CREDIT RATING AGENCIES IN INDIA

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ABSTRACT

In the 1990s, India's banking sector saw significant growth with the entry of private and foreign banks, driven by economic reforms. This expansion led to a surge in bank lending, particularly in the area of credit extension against customer securities. Credit rating agencies (CRAs) play a crucial role in assessing risk, helping investors balance risk and return, and assisting firms in accessing capital at lower costs. CRAs contribute to efficient capital allocation across sectors by pricing risk appropriately. Given the involvement of multiple regulators (SEBI, IRDA, PFRDA, RBI), there is a need for better inter-regulatory coordination to ensure effective oversight. A comprehensive review of CRA regulation aims to enhance this coordination.

1. INTRODUCTION

The origins of credit rating trace back to the 1840s, following the 1837 financial crisis. Louis Tappan founded the first mercantile credit agency in 1841, later acquired by Robert Dun, and published the first rating guide in 1859. In 1849, John Bradstreet established a similar agency, and in 1933, Dun and Bradstreet was formed. Moody's Investors Service, founded by John Moody in 1900, revolutionized the industry by offering analysis of securities, particularly railroad bonds. Moody's expanded to cover industrial companies and municipal bonds, formalizing Moody's Investors Service in 1914. Other major agencies, including Standard & Poor's (1916), Fitch (1924), and Duff & Phelps (1980), emerged globally, with the industry growing substantially in the 1970s. In India, CRISIL, the first credit rating agency, was established in 1987, followed by ICRA in 1991 and CARE in 1994, all with institutional ownership.

Statement of Problem

This project aims to explore how credit rating agencies assess the creditworthiness of borrowers, both generally and with respect to specific financial obligations, using case studies to understand their rating processes. Titled "Significance of Credit Rating Agencies in India," the research examines how these agencies categorize ratings to guide investors in evaluating company risk and investment potential.

Objectives of the Study

The main objectives of this study are:

1.   To examine and compare the rating of Indian credit rating agencies.

2.   To analyze the overall services offered by credit rating agencies.

3.   To study and compare the rating methodology, process of Indian credit rating agencies.

Hypothesis of the Study

Following are the hypothesis of the study (where Ho is Null Hypothesis and Ha is Alternate Hypothesis)

1.   Ho: Majority of the investors use Credit Ratings.

Ha: Majority of the investors do not use Credit Ratings.

2.   Ho: Debt is the most important tool for Credit Rating agency

Ha: Debt is not the most important tool for Credit Rating agency.

3.   Ho: Most investors prefer Long term credit ratings.

Ha: Most investors prefer Short term credit ratings.

4.   Ho: Investors consider High return as the most attractive element through credit rating of a firm.

Ha: Investors do not consider High return as the most attractive element through credit rating of a firm.

5.   Ho: Higher credit rating to any investment tends to enhance the corporate image.

Ha: Lower credit rating to any investment tends to enhance the corporate image.

6.   Ho: Rating is the most important factor to estimate credibility of issuing company. Ha: Rating is not the most important factor to estimate credibility of issuing company

2. SCOPE OF THE STUDY

The objective of this project is to examine the role and significance of Credit Rating Agencies (CRAs) in India from an investor's perspective, focusing on their impact on credit assessment, corporate financing, and market stability. The study will explore the credit rating process, factors influencing ratings, and the regulatory environment of Indian CRAs, while also comparing them with leading global agencies. Additionally, the research will assess the challenges faced by

CRAs, including transparency issues and conflicts of interest, using case studies and data analysis to provide a comprehensive understanding of their contribution to financial market integrity and investor confidence.

3. LIMITATION OF THE STUDY

1. The study was based on a small sample of just 40 respondents, which may limit the broader applicability of the findings.

2. Limited time and resources, along with respondents' limited knowledge on the topic, may have affected the accuracy of the conclusions.

3. The study relied on data from multiple sources, and any inaccuracies or biases in this information could have impacted the results.

4. RESEARCH METHODOLOGY

- Primary research involved sharing a google form with 40 individuals to understand whether they rely on credit ratings when making investment decisions. The data collected from these interactions helped draw insights into investor behavior regarding credit ratings.

