



ANALYSIS OF THE PERFORMANCE OF CREDIT RATING AGENCY (CRISIL)

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ABSTRACT

The focus of the study titled 'Credit Rating and Financial Players of the Indian Capital Market' was on the financial drivers-cum t-scores of BSE-listed companies with high and low credit ratings. The objectives of the study were determined after a thorough literature review, discussions with capital market participants (such as brokers, sub-brokers, dealers, and investors), and interviews with teachers and researchers in the field of finance. In accordance with the objectives of the study, both primary data (from investors and brokers) and secondary data were collected, classified, tabulated, analysed, and interpreted.

Keywords: Credit Rating, Financial Drivers, BSE-Listed Companies, Capital Market, Performance Analysis

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INTRODUCTION

Credit ratings helped grow the local long-term fixed-rate bond market and manage the financial crisis and domestic risks. Local currency bond markets are a nation's most stable financing. Due to dispersed investments, the odds of investors in local bond markets differ from bank financing, which funds high-risk projects long-term. Long-term bonds have lengthened non-financial corporations' debt maturities and reduced mismatches. Corporate bonds help commercial banks compensate for maturation delays when issuing long-term bonds. Local fixed-rate bond markets and foreign currency loans stabilise markets in good and bad weather.

When interest rates rise during a crisis, inflation rises and the value of money decreases, reducing the cost of fixed-rate debt and the company's debt burden. As assets depreciate, liabilities decrease, reducing or eliminating debt. Short-term loans in foreign or local currency make good times worse.

All commercial activities are unpredictable. It means every company is risky. A company's risk profile includes the following risks:

The size of a business's owner's stake determines its strength. Level I (paid capital and reserves) and Level II (bonds, hybrid instruments) capital depend on resource mobilisation. Modern financial management includes equity, regulatory, and economic capital. The Basel Committee considers capital base one of three risk assessment pillars.

Basel II defines market risk as losing balance sheet positions due to market price fluctuations. These risk factors include portfolio composition, interest rate volatility, capital/raw material risk, and exchange rate volatility.

This risk spans an organization's entire operation. It's the risk of a company losing money due to poor internal systems. Personal, technological, legal, and reputational risk are its main components.

Credit risk is the possibility that a debtor won't meet their credit obligations.

Credit risk is the most complicated risk associated with obtaining funds for operational purposes and is one of the oldest financial issues, despite the lack of specific tools to manage it. Initially, market risk received more scientific research. Several factors have shifted the focus to credit risk, modelling, and valuation. Credit derivatives (CDS) have grown along with credit markets. Quantitative methods are increasingly used to assess and manage credit risk. Complex products like credit default swaps require quantitative models to measure credit risk.

Credit-risk

Basel says "Credit risk is the likelihood that the borrower or debtor and counterparty won't meet their obligations."

Based on default probability, recovery rates, and borrower correlation (in the calculation of debt instrument portfolios). In recent years, the credit risk model and regulatory reforms, such as credit derivatives and quantitative methods, have grown rapidly. Credit risk is a rapid development in finance and research that attracts market participants such as a. Financial institutions (commercial banks, investment banks, hedge funds), b. Regulators (U.S. Federal Reserve, Bank of International Settlements), and c. Investors. Various methods measure credit risk. Methods are listed below. Traditional and modern methods will evaluate the portfolio. These methods assess credit risk for repayment or default consistently and efficiently. Accelerated globalisation expands financial and capital markets. Ratings have grown in importance, and rating agencies now serve regulators and investors. In developed economies, credit rating agencies assess borrowers' credit. Rating violations affect debt and stock prices. Investors considered ratings, implicit noncompliance opportunities, and bond or spread revenue when calculating default risk.

Credit ratings are rating agencies' opinions on corporate debt risk. The credit rating helps investors verify borrowers' creditworthiness, differentiate debt instruments, and understand investments. Each debt instrument's credit assessment is used to assess its credit risk. Credit rating agencies assess the solvency of independent companies and nations. Standard and Poor's, Moody's, and Fitch are famous rating agencies.

