

Credit Rating: CRISIL

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Abstract - A credit rating agency is a company that rates debtors on the basis of their ability to pay back their interests and loan amount on time and the probability of them defaulting. These agencies may also analyze the creditworthiness of debt issuers and provide credit ratings to only organizations and not individuals consumers. The assessed entities may be companies, special purpose entities, state governments, local governmental bodies, non-profit organizations and even countries. Individual customers are rated by specialized agencies known as credit bureaus that provide a credit score to every customer based on his or her financial history. Credit rating agencies regulated by SEBI and registration with SEBI is important for carrying out rating business. CRISIL is one of the agency which provides the nature and integrals of the loan. Higher the credit rating, lower is the rate of interest offered to the organization. This paper is focusing on credit rating, need for credit rating, grading system and factors involved in credit rating,

Keywords: credit rating agency, crisil, sebi.

I. INTRODUCTION

A **credit rating** is an evaluation of the credit risk of a prospective debtor predicting their ability to pay back the debt, and an implicit forecast of the likelihood of the debtor to make default. The credit rating represents an evaluation of a credit rating agency of the qualitative and quantitative information for the prospective debtor, including information provided by the prospective debtor and other non-public information obtained by the credit rating agency's analysts.

Definition

A credit rating is an assessment of the creditworthiness of a borrower in general terms or with respect to a particular debt or financial obligation. A credit rating can be assigned to any entity that seeks to borrow money — to a corporation, state or provincial authority, or sovereign government.

Need for credit rating

It is very much needed because of the growing number of cases of defaults in payment of interest and repayment of principal sum borrowed by way of issue of debentures or preference shares or commercial papers. In order to protect the interest of investors and to maintain the confidence in investment this kind of rating agencies are very much needed. Credit rating gives rating on the creditworthiness of the debtor which creates trust on the debtor by the creditor. It also motivates the saver to invest in trade and industry.

Objectives of credit rating

- ✓ To provide qualitative and low cost information to investor to invest.

- ✓ To improve the healthy discipline on borrowers.
- ✓ To reduce the interest costs for high rated companies to borrow.

II. IMPORTANCE OF CREDIT RATING

For The Money Lenders

Better Investment Decision: No bank or money lender companies would like to give money to a risky customer. With credit rating, they get an idea about the credit worthiness of an individual or company (who is borrowing the money) and the risk factor attached with them. By evaluating this, they can make a better investment decision.

- **Safety Assured:** High credit rating means an assurance about the safety of the money and that it will be paid back with interest on time.

For Borrowers

1. **Easy Loan Approval:** With high credit rating, you will be seen as low/no risk customer. Therefore, banks will approve your loan application easily.
2. **Considerate Rate of Interest:** You must be aware of the fact every bank offers loan at a particular range of interest rates. One of the major factors that determine the rate of interest on the loan you take is your credit history. Higher the credit rating, lower will the rate of interest.

III. CREDIT RATING VERSUS CREDIT SCORE

Credit rating and credit score may be used interchangeably, but there is a slight distinction between these two words. A credit rating, shows the

creditworthiness of a business or government. A credit score shows the creditworthiness, but it is expressed in numerical form and only used for individuals. Both ratings and scores are designed to show creditors a borrower's worth of repaying a debt.

IV. GRADING SYSTEM

Grading System Each of the rating agencies has different codes for expressing rating for different instruments; however, the number of grades and sub-grades is similar eg for long term debentures/ bonds and fixed deposits, CRISIL has 4 main grades and a host of sub-grades. In decreasing order of quality, these are AAA, AA+, AA, AA-, A+, A, A-, BBB-, BBB, BBB+, BB+, BB, BB-, B+, B, B-, C and D. ICRA, CARE and Duff and Phelps have similar grading systems. The following table contains a key to the codes used by CRISIL and ICRA. Credit rating is a dynamic concept and all the rating companies are constantly reviewing the companies rated by them with a view to changing (either upgrading or downgrading) the rating. They also have a system whereby they keep ratings for particular companies on "rating watch" in case of major events, which may lead to change in rating in the near future. Ratings are made public through periodic newsletters issued by rating companies, which also elucidate briefly the rationale for particular ratings. In addition, they issue press releases to all major newspapers and wire services about rating events on a regular basis.

Factors involved in credit rating Credit rating depends on several factors like

- Earnings of the company is and liquidity position of the company is considered.
- Financial flexibility of the company to raise funds from outside sources to meet requirements are also considered.
- Support from financially strong external bodies.

V. WORKING OF CREDIT RATING

Bond rating agencies like Moody's and Standard & Poor's (S&P) provide a service to investors by grading fixed income securities based on current research. The rating system indicates the likelihood that the issuer will default either on interest or capital payments.

- For S&P, the ratings vary from AAA (the most secure) to C.
- For Moody's, the ratings go from Aaa to D which means the issuer is already in default.

Only bonds with a rating of BBB or better are considered "investment grade." BBB bonds are considered to be suitable for investment by institutions. Anything below the triple B rating is considered to be junk, or below investment grade. Bond ratings are periodically revised based on recent data.