- Secondary research involved reviewing existing research papers, articles, and case studies to build a foundation of knowledge on credit ratings. This background information guided the formulation of relevant questions for the primary research and informed the study's overall approach.

A.   Secondary Data

I.   Meaning

A credit rating is an opinion on an issuer's ability and legal obligation to make timely payments of principal and interest on a specific fixed income security. It evaluates the probability of default over the life of the instrument, which can range from a few days to several decades, and also considers potential monetary loss in case of default. Ratings, typically expressed in alphanumeric symbols, provide investors with a simple and effective way to assess the relative credit quality and default risk of different debt instruments.

II.   Top 10 Credit Rating Agencies of the World

1.   Moody's - Moody's is the oldest credit rating agency, recognized as an NRSRO in 1975. It became public in 2000 and earned significant profits, with structured finance products being a major revenue source.

2.   Standard And Poor's - Owned by McGraw-Hill Inc., S&P is famous for publishing global stock indices, including the widely followed S&P 500. McGraw-Hill reported an adjusted EBITDA margin of 36% in 2024.

3.   FITCH - Fitch is the smallest of the top three agencies and is part of Fitch Group, a subsidiary of Fimalac S.A. It became an NRSRO in 1975 and absorbed several smaller agencies over time.

4.   DBRS - DBRS is a privately owned Canadian agency, the leading ratings firm in Canada for over 30 years, and became an NRSRO in 2003. It competes with the larger agencies but faces challenges from authorities.

5.   Egan-Jones - Founded in 1995, Egan-Jones became an NRSRO in 2007. The agency, funded by investor subscriptions, provides ratings to anyone who requests them.

6.   A.M. Best - Founded in 1899, A.M. Best specializes in the insurance sector and became an NRSRO in 2005. It also recently began rating small and mid-sized commercial banks.

7.   Japan Credit Rating Agency, Ltd. - Established in 1985 and based in Tokyo, Japan Credit Rating Agency became an NRSRO in 2007. It is a smaller agency with a staff of only 90.

8.   Rating And Investment Information Inc. -The second Japanese agency to become an NRSRO in 2007, it was founded in 1975 and expanded internationally with a New York office in 2005.

9.   Lace Financial - Founded in 1982, Lace Financial became an NRSRO in 2008 and operates on an investor-paid business model, similar to Egan-Jones.

10.   Realpoint LLC - RealPoint LLC became an NRSRO in 2008 and is one of the smallest agencies, paid by issuers. It obtained an SEC exemption for its unique business model.

III.   Indian Credit Rating Agencies

In India there are 3 main credit rating agencies:

1.   CRISIL - CRISIL is a leading credit rating agency in India, primarily serving the financial sector, including banks, corporates, and government entities, offering ratings, research, and risk management solutions.

2.   ICRA - ICRA provides credit ratings, research, and risk analysis, catering to a wide range of sectors including banking, financial services, infrastructure, and corporate entities in India.

3.   CARE - CARE Ratings offers credit ratings, research, and advisory services to companies in sectors like banking, financial institutions, infrastructure, and manufacturing, focusing on both domestic and international markets.

Additionally, there are 3 other credit rating agencies operating in India.

4.   Duff and Phelps Credit Rating India (DCR India) - DCR India specializes in credit ratings, risk assessment, and financial analytics, serving small and medium enterprises (SMEs), corporates, and financial institutions across various sectors.

5.   ONICRA - ONICRA provides credit ratings, risk management, and analytical services to businesses, particularly in the MSME sector, helping them access finance and enhance creditworthiness.

6.   SMERA - SMERA focuses on rating and assessing small and medium enterprises (SMEs), offering credit ratings and advisory services to help them improve access to capital and strengthen their financial position.

IV.   Credit Rating Process

The rating process begins with the receipt of formal request from a company desirous of having its issue obligations rated by credit rating agency. A credit rating agency constantly monitors all ratings with reference to new political, economic and financial developments and industry trends. The process/ procedure followed by all the major credit rating agencies in the country is almost similar and usually comprises of the following steps.

