

# 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 macro-economic 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.

## 1.3 RESEARCH 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. COMPARISON OF RATING SYMBOLS OF CREDIT RATING AGENCIES:

**Table 1-COMPARISON OF SYMBOLS OF CREDIT RATING AGENCIES**

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

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

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

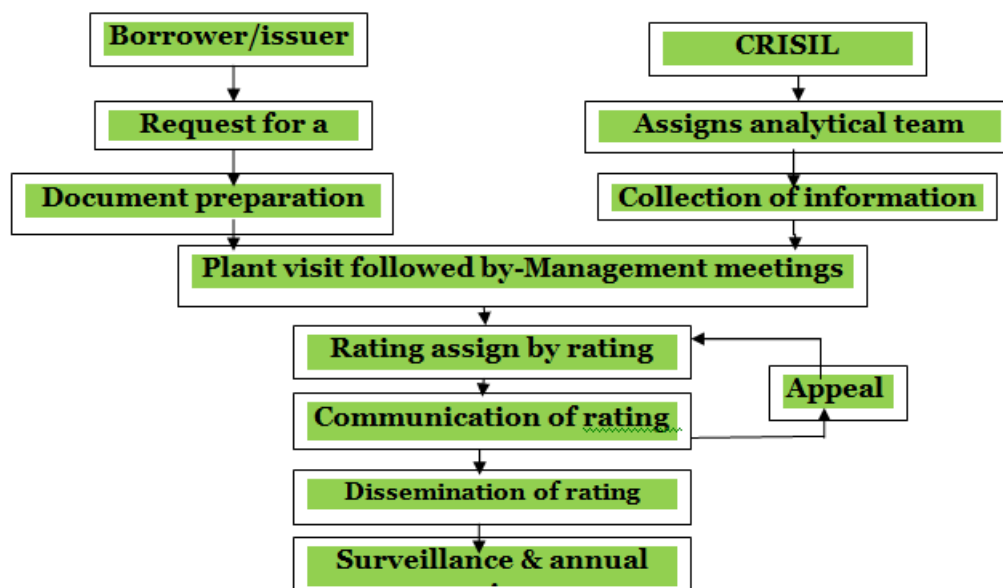


|                                    |   |   |   |   |
|------------------------------------|---|---|---|---|
| Online services                    | ✓ | — | — | — |
| Capital market-mutual fund service | ✓ | — | — | — |
| Index services                     | ✓ | — | — | — |
| Training services      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

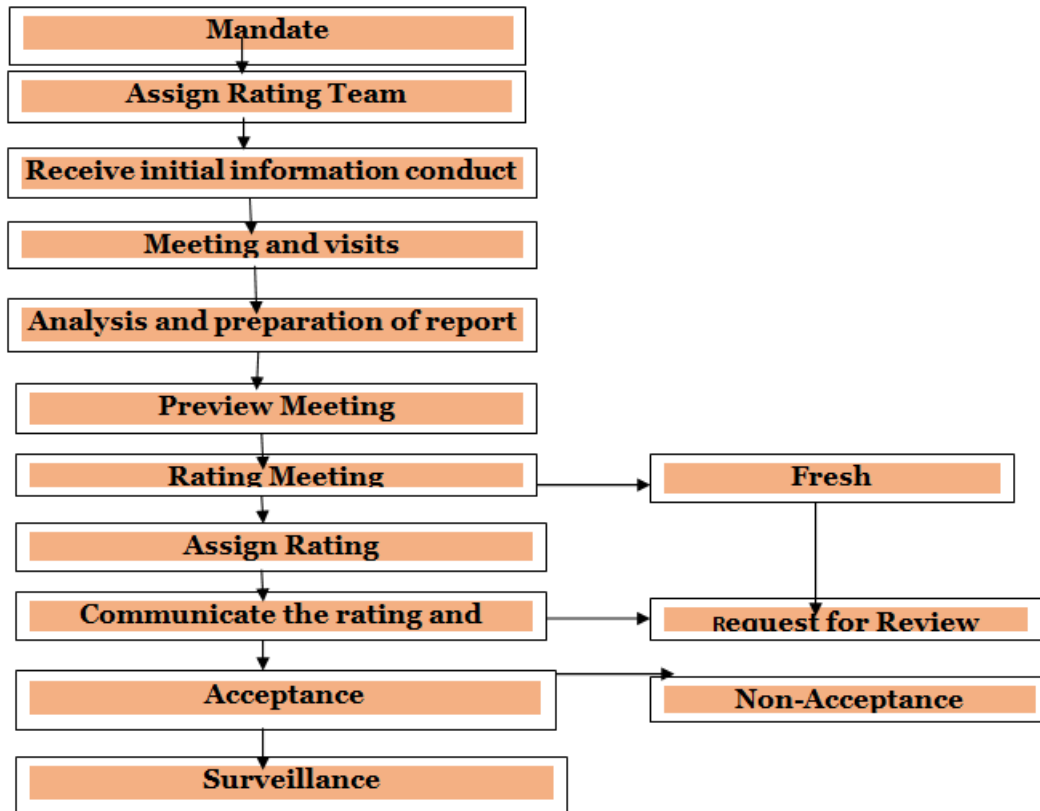
All the four rating agencies rating/grading services is done for long, medium, short term instruments, claims paying ability of insurance, corporate governance , structured finance, mutual funds, bond funds, real estate, project finance, SSI, SME,IPO grading, bank loan , Micro finance institution, Maritime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

