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Comparative Study On Indian Credit Rating Agencies –Rating Methodology, Process, Rating Symbols & Services

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Abstract:

The credit rating has been a long established part of the financial mechanism abroad. Credit rating agency means a body corporate engaged in the business of rating of securities. Thus, services of Credit rating agencies to the investors play a major role in evaluating risk and return of the investment in taking the decisions. It is very much essential to understand the credit rating agencies methodology process and rating symbols adopted and overall services. This paper emphasizes on comparing the rating methodology, process, symbols and services of CRISIL(Credit rating information service Ltd.),ICRA(Investment information and credit rating agencies) ,CARE(Credit Analysis and Research Limited), and Fitch India Ltd. The rating agencies in India need to evolve their own methodologies, process, and symbols within the context of macroeconomic environment.

Key words:

Rating agencies ,Performance, process, Methodology, services, symbols.

1. INTRODUCTION :

As a fee-based financial advisory service credit rating is obviously extremely useful to investors, corporate (borrowers), banks and financial institutions. Rating is an opinion regarding securities expressed in standard symbols any other standardized form assigned by a credit rating agency and used by the issuer of such security Credit rating coverage in India started only recently. It was in the late eighties (1987) with the first rating agency, At present there are four rating agencies namely CRISIL,ICRA and CARE, and Fitch rating India Ltd. are popular.

CRISIL was jointly promoted by ICICI nationalized and foreign banks and insurance companies in 1987. ICRA was promoted in 1991, by IFCI and 21 other shareholders comprising of nationalized and foreign banks and insurance companies. It is the second rating agency to be established in India. CARE was incorporated in 1992 with the combined efforts of IDBI and several other banks and insurance companies. Fitch Rating India Ltd.-Fitch India Ltd was born following the merger of duff and Phelps (1998) and DCR in 2001.Fitch India in a 100% subsidiary of Fitch IBCA and is the only foreign operation in the country.

1.1 NEED AND IMPORTANCE OF THE STUDY :

Credit rating is used as critical inputs in determining investment portfolio. Credit rating agencies play a pivotal role in providing the service and information, and thereby facilitate the investment in assessing the risk. There is a need to understand the ratings of credit rating agencies as an investor uses the rating to assess the risk level and compares the offered rate of return trade-off with his expected rate of return (for the particular level of risk) to optimize. Credit rating plays a key role in financial markets by obligations in either local or foreign country.

1.2 OBJECTIVES OF THE STUDY :

•To examine and compare the rating symbols of Indian credit rating agencies.
•To analyze the overall services offered by credit rating agencies.
•To study and compare the rating methodology, process of Indian credit rating agencies.

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1.3RESEARCH METHODOLOGY :

The study consist of four credit rating agencies of India viz., CRISIL,ICRA,CARE and Fitch India Ltd. are taken. The study is based on secondary data and collected from books, articles, fact sheets, newspapers, journals, periodicals, annual reports, credit rating agencies websites etc.

2. COMPARISION OF RATING SYMBOLS OF CREDIT RATING AGENCIES:

Table 1-COMPARISION OF SYMBOLS OF CREDIT RATING AGENCIES

Rating parameters	CRISIL Rating symbols	ICRA Rating symbols	CARE Rating symbols	Fitch Rating symbols
Debenture/long term instrument				
High investment grading				
highest safety	AAA	LAAA	CARE AAA	AAA(ind)
high safety	AA	LAA+,LAA,LAA-	CARE AA	AA(ind)
adequate safety	A	LA+,LA,LA-	CARE A	A(ind)
moderate safety	BBB	LBBB+,LBBB,LBB	CARE BBB	BBB(ind)
Speculative grading		B+		
inadequate safety	BB		CARE BB	BB(ind)
high risk	B	LBB+,LBB,LBB-	CARE B	B(ind)
substantial risk	C	LB+,LB,LB-	CARE C	C(ind)
default	D	LC+,LC,LC-	CARE D	D(ind)
		LD		
Medium term/fixed deposit			(FD/CD)	
	FAAA	MAAA	CARE AAA	tAAA(ind)
Highest safety	FAA	MAA+,MAA,MAA	CARE AA	tAA(ind)
High safety	FA	-	CAREA	tA(ind)
Adequate safety	-	MA+,MA,MA-	CARE BBB	
Sufficient safety	-	-	CARE BB	
Inadequate safety care	FB	-	CARE B	tB(ind)
only	FC	MB+,MB,MB-	CARE C	tC(ind)
Inadequate safety	FD	MC+,MC,MC-	CARE D	tD(ind)
High risk		MD		
Default				
Short term instrument				
Highest safety	P-1	A1	PR1	F1(ind)
High safety	P-2	A2	PR2	F2(ind)
Adequate safety	P-3	A3	PR3	F3(ind)
Inadequate safety	P-4	A4	PR4	F4(ind)
default	P-5	A5	PR5	F4(ind)
Collective investment scheme				
High certainty	Grade 1	CS1	CARE 1(CIS)	
Adequate certainty	Grade 2	CS2	CARE 2(CIS)	
Moderate certainty	Grade 3	CS3	CARE 3(CIS)	
Inadequate certainty	Grade 4	CS4	CARE4(CIS)	
High risk	Grade 5	CS5	CARE 5(CIS)	