1.   Receipt of the Request - The rating process begins when a company formally requests its obligations to be rated. An agreement is signed between the company and the credit rating agency (CRA), ensuring confidentiality, and outlining the issuer's rights to accept or reject the rating and provide necessary information for surveillance.

2.   Assignment to Analytical Team - Upon receiving the request, the CRA assigns the rating task to a specialized analytical team, typically composed of two experts in the relevant sector, who will carry out the rating assessment.

3.   Obtaining Information - The analytical team gathers necessary data from the issuer, guided by a list of information requirements. These requirements cover all key aspects of the issuer's business that impact the rating.

4.   Plant Visits and Meeting with Management - The analytical team visits the company's plant and meets with executives to understand operations, assess facilities, and gather non-public information. These meetings help evaluate key factors like production quality, risk profile, and business strategy.

5.   Presentation of Findings - After analysis, the team presents its findings to the Internal Committee, identifying key issues affecting the rating. The team then forms an opinion on the rating, which is shared with the Rating Committee.

6.   Rating Committee Meeting - The Rating Committee, the final authority on ratings, reviews all factors affecting the issuer's rating. The issuer does not directly participate, and the rating is determined after a comprehensive assessment of key issues.

7.   Communication of Decision - The assigned rating is communicated to the issuer with supporting rationale. If not accepted, ratings are either rejected or reviewed based on additional information, with rejected ratings kept confidential.

8.   Dissemination to the Public - Once accepted by the issuer, the rating is made public through printed reports distributed by the credit rating agency.

9.   Monitoring for Possible Change - CRAs continuously monitor ratings throughout the life of the instrument, considering political, economic, and financial changes. Any rating adjustments are made public through updated reports.

V.   Factors Affecting Assigned Ratings

1.   Ability to Service Debt: Evaluates past and projected cash flows against fixed interest obligations.

2.   Outstanding Debt: Assesses the volume and composition of the issuer's debt.

3.   Cash Flow Stability: Considers the stability and future earning capacity of the company.

4.   Interest Coverage Ratio: Measures how well the issuer can meet fixed interest obligations.

5.   Liquidity: Current ratio (current assets to current liabilities) reflects the issuer's liquidity position.

6.   Collateral Value: Assesses the value of assets pledged as collateral and priority claims.

7.   Market Position: Examines the demand for the company's products, competitors, and market share.

8.   Operational Efficiency: Assesses capacity utilization, expansion prospects, and availability of raw materials.

9.   Management Track Record: The experience of promoters, directors, and key staff affects the rating.

In India, credit ratings are primarily assigned to instruments like debt, commercial paper, fixed deposits, and mutual funds, not to the company itself. Therefore, a higher rating on a company's debt (e.g., AAA) does not imply the company is better overall than another with a lower rating (e.g., BBB). A company's credit rating boosts its credibility and reflects its operational strength, management, and future performance based on past results. Ratings can vary for different instruments issued by the same company (e.g., debentures, commercial papers) due to differing obligations. Credit ratings are mandatory for the issuance of certain instruments such as:

**1.   **SEBI regulations require credit ratings for public debenture and bond issues redeemable beyond 18 months.

**2.   **RBI mandates a minimum rating of P2 (CRISIL), A2 (ICRA), or PR2 (CARE) for issuing Commercial Paper in India.

3. RBI requires NBFCs with net owned funds over ₹2 crore to get their fixed deposit programs rated, with minimum ratings of FA(-) (CRISIL), MA(-) (ICRA), or BBB (CARE).

4. The Ministry of Petroleum mandates credit ratings for LPG and SKO marketers, categorizing them into four grades (1-4) based on risk.

5. A proposal exists to make fixed deposit ratings mandatory for limited companies, similar to NBFCs, through amendments to the Companies Act, 1956.

VI. Functions of Credit Rating Agencies

1. Superior Information - Credit rating agencies provide unbiased, independent assessments of credit risk, leveraging expert staff and exclusive access to both public and non-public data.

2. Low-Cost Information - They simplify complex data into clear, understandable ratings, offering a cost-effective solution for investors who cannot perform such evaluations themselves.

