"CareEdge Global is the first rating agency from the Global South to venture into sovereign ratings"

Revati Kasture , CEO, CareEdge Global IFSC Limited

***Revati Kasture** is the CEO of CareEdge Global IFSC Limited (CareEdge Global), the first rating agency from India or the Global South to venture into sovereign or country ratings. Kasture, who also serves as the Executive Director of CARE Ratings, has 25 years of experience in the industry and oversees the company's business growth in India, Africa and Nepal. She was appointed CEO of CareEdge Global, a wholly owned subsidiary of CARE Ratings, in October 2024. During her recent visit to Nepal, **Mukul Humagain** of **New Business Age** spoke with Kasture on the significance of credit rating, the operations of CARE Ratings India and the role of credit rating agencies in driving economic development in emerging markets like Nepal. Excerpts:*

Q: Your visit coincides with Nepal's first-ever sovereign rating. As the leader of one of India's top credit rating agencies, how do you perceive this BB- rating for Nepal, and what does it signify?

A: Let me first explain why having a sovereign credit rating is important. A sovereign credit rating assesses a country's creditworthiness by considering factors such as fiscal strength, economic structure, institutions and quality of governance, monetary and financial stability, and external position and linkages. It also takes into account the country's external debt position. While the rating primarily assesses a country's ability and willingness to repay its debt on time, it reflects a broader range of factors. To make this assessment, different aspects like the country's structure and development stage are studied. This is why sovereign credit ratings are so important. I would like to congratulate Nepal for its first rating.

Country ratings are important because they form the basis for evaluating individual companies within that country. One cannot fully understand the credit strength of a company without assessing the broader country environment. For instance, currency and convertibility risks are tied to national policies, with institutions like the central bank determining them. Moreover, a sovereign rating provides global investors with a benchmark for assessing a country's risk. Without a rating, evaluating a country's risk profile is challenging. Now that Nepal has a credit rating, both the government as well as the companies within the country can better understand the risk premium associated with sovereign bonds and more easily raise capital from global markets making it relatively simpler to issue sovereign bonds or secure funding internationally.

Q: What led to the establishment of CareEdge Global? How is it unique from other rating agencies that do sovereign ratings?

A: CareEdge Global IFSC Limited (CGIL) is the first rating agency from India or the Global South to venture into sovereign or country ratings as well as global scale ratings. It is important to note that the rating methodologies established by the world's leading agencies have been in place for decades. Upon analysing these methodologies, we identified gap areas where greater emphasis is needed, particularly when assessing emerging economies.

Being from an emerging economy ourselves, we have a deep understanding of the unique challenges and nuances that these economies face. Our methodology integrates these nuances into a globally recognised framework, ensuring a more comprehensive assessment. In developing this methodology over the past two years, we have engaged extensively with multilateral institutions and governments to incorporate their perspectives. This methodology has been rigorously back-tested and has accurately predicted economic downturns in certain economies.

To date, we have rated 39 countries, spanning both emerging and developed economies. As part of the CARE Ratings group, which operates in India, Nepal and Africa—through entities in Mauritius and South Africa, and a license in Kenya—we have a strong understanding of the ecosystem in these regions.

Our ratings process also involves collaboration with external experts. We have global experts such as leading economists, academicians and professionals from large and multilateral organisations in our ratings committee. This ensures that our analysis is not only informed by our expertise but also enriched by diverse global perspectives.

Of the 39 countries we have rated so far, some have received higher ratings than existing assessments, while others have been rated lower. This reflects our balanced and nuanced approach to sovereign ratings.

Q: The credit rating industry in Nepal is still in its early stages, yet three credit rating agencies - all joint ventures with Indian firms - are already operating here. What value do these agencies bring to Nepal and its businesses?

A: The credit rating culture in Nepal is relatively new, having emerged within the past decade. Our presence (CARE Ratings Nepal) here dates back to 2017. In comparison, the credit rating industry in India began in 1987 and has grown over 37 years, while globally, it has been established for more than a century.

The credit rating industry serves as a vital tool for regulators, issuers and investors. When regulators analyse entities such as a bank's portfolio, having the portfolio rated allows them to identify where the risks lie on the asset side. By categorising the bank's entire loan book into different rating buckets, they can better understand the distribution of risk. This insight also helps in shaping regulations. For instance, in India, there are capital adequacy requirements linked to credit ratings. If a bank holds assets with higher ratings, it requires less capital to back those assets compared to lower-rated ones. This approach aligns the bank's capital allocation with the level of risk it is undertaking, enhancing overall financial stability.

For issuers, rating offers a single symbol encapsulating various risks, enabling businesses to quantify their creditworthiness and benchmark themselves against competitors. This streamlined representation helps businesses better understand and communicate their risk profile. It also helps them raise capital, as many countries require a credit rating as a prerequisite for accessing funding. Likewise, investors can use ratings to evaluate and price the risks they are undertaking. Each investor has a unique risk benchmark—some may be comfortable with a certain level of rating, while others may require higher-rated investments. Ratings help identify companies that align with these benchmarks, enabling investors to price risk appropriately. This also helps in reducing the cost of evaluating credit worthiness.

