

Press Release

Acuité Ratings takes the next step in incorporating ESG factors in ratings

28 October 2021

Acuité Ratings has taken the first step in incorporating ESG factors in the ratings process by including a section on ESG assessment in the Rating Rationale of listed issuers and companies with large debt. A month back, Acuité became the first credit rating agency from India to become a signatory to the Principles for Responsible Investment (PRI)'s "ESG in Credit Risk and Ratings Statement". By signing the statement ([please click here access the statement and the list of signatories](#)), Acuité has already committed to incorporating ESG into credit ratings and analysis in a systematic and transparent way.

"Acuité acknowledges that environmental, social and governance (ESG) factors has a strong linkage with the long term financial health of an issuer or borrower. Clearly, ESG factors are increasingly relevant in the evaluation of the credit quality of debt issuers (borrowers). Acuité has taken an important initiative to incorporate ESG factors in a more meaningful way to make tomorrow's rating methodologies more accurate", said Antony Jose, Chief Rating Officer, Acuité.

It is increasingly clear that factors related to corporate governance, climate or weather changes and other controversies can not only lead to short term disruptions in business but can also have an impact on the franchise and the reputation of a company. While a credit rating exercise primarily focuses on an analysis of the business and financial profile of an entity to understand its ability to service debt, it also evaluates the management risk factor in terms of the promoter track record, leadership capability, strategic plans, management integrity and risk appetite. However, there is a clear need to evaluate the management quality increasingly from the ESG perspective i.e. actual ESG performance, the quality of ESG disclosures and the ESG risk management framework that has been put in place.

Says Suman Chowdhury, Chief Analytical Officer, Acuité Ratings said, "As an initial step in the integration of ESG factors in the rating methodology, we have started to add a section about those factors that are relevant from the credit quality perspective in the Rating Rationale. Essentially, the section will highlight the material ESG issues in that particular industry with comments on specific ESG performance of the rated entity and reference to controversies, if any. Initially, this will be applicable for all issuers and borrowers that have listed equity or debt and as also unlisted companies with total debt outstanding of over Rs. 500 Cr."

About Acuité Group: Acuité Ratings & Research Limited, the flagship company of Acuité Group, is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned over 8,850 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai. Please visit www.acuite.in for more details.

In January 2021, Acuité incorporated a wholly owned subsidiary, ESG Risk Assessments & Insights Limited (ESGrisk.ai). ESGrisk.ai is India's first ESG rating company and a pioneer in bringing ESG assessments to investors and corporates. Currently, ESG assessments of over 500 listed Indian companies can be accessed via "ESG 360 Degree" subscription platform of ESGrisk.ai

About UN PRI: The United Nations (UN) has been supporting the Principles for Responsible Investment ever since the latter's launch. Two UN partners - UN Environment Programme Finance Initiative (UNEP FI) and UN Global Compact - play an important role in delivering the PRI's strategy, including holding a seat each on the PRI Board, and providing additional avenues for signatories to learn, collaborate and take action towards responsible investment. Please visit www.unpri.org for more details.

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