3. Risk-Return Basis - A rated instrument gives investors clarity on the associated risk, helping them make informed decisions about potential returns.

4. Discipline for Corporate Borrower - Higher credit ratings enhance a company's image and visibility, encouraging better financial discipline and responsible management.

5. Increased Credibility - A credit rating agency's reputation is tied to its ratings, prompting it to seek high-quality information, which enhances the credibility of the issuer's financial and other representations.

6. Influence on Public Policy - Professional credit ratings enable the development of public policy guidelines on eligible securities for institutional portfolios with greater confidence.

VII. Benefits of Credit Rating Agencies

1. **Safeguards Against Bankruptcy** - Credit ratings provide investors with insight into the financial strength of the issuing company, assuring them of the instrument's safety and minimizing bankruptcy risks.

2. **Risk Recognition** - Credit ratings use easily recognizable symbols to help investors quickly assess the risk level and expected returns from an investment, making it easier to gauge the issuer's financial stability.

3. **Issuer Credibility** - Ratings reflect the credibility of the issuing company, as the independent rating agency, with no ties to the company, ensures an unbiased evaluation, fostering trust among investors.

4. **Easy Understandability of Investment Proposal** - Credit ratings simplify investment decisions by providing easily understandable symbols, allowing investors to assess security risks and make quick investment choices.

5. **Saving of Resources** - Investors can rely on professional ratings to avoid the need for in-depth analysis of a company's financial health, saving time and effort while making investment decisions.

6. **Independence of Investment Decisions** - With credit ratings, investors can make independent decisions without relying on financial intermediaries, as the rating directly reflects the security's creditworthiness and risk level.

7. **Choice of Investments** - Credit ratings offer investors a variety of rated instruments, allowing them to select options that align with their risk tolerance and investment strategy.

VIII. Disadvantages of Credit Rating Agencies

1. **Biased Rating and Misrepresentations** - If a credit rating agency is linked to the company being rated, there may be biased evaluations, leading to a lack of transparency and misleading information for investors, especially when lower-rated companies hide their ratings.

2. **Static Study** - Credit ratings are based on historical data, making them a snapshot of the company's current state. They do not predict future performance, and changes in external factors like the economy or government policies can affect a company's situation after the rating is assigned.

3. **Concealment of Material Information** - Companies may withhold critical information from rating agencies, resulting in a flawed or unreliable rating that misrepresents the actual risk.

4. **Rating is Not a Guarantee of Company Soundness** - A credit rating assesses the risk of a specific instrument, not the overall financial health or management quality of the company. Investors should form independent judgments and not rely solely on the rating symbol.

5. **Human Bias** - Credit ratings may be influenced by personal biases or weaknesses of the analytical team, potentially impacting the accuracy of the rating.

6. **Reflection of Temporary Adverse Conditions** - Ratings may reflect short-term setbacks, such as temporary industry downturns, leading to misleadingly low ratings that harm a company's reputation.

7. **Down Grade** - If a company fails to maintain performance, its rating may be downgraded, negatively affecting its image and investor confidence.

8. **Difference in Rating of Two Agencies** - Different credit rating agencies may assign different ratings to the same instrument due to varying judgment on qualitative factors, creating inconsistency.

9. Conservative Rating - To avoid the risk of error, rating agencies may downgrade even stable firms during periods of global uncertainty, which can lead to unwarranted pessimism, despite rational investors disregarding such downgrades.

IX.   Types of Ratings

1.   Bond/Debenture Rating - Rating of short-term and medium-term debentures/bonds issued by corporations or governments to assess creditworthiness.

2.   Equity Rating - Evaluation of a company's equity shares to assess their expected performance and risk level, helping investors determine fair stock value and investment potential.

3.   Preference Share Rating - Rating of preference shares issued by a company, assessing their credit risk and investment quality.

4.   Commercial Paper Rating - Rating of short-term borrowing instruments, such as commercial papers, issued by companies, banks, and financial institutions.

5.   Fixed Deposit Rating - Rating of medium-term unsecured borrowings, like fixed deposit programs, to assess the credit risk associated with the issuer.