Credit ratings are not a one-time exercise. Once a rating is assigned, it is continuously monitored for as long as the loan remains outstanding. This ongoing assessment provides investors with updated insights into the creditworthiness of the entity, ensuring informed decision-making over time.

Q: In Nepal, companies seeking loans above Rs 500 million are required to obtain a credit rating. There have been discussions about lowering this threshold, considering that Nepal has a large number of MSMEs. What are your thoughts?

A: The need to lower the loan threshold depends on the category of loans that banks are catering to and their overall portfolio composition. In Nepal, many businesses are small or emerging and not yet mature enough to handle loans of Rs 500 million or more. To address the risk inherent in the ecosystem, it is essential to lower the threshold. This adjustment allows the risks present within the ecosystem to be identified more effectively from regulatory, banking and investor perspectives. By introducing smaller companies to credit ratings earlier in their lifecycle, they can better understand the concept and take proactive steps to enhance their credibility and build sustainable businesses. Lowering the threshold is, therefore, crucial in fostering financial discipline and long-term growth among emerging businesses.

Q: Nepali credit rating agency websites frequently display notices about companies failing to provide required information. How can this issue of non-compliance be addressed effectively? What lessons can be learned from India's experience in tackling similar challenges?

A: When credit ratings were first introduced in India, they were mandatory only for capital market instruments. However, with the adoption of Basel II regulations in 2006, ratings became compulsory for determining the capital risk weightings of banks. Today, even privately placed bonds in India are rated due to investor demand.

The rating industry in India has matured significantly, with most companies now undergoing regular assessments. Regulators also leverage rating agencies for various purposes, such as monitoring the use of IPO proceeds to ensure funds are utilised as intended. This practice has strengthened investor confidence and enhanced the reliability of the IPO ecosystem.

The central bank of the country has also introduced Recovery ratings for restructuring of non-performing loans by banks. So, ratings help in benchmarking and provide an independent assessment of credit quality. There are some companies that do not cooperate with rating agencies and we have to disclose the fact about our inability to do credit assessments due to non-availability of information. To address this issue, we must

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create awareness about the importance and use of credit ratings as an input for decision making. Companies need to be made aware of the benefits of rating like wider access to capital and ability to raise funds at appropriate rates. CARE Ratings Nepal does a lot of work in the space by creating awareness of the benefits of ratings to various stakeholders as well as imparting knowledge on sectors through our institutional connect initiatives.

Q: What are the other tools or innovations that global credit rating agencies like yours apply while doing credit ratings?
A: When conducting credit ratings, we assess financial risk, industry risk, management risk, operational risk and project risk (if applicable). We utilise extensive databases to identify and analyse these risks comprehensively. For industry risk, we evaluate the entire ecosystem. For instance, in Nepal, if we consider hydropower as a major industry, we map all hydropower projects and analyse government regulations and associated industry risks.

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Q: The three major rating agencies—Fitch, Moody's, and S&P—are all based in the West. Why do you believe there is a need for a global rating agency representing the Global South?
A: This is a very important question. When frameworks are developed in advanced markets, they are typically designed to suit the specific needs of those markets. Whether it is a credit rating framework or a governance framework, these systems are often tailored to align with the conditions and priorities of developed economies. What is happening today is that the governmental debt of emerging markets is growing, and it is important that someone who understands these markets should be able to do those assessments.

CARE is a domestic rating agency in India, the second largest in the country, and ranks among the top 10 global rating agencies. We have extensive expertise in credit ratings and a deep understanding of the credit rating domain and systems. With a presence beyond India, we also have insights into global markets.

India, as a $4 trillion economy poised to become the fourth largest globally, offers a strategic opportunity for us to expand into the global credit rating space. We believe that issues specific to emerging markets are not adequately addressed within global rating scales. Our methodology incorporates nuances unique to emerging markets, some examples being use of gross fixed capital formation as a primary factor, use of per-capita income on purchasing power parity basis and incorporating sustainability linked parameters such as percentage of energy contributed by renewable sources for arriving at sovereign credit ratings.

When analysing methodologies, we observed that the benchmarks used for global rating agencies for developed economies differ significantly from those used for emerging economies, yet the ratings are given on the same scale. To address this, we decided to use consistent benchmarks across both developed and emerging economies, ensuring greater fairness and relevance in our assessments.

Q: How do you review the operation and business of CARE Ratings Nepal?
A: We established CARE Ratings Nepal in 2017 with the objective of developing Nepal's debt markets. Since then, our operations have been stable and profitable, having conducted approximately 400 ratings across various sectors. Today, we are the market leader in credit ratings in Nepal. Our entire team, except for the CEO, are Nepali professionals. This gives us a strong understanding of local nuances and enables us to deliver accurate and relevant ratings. We are committed to remaining invested in the market and contributing to Nepal's growth story.

Q: What synergy exists between CARE Ratings India and its regional subsidiaries in Nepal and Africa?
A: The technical expertise we develop in India is shared with our subsidiaries in Nepal and Africa. This includes rating methodologies, models and the technology used in the rating process. Our rating committees comprise both local experts and specialists from India, ensuring a balanced blend of local and global expertise.We implement best practices from India across all our subsidiaries and adopt high standards in our operations to ensure consistency and reliability. ■