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IPO grading(fundamental of the issuer concerned) Strong Above Average Average Below average poor	5/5 4/5 3/5 2/5 1/5	IPO GRADE 5 IPO GRADE4 IPO GRADE 3 IPO GRADE 2 IPO GRADE 1	CARE GRADE5 CARE GRADE4 CARE GRADE3 CARE GRADE2 CARE GRADE1	GRADE 5(IND) GRADE4(IND) GRADE3(IND) GRADE2(IND)
Below average poor	1/5	IPO GRADE 1	CARE GRADE2 CARE GRADE1	GRADE3(IND) GRADE2(IND) GRADE1(IND)
Issuer credit rating Capacity to meet financial commitment Extremely strong Very strong Strong Adequate Inadequate Risk-prone Lowest default	AAA AA A BBB BB B CCC	Ir AAA Ir AA Ir A Ir BBB Ir BB Ir B I rC	CARE AAA(Is) CARE AA(Is) CARE A(Is) CAREBBB(Is) CARE BB(Is) CARE B(Is) CARE C(Is) CARE D(Is)	
Maritime training Out standing Very good quality Good quality Satisfaction Poor quality	Grade 1 Grade 2 Grade 3 Grade 4 Grade 5	ICRA Grade 1 ICRA Grade 2 ICRA grade 3 ICRA grade 4 ICRA grade 5	Grade 1 Grade2 Grade3 Grade4 Grade5	
Health care Highest quality of care High quality of care poor quality of care	Grade A Grade B Grade D	H1 H2 H4	- - -	
Claims paying ability of insurance company Highest ability High ability Adequate ability Moderate ability Inadequate ability Weak ability Lowest ability default	AAA AA A BBB BB B C D	iAAA iAA iA iBBB iBB iB iC	CARE AAAIn CARE AAIn CARE AIn CARE BBBIn CARE BBIn CARE BIn CARE CIn CARE DIn	
SME Rating Highest High Above Average Average Below Average	SME1 SME2 SME3 SME4 SME5	ICRA SME1 ICRA SME2 ICRA SME3 ICRA SME4 ICRA SME5	CARE SME1 CARE SME2 CARESME3 CARE SME4 CARE SME5	SME1 SME2 SME3 SME4 SME5

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Inadequate Poor Lowest	SME6 SME7 SME8	ICRA SME 6 ICRA SME7 ICRASME8	CARE SME6 CARE SME7 CARE SME8	SME6 SME7 SME8
Real estate/builders High ability High ability Adequate ability Inadequate ability Inability	 PA1 PA2 PA3 PA4 PA5	 CR1 CR2 CR3 CR4 CR5		
MUTUAL FUNDS Minimum credit risk Very low creditrisk Low credit risk Moderate credit risk High credit risk Very high credit risk Extremely higher credit rids	 AAAf AAf Af BBBf BBf Bf Cf	 mfAAA mfAA mfA mfBBB mfBB mfB mfC	 CARE AAAf CARE AAf CARE Af CARE BBBf CARE BBf CARE Bf CARE Cf	 IND AAAmfs IND AAmfs IND Amfs IND BBBmfs IND BBmfs IND Bmfs IND Cmfs

The suffixes plus(+) or minus(-) are added to the symbols to indicate the relative position of the instrument within the group covered by the symbol. Currently rating agencies have standardized rating nomenclature for long ratings, short term instruments, medium term ratings, IPO grading etc. Overall the rating symbols used by four credit rating with alphabets, alphanumerical, representing the same. And also the agencies names are indicated besides the rating symbols.