6.   Borrower's Rating - Rating of a borrower's creditworthiness, assessing their ability to meet financial obligations.

7.   Individual's Rating - A personal credit rating that evaluates an individual's financial reliability and their ability to repay loans.

8.   Structured Obligation - Rating of asset-backed securities, where the focus is on ensuring cash flows from the underlying assets are sufficient to meet payments to investors in adverse scenarios.

9.   Sovereign Rating - Rating of a country's ability to meet its financial obligations, including political risk, which helps investors assess the risk of investing in that country. A higher sovereign rating typically indicates lower risk and can attract more foreign investment.

10.   Real Estate Rating - CRISIL rates builders and developers based on factors like past experience, financial strength, property completion timelines, and legal clearances. This helps guide potential buyers in evaluating a builder's reliability.

11.   Bank Ratings - CRISIL and ICRA rate banks using the **CAMELS** framework:

- **C**: Capital Adequacy (minimum 10% capital against risky assets)
- **A**: Asset Quality (NPA levels, loan performance)
- **M**: Management (efficiency in policies, ROI, ROCE, ROA)
- **L**: Liquidity (ability to meet short-term claims)
- **S**: Systems & Control (adequacy and efficiency of internal systems)

X.   Roles and Operations of Credit Rating Agencies

1.   **CRISIL**- CRISIL stands for Credit Rating Information Services of India Limited and it was the first credit rating agency set up in India in 1987. Today, CRISIL has become a global analytical company that rates companies, researches the markets and provides risk and policy advisory services to its clients.

2.   **CARE** - It was established in 1993 and since then it has gone on to become India's second largest credit rating agency. It was promoted by Industrial Development Bank of India (IDBI), Unit Trust of India (UTI) Bank, Canara Bank and other financial institutions.

3.   **ICRA** - Originally named as Investment Information and Credit Rating Agency, the organization was set up in 1991. It was a joint venture of Moody's and Indian financial and banking service organizations. It was renamed to Limited and was listed in the Bombay Stock Exchange and National Stock Exchange in April 2007.

XI.   Credit Rating Process of Debt Instruments: HDFC

i)   About HDFC: HDFC Ltd., established in 1977, is a leader in housing finance in India with a network of 318 outlets across over 2400 towns, and individual housing loans making up 67% of its loan book as of June 2021. HDFC sources loans through its subsidiary, HDFC Sales Pvt Ltd (47%), and HDFC Bank (28%), with both companies benefiting from a mortgage-backed securities arrangement, where HDFC sells up to 55% of loans to HDFC Bank for fee income and high-quality assets.

ii)   Instruments Rated:

➢   Rs.300.0 Billion Non-Convertible Debentures- CRISIL AAA/Stable

➢   Non-Convertible Debentures aggregating Rs.844.93 Billion- CRISIL AAA/Stable

➢   Bonds Aggregating Rs.1.0085 Billion- CRISIL AAA/Stable

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➢ Subordinate Bond Aggregating Rs.38.75 Billion- CRISIL AAA/Stable

➢ Rs.150 Billion Short Term Debt- CRISIL A1+

➢ Fixed Deposits- FAAA/Stable.

iii)   Different Rating of Products of Various Banks:

HDFC

Products	CARE	Fitch Rating India Pvt Ltd
HDFC Bank Certificate of Deposit	PR1+	AAA
HDFC Bonds	CARE AAA	AAA
HDFC Fixed Deposit	CARE AAA(FD)	AAA
HDFC Mutual Fund Top 200	CARE AAA	AAA

ICICI

Products	CRISIL
ICICI 7.8% Debentures	AAA
ICICI Bank Certificate of Deposit	P1
ICICI Bank Fixed Deposit	FAAA
ICICI Commercial Paper	P1

Central Bank of India

Products	CRISIL
Central Bank of India 9% Debentures	AAA
Central Bank of India Fixed Deposit	FAAA
Central Bank of India Certificate of Deposit	P1

iv)   Rating Rationale

1.   Leading Market Position and Strong Track Record - HDFC has over 35 years of profitable growth in housing finance, maintaining its position as a top player in India with an 18% CAGR in mortgage loans over the past five years. In 2022-23, HDFC disbursed Rs. 902.7 billion, a growth of 18%, with loan approvals and disbursements rising by 19% and 21%, respectively.

