commissioned Crisil to analyse 12 companies in its bid to enhance stock visibility, widen research and increase trading in these counters.

INCOME SOURCE

"Independent equity research, as an idea, is catching up among companies. So far, we have released reports on 48 companies and are seeing an increase in the number of mandates received from companies," said Mukesh Agarwal, director-research, Crisil.

"Independent research adds depth to the markets as it brings the small, mid-cap and other less-liquid stocks into focus, giving the average investor regular information on these companies," added Mr Agarwal.

Icra too has rated over a dozen companies over the past one year. The agency has received rating mandates from the Bombey Stock Exchange (BSE).

One of the benefits of an independent body rating listed companies is that the analysis will be largely unbiased. Unlike a stock brokerage, a rating agency has no involvement in market trades, it does not have proprietary stock positions or private clients, for whom they prepare exclusive reports.

Illegal and unethical market practices like front-running or pushing dud stocks to small investors are unlikely if the report is prepared by an independent body. Rating agencies do not put out buy/sell recommendation, they only attach a fair valuation to the company, which could be above or below current market price.

Companies use these ratings for a series of activities including attracting strategic investors, bidding for mega projects and raising capital. The rating is divided into two parts — fundamental research and valuation study. Fundamental strength of a company is rated on a 1-5 scale, with 5 being the best grade (denoting strong fundamentals).

Valuation grading is also done on a 1-5 scale, where 1 (one on five) denotes considerable downside potential (25% below current price), 2 denotes moderate downside potential (10-25% below current price), 3 marks fair valuation, 4 reflects a 10-25% upside from current price and 5 represents a price appreciation in excess of 25%.

"There is no conflict of interest when we prepare company reports. We analyse the fundamentals of the company and assign a fair valuation to the stock. Apart from companies, we expect research mandates to come from private equity funds, institutional investors like mutual funds and even high networth investors," said Revati Kasture, research head, Care Rating, which recently completed its first rating on Alok Industries.

A good number of companies analysed by rating agencies are mid- and small-cap businesses. Mid- to small market cap segment is rarely tracked by regular brokers. If one takes broader estimates only 170 companies, of more than 3,000 stocks listed on the exchanges, are covered adequately by research analysts.

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