3.SERVICES OF CREDIT RATING AGENCIES

TABLE2- COMPARISION OF RATING/GRADING SERVICES

Rating/grading/service	CRISIL	ICRA	CARE	FITCH
Rating of long/medium-term debt instrument	✓	✓	✓	✓
Rating of short term debt instrument	✓	✓	✓	✓
Claims paying ability of insurance co.	✓	✓	✓	✓
Corporate governance rating	✓	✓	✓	✓
Structured finance/obligation rating	✓	✓	✓	✓
Grading of mutual funds/bond funds	✓	✓	✓	✓
Grading of real estate/project finance	✓	✓	✓	✓
SSI/SME	✓	✓	✓	✓
Issuer credit rating	✓	✓	✓	✓
IPO grading	✓	✓	✓	✓
Loan/bank loan rating	✓	✓	✓	✓
Micro finance institution grading	✓	✓	✓	✓
Mari time training course grading	✓	✓	✓	✓
Health care Institutions grading	✓	✓	–	–
Subsidiaries/joint venture of MNC	✓	–	–	–
Business Process Outsourcing	✓	✓	–	–
Rating of real estate developers project/builders	✓	–	–	–
Advisory services	✓	✓	✓	✓
Transport& Urban infrastructure group services	✓	–	–	–
Privatization &disinvestment	✓	–	–	–
Banking &finance group	✓	✓	–	–
Information Technology Service	✓	–	–	–

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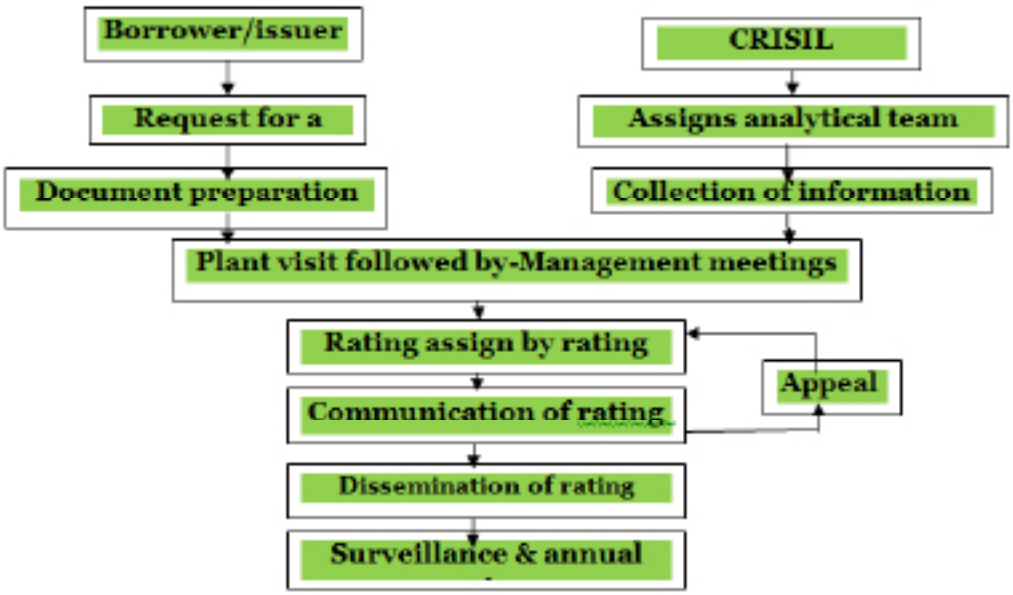
Online services	✓	_	_	_
Capital market-mutual fund service	✓	_	_	_
Index services	✓	_	_	_
Training services	✓	_	_	_
Customized research	✓	✓	✓	_
Information services	✓	✓	✓	✓
Project/infrastructure advisory	✓	✓	✓	_
Investment/risk managing advisory	✓	✓	_	_
Financial restructuring advice	_	✓	✓	_
Credit appraisal system	_	_	✓	_
Industry/sector analysis	✓	✓	✓	✓
Corporate analysis	✓	✓	✓	✓
Equity Research	✓	_	✓	_

All the four rating agencies rating/grading services is done for long, medium, short term instruments, claims paying ability of insurance, corporate governance , structured finance, mutual funds, bond funds, real estate, project finance, SSI, SME,IPO grading, bank loan , Micro finance institution, Maritime training course. Most of the services are offered by CRISIL and