2.   Strong Asset Quality - HDFC maintains strong asset quality, with gross non-performing loans (NPLs) at just 0.72% of its portfolio as of March 31, 2023, and nil net NPAs. As of June 30, 2023, gross NPLs stood at 0.75%.

3.   Well-diversified and Stable Resource Base

HDFC has a diversified resource base, including fixed deposits, bank borrowings, debentures, bonds, and foreign currency borrowings, providing flexibility in managing borrowing costs. In 2022-23, its cost of borrowings rose to 8.4% from 7.5% in 2021-22, reflecting industry trends.

4.   Healthy Capitalization and Profitability

HDFC maintains a strong financial profile with a net worth of $5.1 billion and a capital adequacy ratio of 16.1% as of March 31, 2023. Its earnings are driven by healthy interest spreads, low expenses, and strong returns, with a return on net worth (RoNW) of 21.4% and a net profitability margin of 2.2% in 2022-23. Despite higher borrowing costs, HDFC's floating-rate assets and liabilities help manage interest spreads effectively.

Conclusion CRISIL expects HDFC to maintain a stable credit risk profile due to its strong asset quality, capitalization, and profitability, with a potential downgrade if its asset quality or profitability deteriorates significantly.

XII.   SEBI Regulations: General Obligations of Rating Agencies

1.   Agreement with the client: Every Credit Rating Agency shall enter into a written agreement outlining the rights and liabilities of each party, the fee to be charged, the agreement for periodic rating reviews, cooperation with the agency, disclosure of the assigned rating to the client, and the client's agreement to disclose documents such as the

rating assigned to their listed securities by any credit rating agency over the last three years, and any ratings given by other agencies that were not accepted by the client.

2.   **Monitoring of Ratings:** Credit rating agencies must periodically review all published ratings during the life of the securities. If a client does not cooperate, the agency will review based on the best available information. Ratings cannot be withdrawn as long as obligations under the rated securities remain outstanding.

3.   **Internal Procedures:** Agencies must implement systems to prevent violations of SEBI's regulations on insider trading, fraudulent trade practices, and other securities laws.

4.   **Disclosure of Rating Definitions and Rationale:** Agencies must publicly disclose rating definitions and symbols. Ratings are not recommendations to buy, hold, or sell securities. Rationale for ratings, including both positive and risk factors, must be shared with the public.

5.   **Submission of Information to SEBI:** Agencies must submit requested information to SEBI within a specified timeframe. At the end of each accounting period, they must submit their balance sheet and profit & loss account to SEBI.

6.   **Compliance with SEBI Directives:** Agencies must comply with SEBI's guidelines, directives, circulars, and instructions related to credit ratings.

7.   **Appointment of Compliance Officer:** A compliance officer must be appointed to monitor compliance and report non-compliance to SEBI.

8.   **Maintenance of Records:** Agencies must retain records for at least five years, including balance sheets, profit and loss accounts, client agreements, correspondence, and ratings assigned.

9.   **Auditor's Report:** Agencies must address deficiencies noted in the auditor's report within two months, specifically those related to rating activities.

10.   **Confidentiality:** Information provided by clients must be treated as confidential and not disclosed to any third party.

XIII.   Case Studies

1.   The U.S. Subprime Crisis

Introduction: Credit rating agencies played a crucial role in the subprime mortgage crisis, facing criticism for underestimating the risks of complex securities like mortgage-backed securities (MBS) and collateralized debt obligations (CDOs). The Financial Crisis Inquiry Commission stated in 2011 that these agencies were key enablers of the crisis, as their ratings were vital for marketing and selling mortgage-related securities, which investors relied on, sometimes blindly.

Impact on the Crisis: Credit rating agencies are criticized for giving high, "investment-grade" ratings to securities backed by subprime mortgages, fueling the U.S. housing bubble. Between 2002 and 2007, over $3 trillion in subprime loans were made, which were bundled into MBS and CDOs with inflated ratings, attracting global investors. These ratings were supported by credit enhancements like over-collateralization and credit default insurance, making the securities appear safer than they were.

