

# Credit Rating Agencies

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**Abstract-** Credit rating agencies play a key role in financial market by helps to reduce the risk and check the ability of the lenders and investors through the creditworthiness

The credit rating agencies in India are regulated by securities and exchange board of India (SEBI). In this paper it study about credit rating agencies and its importance & create a awareness to investor and borrowers. Every agency has its own methodology of rating system

## I. INTRODUCTION

It is an opinion on the future ability and legal obligation of an issuer to make timely payments of principal and interest on specific fixed income security. As per credit rating agencies regulations 1999. Rating means an opinion regarding securities expressed in the form of standard symbols assigned by a credit rating agency used by an issuer of such securities

Evaluates the credit worthiness of a debtor, especially a business or company or a government. It is an evaluation made by a credit rating agency of the debtor ability to pay back the debt and the likelihood of default.

### Importance of credit rating

#### For the money lenders

1. **Better investment decision:** No bank or money lender companies would like to give money to a risky customer. With credit rating, they get can make a better investment decision.
2. **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, bank 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 factor that determine the rate of interest on loan you take is your credit

history. Higher the credit rating, lower will the rate of interest.

### Working of Credit rating in India

As a matter of fact, every credit rating agency has their algorithm to evaluate the credit rating. However the major factor are credit history, credit type and duration, etc. every month these credit rating agencies collect credit information from partner banks & other financial institutions. Once the request for credit rating has been made these agencies dig out the information and prepare a report based on such factors. Based on that report based they grade every individual or company and give them a credit rating. This rating is used by banks, financial institutions and investors to make a decision of investing money, buying bonds or giving loan or credit card. The better is the rating more the chances of getting money at payable interest rates.

### Difference between credit rating and credit score

Credit rating	Credit score
1.The credit rank is applicable for companies	1.The credit score is applicable to individual consumers
2.It summarizes your company's CCR in form of one number	2.It is a 3 digit numeric summary of our credit history
3.It ranges between a scale of 10 to 1 the closer the rank is to 1 the better the chances of your company being able to secure a loan	3.The score is derived by using the details found in the accounts and enquiries section on your credit information report(CIR) and ranges from 300 to 900, the more favorably our loan application will be viewed by a credit institution
4.The rank is only provided to businesses that have outstanding loans of 10 lakh to 50crore	4.The score is provided to an individual based on the credit history

### Credit rating agencies in India

- 1) CRISIL –credit rating information services of India limited
- 2) ICRA- investment information and credit rating agency of India
- 3) CARE – credit analysis and research limited
- 4) BWR - Brickwork Ratings
- 5) SMERA – small medium enterprises rating agency of India limited

#### 1) CRISIL

Credit rating information services of India limited is the first credit rating agency of the country which was established in 1987. It calculates the credit worthiness of companies based on their strengths, market reputation and board. It also rates companies, banks and organization, helping investors make a better decision before investing in companies bonds. It offers 8 types of credit rating which are as follows:

- AAA,AA,A-Good credit rating
- BBB,BB-Average credit rating
- B,C,D- Low credit rating

## 2) ICRA

Investment information and credit rating agency of India was formed in 1991 and is headquartered in Mumbai it offers comprehensive ratings to corporates via a transparent rating system. Its rating system includes symbols which vary with the financial instruments. Here are the types of credit ratings offered by ICRA:

- Bank loan credit rating
- Mutual fund rating
- Corporate debt rating
- Insurance sector rating
- Corporate governance rating
- Infrastructure sector rating
- Financial sector rating
- Issuer rating

## 3) CARE

Credit analysis and research limited offers a range of credit rating services in areas like debt, bank loan, corporate governance, recovery, financial sector and more. Its rating scale includes two categories- long term debt instruments and short term debt ratings.

## 4) Brickwork Ratings (BWR)

Brickwork Rating was established in 2007 and is promoted by Canara Bank. It offers ratings for bank loans, SMEs, corporate governance rating, Municipal Corporation, capital market instrument, and financial institutions. It also grades NGOs, tourism, IPOs, real estate investments, hospitals, IREDA, educational institutions, MFI, and MNRE. Brickwork Ratings is recognized as external credit assessment agency (ECAI) by Reserve Bank of India (RBI) to carry out credit ratings in India.

## 5) SMERA

Small medium enterprises agency of India limited has two divisions- SME rating and Bond rating. It was established in 2011 and is a hub financial professionals. It offers credit rating in the following format

- AAA,AA,A- Low credit risk
- BBB,BB-Moderate credit risk
- B,C – High credit risk
- D- Defaulted

## Advantages of credit rating

Benefits to investors	Benefits the company
Safety of investment	Easier to raise funding
Recognition of risk and return	Reduced cost of borrowing
Freedom of investment decision.	Reduced cost of public issues
Wider choice of investments	Ratings facilitates growth
Easy understanding of investment proposals	Recognition to unknown companies

## Disadvantages of credit rating

### 1. No uniformity among rating companies in India:

An average investor in India is not able to understand the different credit ratings prevailing in India as there is no uniformity among the credit rating agencies especially among CRISIL, CARE and ICRA

### 2. No standardization in rating:

There is **no standardization of credit rating** by different rating agencies for the same instruments. For fixed deposits, there are 6 different grades and for promissory notes, there are 5 grades.

### 3. No proper Distinction:

Distinction between equity instruments and mutual funds is not provided. Which is one of the major drawback of credit ratings in India.

### 4. Difference between two credit rating agencies:

In India, there is no remedy for difference in the credit rating by two different credit rating agencies which is a major disadvantage. One may give the rating of 'safety' and another may give 'risky'. In such a case, what is the remedy open to the public? In foreign countries, in similar situations,

credit rating from a third credit rating agency becomes mandatory.

## II. CONCLUSION

According to pros and drawbacks of credit rating some agencies are rated on the return terms and some agencies are rated on the risk. In the present scenario credit rating is important for company and as well as individual also. It also helps from the income tax

## REFERENCES

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