4.RATING PROCESS OF CREDIT RATING AGENCIES

4.1 CRISIL'S RATING PROCESS (sources :http:/www.crisil.com/rating-process-chart)



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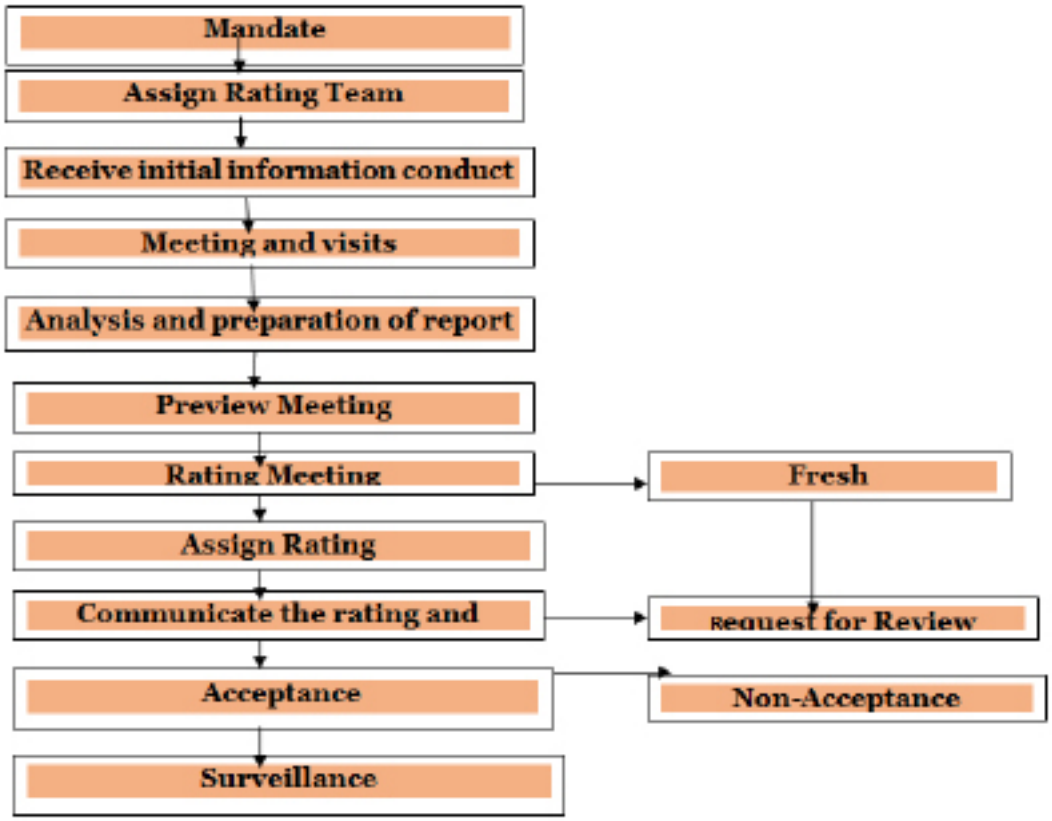
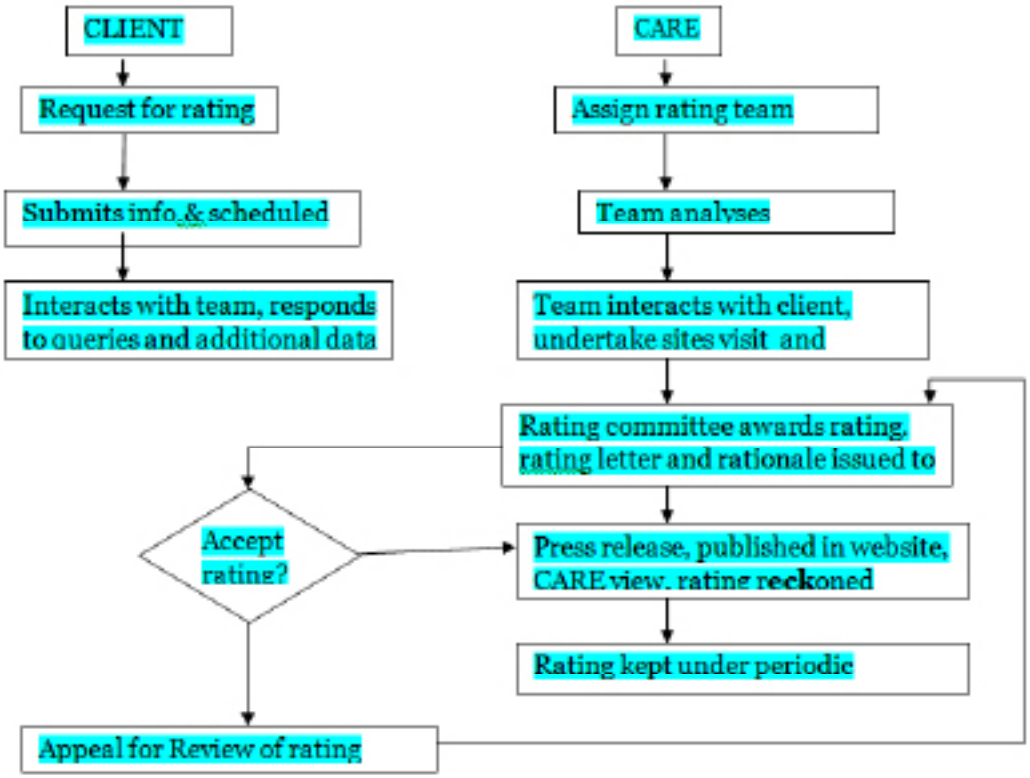
4.2 ICRA PROCESS: (sources: Institute of chartered accountant of India)



