

## **Credit Rating**

A credit rating estimates the credit worthiness of an individual, corporation, or even a country. It is an evaluation made by credit rating agencies of a borrower's overall credit history. It is a quantified assessment of the credit worthiness of an entity with respect to a particular debt or security or financial obligation

- Credit ratings are based on financial history and current financial position ( assets and liabilities.)
- Typically, a credit rating tells a lender or investor the probability of the subject being able to pay back a loan or generate cash flows on a particular security .
- Commercial credit risk is the largest and most elementary risk faced by many banks and it is a major risk for many other kinds of financial institutions and corporations as well.
- Many uncertain elements are involved in determining both, how likely it is that an event of default will happen and how costly default will turn out to be if it does occur.

The main credit rating agencies in India

- CRISIL(Credit Rating Information Services of India Ltd)
- ICRA(Information and Credit Rating Services Ltd)
- CARE (Credit Analysis and Research Ltd)
- Fitch <sub>India</sub> Ratings

### **CRISIL**

The first rating agency 'Credit Rating Information Services of India Ltd. , CRISIL, was promoted in 1987 jointly by the ICICI and the UTI. Other shareholders included ADB, LIC, HDFC Ltd, General Insurance Corporation of India and several other foreign and Indian Banks.

- It pioneered the concept of credit rating in the country and since then has introduced new concepts in credit rating services and has diversified into related areas of information and advisory activities.
- It became public in 1993.
- In 1996, it formed a strategic alliance with S&P rating group

## Services Given by CRISIL

- Credit Rating Services
- Advisory Services
- Credibility first rating and evaluation Services
- Training Services

### **Credit Rating Services(CRS)**

- ❖ The principle function of CRISIL is to rate mandated debt obligations of Indian Companies chit fund, real estate developers, LPG Kerosene dealers, NBFC, Indian states and so on.
- ❖ Rating of debt obligations:
  - Debt obligation includes rupee denominated credit instruments like debentures, preference shares, deposits, CD's commercial papers and a structured obligations of manufacturing finance companies, banks, financial institutions etc.
  - It ensures stable and healthy growth of capital market by offering credit rating which is widely acceptable. It provides increased disclosures, better accounting standards and improved financial information to the users.
  - It reduces cost of issue by direct mobilization of resources.
  - It protects the interest of investors by constantly monitoring the results of rated companies.

### Rating of structured obligations:

- It reflects CRISIL opinion regarding the capacity and willingness of the company to make timely payments of financial obligations on rated instruments.

### Rating of real estates developers:

- CRISIL has developed framework for rating of real estate projects. Such rating helps investors to identify their investment options
- The rating is expected to help developers mobilize funds for their projects.

- The methodology assesses a project in terms of project risk factors and developer's risk factors.

### **ICRA**

Information and Credit Rating Services (ICRA) has been promoted by IFCI Ltd as the main promoter and started operations in 1991.

- Other shareholders are UTI, Banks, LIC, GIC, Exim Bank, HDFC and ILFS.
- It provides Rating, Information and Advisory services ranging from strategic consulting to risk management and regulatory practice.
- The main objectives of ICRA are to assist investors both individual and institutional in making well informed decisions
- To assist issuers in raising funds from a wider investor base.
- To enable banks, investment bankers, Brokers in placing debt with investors.
- To provide regulators with market driven systems to encourage the healthy growth of capital markets.
- It provides rating services, information services and advisory services.
- ICRA rates debt instruments issued by manufacturing companies, commercial banks, NBFCs, financial institutions, PSUs and municipalities.
- The instruments rated by it include bonds/ debentures, fixed deposits commercial papers and certificate of deposit. It also rates structured obligations in accordance with the terms of the structure based on risk assessment of the instrument . It rates sector specific debt obligations issued by power, telecom and infrastructure companies.

It also provides corporate governance rating , rating of claims paying ability of insurance companies, credit assessment of large medium and small scale companies to obtain assistance from banks, FIs. It also provides services of general assessment of companies

### **CARE**

Credit Analysis and Research Ltd refer to link <http://www.careratings.com/about-us.aspx>

- It commenced its credit rating operations in October, 1993 and offers a wide range of products and Services in the field of Credit Information and Equity Research.

- It also provides advisory services in the areas of securitization of transactions and structuring Financial Instruments.
- It offers services like
  1. Credit rating of debt instruments
  2. Advisory services like securitization transactions, structuring financial instruments, financing infrastructure projects and municipal finances
  3. Information services like providing information to companies, industry and businesses.
  4. Equity research

Note for students:

- The other topics that need to be covered ( Refer to the given links )
  - Rating Symbols and their interpretation
  - <https://www.paisabazaar.com/credit-score/credit-rating-agencies-in-india/>
  - <http://www.ijmetmr.com/olapril2015/MsMSandraKirthy-87.pdf>
  - Equity grading process of ICRA