Credit evaluations reveal borrowers' creditworthiness using alphabetic symbols. These symbols correspond to A, B, C, and D.

The speculative grade fell as the investment grade rose.

REVIEW OF LITERATURE

Geetika Jaggi (2014) read "Uncovering the Mystery of Credit Ratings" to learn more about credit rating agencies, the rating process, and the rating of fundamental terms.

The impact of credit rating agencies on the global financial crisis was analysed by **Yalmaz Bayar (2014)**, who looked into the accuracy and reliability of credit ratings. The bursting of speculative bubbles is to blame for the start of the subprime mortgage crisis in the United States. Beginning in 1997 and continuing through 2006, it ravaged the American real estate market and ultimately triggered a worldwide economic meltdown in September of 2008. Use of credit ratings has been impacted by the U.S. subprime mortgage crisis.

The effect of credit ratings on the cost of initial public offerings is studied by **Mohamed Esmaeil Ezazia, Jamal Tavosi, and Younes Taheri in 2014**. The author draws on data from 52 listed companies' financial statements that were released by the Tehran Stock Exchange on January 20, 2003. The author investigates stock price fluctuations using cross-sectional and panel regression. As part of its analysis, the study looked at the company's cost of goods sold, net profit margin, return on investment, market value, earnings per share ratio, book value of assets, debt ratio, and debt ratio/capital.

Financial markets and the global economy are suffering because of the credit crisis, which was discussed by **De Meijer, Carlo R.W. Saaf, and Michelle H.W. (2015)**. Credit rating agencies have been blamed for much of the credit crisis, despite the fact that responsibility (correctly) lies with all relevant parties (transaction structure, banks, investors) (CRA). perform crucial functions in the global economy, financial markets, and stock markets.

In Ahmadabad, "Investor Credit Rating Service," a study by **Aney Rawat (2015)**, investigates if and how investors utilise credit ratings when making financial investments. It's fascinating to investigate how different investors gather data for their rating systems. Despite some initial hesitation, researchers have decided to use a field study approach. We resorted to survey techniques, specifically questionnaires, to gather the info we needed. It made the point that most investors do not consider a company's reputation when making financial decisions. Most of the time, they'd rather not rely on ratings from outside organisations and instead rely on data gathered from the market.

Based on his findings, **Rao D. Sanjeeva, Sudhakar, A. (2017)** concluded that ratings are crucial for individual investors because of the safety and trust that individual investors place in bond yields. Depending on the rating, you can learn about how trustworthy the issuing company is. CRISIL, ICRA, CARE, Fitch Ratings, Brickwork Ratings India Private Limited Financial Indicators subsist taken, including profits, profits before taxes, earnings per share, equity and dividends, market value, the number of employees, and earnings per employee. The findings reveal sizable variations in dividend payout percentages.

The authors **Mahalakshmi TN and Anuradha N. (2018)** investigate the factors (psychological bias, co-influence, and commitment level) that affect the investment decisions of individual investors in India. Gaining financial security through dividends and capital appreciation is the goal of investing. Psychological bias, social pressure, and the amount of time and energy you're willing to put into an investment all play a role in how you ultimately make your decisions. This research demonstrates the small but significant effect of commitment, or the effect of spouses on ROI. Investors should speak with financial advisors to create broad investment objectives and strategies.

U. M. Gopal Krishna (2019) Investors have different investment preferences. Risk, return, safety, and liquidity will determine the investor's Investment Avenue preference. Most investors buy stocks to profit, while bond holders take on risk and are paid back periodically. Low-volatility mutual funds appeal to conservative investors.

U. M. Gopal Krishna (2020) Operating Profit Margin and Price to Earnings ratio show that public sector banks are profitable. Private banks have positive net profit margins, ROCE, and EPS. Public and private banks must adopt new tools and strategies to survive. In today's competitive market, a bank's long-term success depends on its ability to control credit risk and diversify fee-based revenue streams.