4.3 CARE PROCESS (sources :hhtp//www.carerating.com/rating/process)



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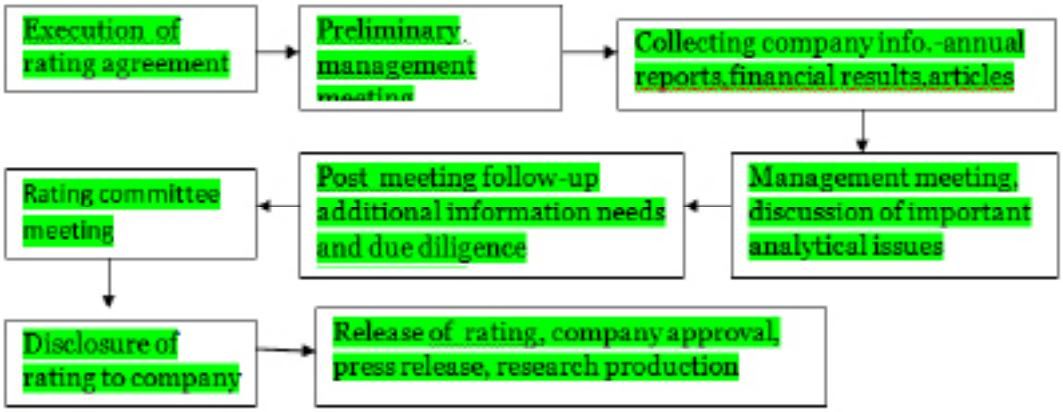
4.4 FITCH RATING PROCESS(sources: http/www.fitchrating.com)



The entire process of all the rating agencies involves a series of steps and relevant information is put into proper evaluation and analysis. All the rating agencies in India follow, more or less similar process in assigning the rating. The practices of process reflects Moody's ,Standard and Poor's of International Rating agencies.

5. RATING METHODOLOGY OF CREDIT RATING AGENCIES :

Rating Methodology refers to the use and application of tools in the rating .Rating is undertaken by four different agencies in India, namely, CRISIL, ICRA, CARE and Fitch India, with minor differences in the four, the basic parameters of all of them remain the same. However, presentation of each category has its own value and implication. And it is observed that all rating agencies in India more or less follow similar methodology which is based on international practice of their counter parts.

The methodology encompasses all the key factors for rating assessment and assignment. Rating agencies focused on wide range of factors ranging from macro level factors to micro level factors. The both qualitative as well as quantitative factors are considered by the agencies before assigning any ratings. The common and important factors are considered and analyzed in rating methodology by different rating agencies. These agencies follows typically CRAMEL model to evaluate the debt servicing capabilities of banks and institutions. CRAMEL stands for Capital adequacy, Resources, Asset quality, Management quality, Earnings potential and Liquidities .

CONCLUSION:

Indian credit rating agencies have made strategic alliance with reputed international agencies. The rating agencies in India have to evolve their own methodologies, process, and symbols within the context of macro-economic environment. The analyses and assessments provided by various credit rating agencies provide investors with information and insight that facilitates their ability to examine and understand the risks and opportunities associated with various investment environments.

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