Moody's	S&P	Meaning
Investment Grade Bonds		
Aaa	AAA	Bonds of the highest quality that offer the lowest degree of investment risk. Issuers are considered to be extremely stable and dependable.
Aa1, Aa2, Aa3	AA+, AA, AA-	Bonds are of high quality by all standards, but carry a slightly greater degree of long-term investment risk.
A1, A2, A3	A+, A, A-	Bonds with many positive investment qualities.
Baa1, Baa2, Baa3	BBB+, BBB, BBB-	Bonds of medium grade quality. Security currently appears sufficient, but may be unreliable over the long term.
Non Investment Grade Bonds (Junk Bonds)		
Ba1, Ba2, Ba3	BB+, BB, BB-	Bonds with speculative fundamentals. The security of future payments is only moderate.
B1, B2, B3	B+, B, B-	Bonds that are not considered to be attractive investments. Little assurance of long term payments.
Caa1, Caa2, Caa3	CCC+, CCC, CCC-	Bonds of poor quality. Issuers may be in default or are at risk of being in default.
Ca	CC	Bonds of highly speculative features. Often in default.
C	C	Lowest rated class of bonds.
--	D	In default.

How agencies are paid for their services

Agencies typically receive payment for their services either from the issuer that requests the rating or from subscribers who receive the published ratings and related credit reports. Issuer-pay model. Under the issuer-pay model, rating agencies charge issuers a fee for providing a ratings opinion. In conducting their analysis, agencies may

obtain information from issuers that might not otherwise be available to the public and factor this information into their ratings opinion. Since the rating agency does not rely solely on subscribers for fees, it can publish current ratings broadly to the public free of charge.

Subscription model. Credit rating agencies that use a subscription model charge investors and other market participants a fee for access to the agency's ratings. Critics

point out that, like the issuer-pay model, this model has the potential for conflicts of interest since the entities paying for the rating, in this case investors, may attempt to influence the ratings opinion. Critics of this model also point out that the ratings are available only to paying subscribers. These tend to be large institutional investors, leaving out smaller investors, including individual investors. In addition, rating agencies using the subscription model may have more limited access to issuers.

VI. 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. At incorporation it was promoted by ICICI Limited and other financial institutions. The agency started operations in the year 1988. CRISIL is one of the major player in the market.

CRISIL is headquartered in Mumbai. CRISIL provides opinion and solutions by performing data analysis and research. It has a strong track record of growth and innovation. CRISIL has expanded its operation in USA, UK, Poland, Argentina, Hong Kong, China and Singapore apart from India.

CRISIL Rating refers to the credit rating assigned by the organization of companies when they avail funds through various sources. The rating is assigned on a 20 point scale highest is “AAA” and lowest is “D” in which major consideration is given to the organization’s capability to timely payback a loan it is taking. For assigning the rating an in-depth analysis of the organization’s operational and financial performance is done. Some of the services provided by CRISIL are credit rating services, advisory services, risk assessment, fund services etc.

Rating symbols

CRISIL credit rating symbols provide a simple, efficient way to communicate creditworthiness and credit quality. Our global rating scale provides a benchmark for evaluating the relative credit risk of issuers and issues worldwide.

CRISIL DEBENTURE RATING SYMBOLS:

SYMBOL	SAFETY LEVEL
AAA	HIGHEST SAFETY
AA	HIGH SAFETY
A	ADEQUATE SAFETY
BBB	MODERATE SAFETY
BB	INADEQUATE SAFETY
B	HIGH RISK
C	SUBSTANTIAL RISK
D	DEFAULT

CRISIL FIXED DEPOSIT RATING SYMBOLS:

SYMBOL	SAFETY LEVEL
F AAA	HIGHEST SAFETY
F AA	HIGH SAFETY
F A	ADEQUATE SAFETY
F B	INADEQUATE SAFETY
F C	HIGH RISK
F D	DEFAULT

Demerits of credit rating

- ✓ Possibility of biasness.
- ✓ Improper disclosure of material facts.
- ✓ Differences in rating.
- ✓ Impact of changing environment.

Recovery of investment after default

Credit rating agencies may also assess recovery, which is the likelihood that investors will recoup the unpaid portion of their principal in the event of default. Some agencies incorporate recovery as a rating factor in evaluating the credit quality of an issue, particularly in the case of non-investment grade debt. Other agencies, such as Standard & Poor’s, issue recovery ratings in addition to rating specific debt issues. Standard & Poor’s may also consider recovery ratings in adjusting the credit rating of a debt issue up or down in relation to the credit rating assigned to the issuer.

VII. CONCLUSION

Credit ratings are a tool that investors can use when making decisions about purchasing bonds and other fixed income investments. Ratings help foster the development and smooth functioning of capital markets; capital allows people to start and grow businesses, cities and states to build highways and hospitals, and manufacturers to build factories and create jobs. Ratings express independent opinions on creditworthiness, using a common terminology that may help investors make more informed investment decisions. Credit rating is helpful in determining the creditworthiness. CRISIL is a leading provider of independent credit ratings and analysis, offering a combination of global perspective with local insight.

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