2.   Enron Crisis

Credit rating agencies, with exclusive access to non-public material information, are expected to conduct thorough analyses of companies they rate. However, in Enron's case, agencies like Moody's, S&P, and Fitch failed to perform adequate scrutiny. Despite red flags, such as allegations of financial fraud and past misrepresentation, they largely took Enron's word at face value, neglecting to ask probing questions.

By March 2000, all three agencies rated Enron as investment grade, which was critical for the company's access to capital markets. Even when Enron revealed a $1 billion write-down and $1.2 billion reduction in shareholder equity in October 2001, the agencies were not alarmed. Despite being informed of hidden losses and SEC investigations; they did not press for details or focus on questionable transactions. Only after Enron showed signs of a liquidity crisis did the agencies act, with S&P and Fitch downgrading Enron's outlook and Moody's lowering its rating to BAA2 in late October.

B.   Primary Data

I. Data Analysis And Interpretation Of Questionnaire

Q. How good is your knowledge about credit rating?

A. While 33.3% of respondents reported excellent knowledge about credit ratings, a significant 27.8% rated their knowledge as very good, suggesting a generally high level of awareness.

Q. Do you take investment decisions on the basis of credit rating?

A. The survey revealed that the investment decisions of half of the respondents (50%) were influenced by credit

ratings, showing that credit ratings play a significant role in investment choices.

Q. Do you search credit rating by yourself?

A. A majority of respondents, 67.6%, do not search credit rating information independently, preferring to rely on brokers or financial advisors for such details.

Q. Which of the following is your preference in Credit Rating Agencies?

A. The majority of respondents, 66.2%, preferred CRISIL as their credit rating agency, with ICRA being the second most preferred agency at 20.6%

Q. What additional information do you consider apart from credit rating for investment decisions?

A. The majority, 61.1%, considered fundamental analysis as an additional factor for investment decisions, with 22.2% relying on technical analysis.

Q. Do you think that the number of Credit Rating Agencies established in India is enough?

A. A slight majority, 58.8%, felt that the number of credit rating agencies in India is sufficient, though there is still room for growth in this sector.

Q. Are you satisfied with the ratings given by the agencies?

A. Most respondents (66.7%) expressed satisfaction with the ratings provided by credit rating agencies, with only a small fraction (5.6%) being highly dissatisfied.

Q. What are your risk preferences?

A. The survey found that 42.2% of respondents preferred moderate-risk investments, followed by 34.4% favoring low-risk options, indicating a conservative approach to investment.

Q. What is your reason for considering the rating given by the Credit Rating Agencies?

A. The primary reason for considering credit ratings, according to 72.2% of respondents, was the credibility of the issuers, emphasizing the importance of trust in the rating process.

Annexure – Questionnaire

1. Name:

2. Gender:
   - [ ] Male
   - [ ] Female

3. Age:
   - [ ] Below 20 years
   - [ ] 20-30 years
   - [ ] 30-40 years
   - [ ] 40 years and above

4. Educational Qualification:
   - [ ] High School
   - [ ] Graduate
   - [ ] Undergraduate
   - [ ] Post-graduate

5. Occupation:
   - [ ] Professional
   - [ ] Student
   - [ ] Business
   - [ ] Self-Employed

6. What are the different kinds of investment vehicles you have invested funds in?
   - [ ] Bonds

- [ ] Mutual Funds
- [ ] Equity shares
- [ ] Fixed Deposits
- [ ] Other

7. What is the time duration of your investments?
  - [ ] Short term
  - [ ] Medium term
  - [ ] Long term

8. Which of the following sources do you use for gathering information regarding investments?
  - [ ] Published Information
  - [ ] Brokers
  - [ ] Television and Internet
  - [ ] Parents/Friends/Relatives
  - [ ] Other

9. What is the purpose of your investment?
  - [ ] Capital appreciation
  - [ ] Regular returns
  - [ ] Tax exemption
  - [ ] Security

