

India's first default study validates CRISIL's ratings Default rates on the decline

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CRISIL today became the first rating agency in India to publish its default statistics. With implementation of Basel II capital adequacy norms under way, the publication of CRISIL's default rates is a key milestone.

The study validates CRISIL's ratings as reliable measures of default probability. CRISIL's ratings have demonstrated **high calibration accuracy** with higher ratings translating into a lower likelihood of default. At over 83 per cent, the **high stability rates** of CRISIL's ratings compare well with those of international rating agencies. Similarly, CRISIL's ratings have strongly demonstrated their **default prediction ability** over the 13 years covered in the study, as reflected in the high Gini coefficient of 0.80. The strong performance on these three critical parameters underlines the robustness of CRISIL's rating processes.

According to R. Ravimohan, Managing Director and Chief Executive Officer, CRISIL, "The importance of these findings is heightened by the fact that **CRISIL's default rates are underpinned by an unambiguous definition of default**. CRISIL rigorously and consistently applies this definition in its rating actions, and believes that such a clear-cut approach to acknowledgment of default is an absolute pre-requisite for compilation of meaningful default statistics."

According to Roopa Kudva, Executive Director and Chief Rating Officer, CRISIL, "Another key finding of this study is **declining trend in default rates**. Default rates observed over the last five years (2000 to 2004) for CRISIL-rated entities have been significantly lower than those over the 13-year period covered under this study (1992 to 2004)."

The reliability of this study is reinforced by the fact that it is based on CRISIL's large and diverse rating database spanning 13 years and covering two full economic cycles. **The quality, depth, and size of this database make it the most robust in the Indian context**. Further, as Indian financial markets gain in sophistication and maturity, default data is becoming a critical input for some of the most important decisions in the financial system, including debt pricing, provisioning, and risk management.

Note

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The publication of this study is part of CRISIL's ongoing efforts to enhance the utility of credit ratings through high levels of transparency and disclosure practices, and reflects CRISIL's commitment to the development of the debt markets.

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