## 4.RATING PROCESS OF CREDIT RATING AGENCIES

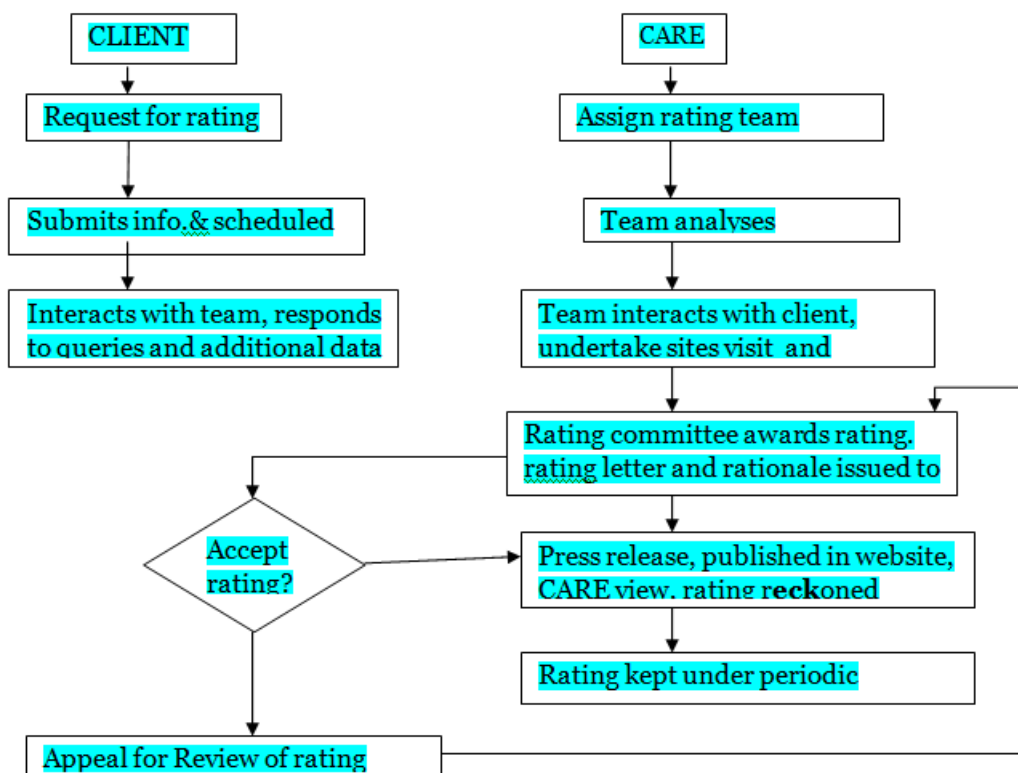
### 4.1 CRISIL'S RATING PROCESS (sources :<http://www.crisil.com/rating-process-chart>)



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



## 4.3 CARE PROCESS (sources :<http://www.carerating.com/rating/process>)



## 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:o

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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