10. How good is your knowledge about credit rating?
  - [ ] Very good
  - [ ] Good
  - [ ] Fair
  - [ ] Poor
  - [ ] Excellent

11. Do you take investment decisions on the basis of credit rating?
  - [ ] Yes
  - [ ] No

12. Do you search credit rating information by yourself?
  - [ ] Yes
  - [ ] No

13. Which of the following is your preference for Credit Rating Agency?
  - [ ] CRISIL
  - [ ] ICRA
  - [ ] CARE
  - [ ] FITCH

14. What additional information do you consider apart from credit rating for investment decisions?
  - [ ] Fundamental Analysis
  - [ ] No Consideration
  - [ ] Technical Analysis
  - [ ] Other

15. Do you think that the number of Credit Rating Agencies established in India is enough?
  - [ ] Yes
  - [ ] No

16. Are you satisfied with the ratings given by the agencies?
  - [ ] Highly Satisfied
  - [ ] Satisfied
  - [ ] Neutral

- [ ] Highly Dissatisfied

17. What are your risk preferences?

  - [ ] Risk-Free Investment

  - [ ] Low-Risk Investment

  - [ ] Moderate-Risk Investment

  - [ ] High-Risk Investment

18. What is your reason for considering the rating given by Credit Rating Agencies?

  - [ ] Credibility of the issuers

  - [ ] Prompt Payment of Interest and Principal

  - [ ] Reputation of the Issuer

  - [ ] Other

II. Interview

Based on interviews with one of lead analyst of CARE and Senior Manager at Kotak Mahindra Bank (Credit), the following insights were obtained:

Q: What is meant by Credit Ratings?

A: Credit rating is the process of evaluating the creditworthiness of an individual or organization to assess their ability to repay debt. It involves both quantitative data (financial ratios, cash flow, and debt levels) and qualitative factors (industry trends, management quality, and economic conditions). Analysts use proprietary models to assess risk and assign a rating that reflects the borrower's likelihood to meet financial obligations.

Q: How does a Credit Rating Agency differ from a Credit Bureau?

A: A credit rating agency provides an opinion on the future debt repayment capacity of borrowers, while a credit bureau offers information on past debt repayments.

Q: How does a Credit Rating differ from an Audit?

A: A credit rating agency relies on a variety of data sources, including published annual reports. An audit is designed to detect fraud or misrepresentation, whereas credit ratings focus on future repayment ability and do not address the accuracy of financial statements.

Q: What does Credit Rating convey?

A: A credit rating assesses the probability of default on debt repayment, including both principal and interest. It does not recommend buying, selling, or holding debt instruments. It serves as an additional input to investors, who should conduct their own analysis before making investment decisions.

Q: How does a Rating Agency operate when Issuer disclosures are low?

A: When disclosures are limited, rating agencies adopt a conservative approach, relying on available public data, historical information, and industry benchmarks. They may use proxy data from similar companies, consult third-party sources, and closely monitor news or market signals. Low disclosure often results in a lower rating or a "not rated" status due to increased uncertainty. Agencies also encourage transparency from issuers to improve rating accuracy.

Q: How is Credit Rating done?

A: Credit ratings assess an entity's ability to repay debt on time, indicating the level of risk associated with lending to them. The ratings, ranging from high (low risk) to low (high risk), are based on financial data, credit history, market conditions, and sometimes management quality and industry outlook. They inform lending and investment decisions and influence interest rates.

Q: Is competition desirable in the Credit Rating industry?

A: Competition is beneficial for improving service quality and cost-effectiveness. However, it is important to avoid the risks of lax ratings or subpar research, which could compromise the reliability of credit assessments.

5. CONCLUSION

Credit ratings are crucial for guiding investment decisions, providing investors with a systematic and transparent method to assess risk. Credit Rating Agencies (CRAs) bridge the information gap between issuers and investors, enhancing market efficiency and stability. A strong credit rating can attract foreign investment, boosting economies, especially in emerging markets. Ratings are based on both objective and subjective analyses, and CRAs serve markets best when they operate independently, follow strict internal guidelines, and ensure confidentiality. By promoting transparency, credit ratings play a key role in making financial markets safer and more efficient.

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