

CHARACTERISTICS OF CREDIT RATING

It assesses the issuer's capacity to meet financial obligation. It assesses the financial strength of the borrower. Rating expressed in symbols e.g. AAA, BBB ...which can be understood by layman easily. Credit Rating is done by expert of, reputed, accredited institutions. Credit Rating is only guidance to investors which provides recommendations to the investors whether to invest in any particular investment.

Some of the Top Credit Rating Agencies in India are:

1. Credit Rating Information Services of India Limited (CRISIL)

CRISIL is one of the oldest credit rating agencies in India. It was launched in the country in 1987 following which the company went public in 1993. Headquartered in Mumbai, CRISIL ventured into infrastructure rating in 2016 and completed 30 years in 2017. CRISIL acquired 8.9% stake in CARE credit rating agency in 2017. It launched India's first index to benchmark performance of investments of foreign portfolio investors (FPI) in the fixed-income market, in the rupee as well as dollar version in 2018. The company's portfolio includes, mutual funds ranking, Unit Linked Insurance Plans (ULIP) rankings, CRISIL coalition index and so on.

2. ICRA Limited

ICRA Limited is a public limited company that was set up in 1991 in Gurugram. The company was formerly known as Investment Information and Credit Rating Agency of India Limited. Before going public in April 2007, ICRA was a joint venture between Moody's and several Indian financial and banking service organisations. The ICRA Group currently has four subsidiaries - Consulting and Analytics, Data Services and KPO, ICRA Lanka and ICRA Nepal. At present, Moody's Investors Service, the international Credit Rating Agency, is ICRA's largest shareholder. ICRA's product portfolio includes rating for - corporate debt, financial rating, structured finance, infrastructure, insurance, mutual funds, project and public finance, SME, market linked debentures and so on.

3. Credit Analysis and Research limited (CARE)

Launched in 1993, CARE offers credit rating services to areas such as corporate governance, debt ratings, financial sector, bank loan ratings, issuer ratings, recovery ratings, and infrastructure ratings. Headquartered in Mumbai, CARE offers two different categories of bank loan ratings, long-term and short-term debt instruments. The company also offers ratings for Initial Public Offerings (IPOs), real estate, renewable energy service companies (RESCO), financial assessment of shipyards, Energy service companies (ESCO) grades various courses of educational institutions. CARE Ratings has also ventured into valuation services and offers valuation of equity, debt instruments, and market linked debentures. Moreover, the company has launched a new international credit rating agency 'ARC Ratings' by teaming up with four partners from South Africa Brazil, Portugal, and Malaysia. ARC Ratings has commenced operations and completed sovereign ratings of countries, including India.

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 recognised as external credit assessment agency (ECAI) by Reserve Bank of India (RBI) to carry out credit ratings in India.

5.India Rating and Research Pvt. Ltd.

India Ratings is a wholly-owned subsidiary of the Fitch Group. It offers credit ratings for insurance companies, banks, corporate issuers, project finance, financial institutions, finance and leasing companies, managed funds, and urban local bodies. In addition to SEBI, the company is recognised by the Reserve Bank of India and National Housing Bank.

6.Acuite Ratings & Research Limited

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,300 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and section of industries. It has its Registered and Head Office in BKC, Mumbai.

7.Infomerics Valuation and Rating Private Limited

An RBI-accredited and SEBI-registered credit agency, Infomerics Valuation and Rating Private Limited saw its inception by eminent finance professionals and is now run under the leadership of Mr. Vipin Mallik. The credit bureau strives to offer an unbiased and detailed analysis and evaluation of credit worthiness to NBFCs, banks, corporates and small and medium scale units. It is through their rating and grading system that they determine the credit worthiness of an organisation. Infomerics helps in reducing any kind of information asymmetry amongst investors and lenders. Keeping transparency as it is core value, the credit bureau makes sure to deliver comprehensive and accurate reports and records of all their clients.

9 MAJOR STEPS INVOLVED IN CREDIT RATING PROCESS

Credit rating helps investors by providing an easily recognizable, simple tool that couples a possible unknown issuer with an informative and meaningful symbol of credit quality. Credit rating provide unbiased assessment of the creditworthiness of the companies issuing debt instruments. And they also provide information about the creditworthiness of corporate to the investors at a low cost.

Credit Rating Process of Financial Instruments

The steps involved in credit rating process are explained below:

1. Receipt of the Request

The **credit rating process** begins, with the receipt of a formal request for rating from a company desirous of having its issue obligations under proposed instrument rated by credit rating agencies.

An agreement is entered into between the rating agency and the issuer company.

The agreement spells out the terms of the rating assignment and covers the following aspects:

1. It requires the CRA (**credit rating agency**) to keep the information confidential.
2. It gives the right to the issuer company to accept or not to accept the rating.
3. It requires the issuer company to provide all material information to the CRA for rating and subsequent surveillance.

2. Assignment to Analytical Team

On receipt of the above request, the CRA assigns the job to an analytical team. The team usually comprises of two members/analysts who have expertise in the relevant business area and are responsible for carrying out the rating assignments.

3. Obtaining Information

The analytical team obtains the requisite information from the client company. Issuers are usually provided a list of information requirements and a broad framework for discussions. The requirements are derived from the experience of the issuers business and broadly confirm to all the aspects which have a bearing on the rating. The analytical team analyses the information relating to its financial statements, cash flow projections, and other relevant information.

4. Plant Visits and Meeting with Management

To obtain classification and a better understanding of the client's operations, the team visits, and interests with the company's executives.

Plant visits facilitate understanding of the **production process**, assess the state of equipment and main facilities, evaluate the quality of technical personnel and form an opinion on the key variables that influence level, quality, and cost of production.

Direct dialogue is maintained with the issuer company as this enables the **CRA's** to incorporate non-public information in a rating decision and also enables the rating to be forward-looking.

The topics discussed during the management meeting are wide-ranging including competitive position, strategies, financial policies, historical performance, **risk profile**, and strategies in addition to reviewing financial data.

5. Presentation of Findings

After completing the analysis, the findings are discussed at length in the internal committee, comprising senior analysts of the credit rating agencies. All the issues having a bearing on the rating are identified. An opinion on the rating is also formed. The findings of the team are finally presented to the rating committee.

6. Rating Committee Meeting

This is the final authority for assigning ratings. The rating committee meeting is the only aspect of the process in which the issuer does not participate directly. The rating is arrived at after composite assessment of all the factors concerning the issuer, with the key issues getting greater attention.

7. Communication of Decision

The assigned rating grade is communicated finally to the issuer along with reasons or rationale supporting the credit rating. The credit ratings which are not accepted are either rejected or reviewed in the light of additional facts provided by the issuer. The rejected credit ratings are not disclosed and complete confidentiality is maintained.

8. Dissemination of the Public

Once the issuer accepts the rating, the credit rating agencies disseminate it through printed reports to the public.

9. Monitoring for Possible Change

Once the company has decided to use the rating, CRAs are obliged to monitor the accepted ratings over the life of the instrument. The CRA constantly monitors all ratings with reference to new political, economic, and financial developments and industry trends. All this information is reviewed regularly to find companies for, major changes. Any changes in the rating are made public through published reports by CRAs.