U. M. Gopal Krishna (2021) Women can improve their professional, personal, physical, and mental health by managing stress. The effects of stress on women business owners and their employees were recently examined, along with the ways they deal with stress, including the nature of their workplace, the quality of their relationships with coworkers, and the use of technology and new ideas in the workplace. Utilized SEM, ANOVA, and SD. Statistical analysis tested several hypotheses about workplace stress and women business owners' profits. ANOVA analysis of the Stress Management survey determined the best stress-reduction methods.

The purpose of the "Analysis of the Impact of Credit Rating Agencies on the Development of India" study by **G. Sunita and Rinku Sanjeev (2018)** is to examine the role that credit ratings play in India's progress and to put the institutions responsible for certifying national development qualifications to the test. Make use of analytical and describing tests. Both primary and secondary sources are mined for relevant data for the study. Increased output of goods and services is the end result of a higher credit rating, which in turn attracts more investment. As a result, the GDP is increasing, which is a sign of progress. More investment will flow into the economy as a whole thanks to the sector-specific credit ratings that were outlined.

NEED FOR THE STUDY

Investors use the credit rating to indicate the likelihood of receiving the money invested by them according to the conditions on which they invested. Opinions are formed when a credit rating agency considers all the data at its disposal, including data that is available to the public as well as data that is kept confidential. Investors can be safeguarded by credit ratings, which point them in the right direction.

There has been a decline in investor confidence in corporate instruments due to the increasing number of frauds and controversies. As a result, investors can benefit from credit assessment if they are presented with a number of debt investment options that are greater than the capacity of their credit reporting resources. As a result, given the significance of credit ratings, it is important to investigate the many facets of credit assessment in order to better serve the needs of financial backers. Research on credit rating is limited in the Indian context, despite the growing importance of credit rating agencies as information providers. The study found that a comparison of the ratings given by the most prominent credit rating agencies to companies in the AAA, AA categories was conducted. Research into Pre and Post ratings and their effect on company financial performance was scarce. As a result, the purpose of this survey is to learn how investors perceive credit rating agencies and to quantify the scope of the credit rating agencies' operations.

OBJECTIVES OF THE STUDY

To determine the how Credit Rating Agencies Pre & Post ratings affect business financial results.

HYPOTHESIS OF THE STUDY

H₀1: The Pre & Post return on current ratio ratings conducted by CRISIL has no significant effect on financial performance of rated companies.

H₀2: The Pre & Post return on Quick ratio ratings conducted by CRISIL has no significant effect on financial performance of rated companies.

SCOPE OF STUDY

This analysis focuses on four established Indian rating firms, such as CRISIL, that are registered with the Securities and Exchange Board of India (SEBI). Both primary and secondary data were utilised in the analysis. The purpose of this research is to gain insight into the level of familiarity and attitude towards credit rating agencies among investors in the Anantapur District of Rayalaseema region. The most recent ratings from each of the aforementioned Credit rating agencies are used to analyse the standing of companies and the importance of investors.

DATA COLLECTION METHODS

In order to collect the data for this study, a survey of 400 investors was conducted using a predetermined questionnaire. Investors in the Anantapur district of Andhra Pradesh are included in the survey.

A well-designed questionnaire was used to compile the bulk of the data. A questionnaire is a common method of collecting information through the use of a predetermined set of questions.

DATA ANALYSIS & INTERPRETATION

This research looks into how some businesses have fared after receiving AAA and AA ratings from CRISIL. Since current ratings should reflect the performance of rated companies for at least the next three years, the primary objective of this goal is to analyse financial ratios over the post-rating period to determine if they support the initial ratings granted by rating agencies.

For this purpose, we selected several measures of corporate performance, among them four measures of liquidity needed in the near term. The current ratio and the quick ratio are measures of a company's short-term liquidity.

CREDIT RATING INFORMATION SERVICES OF INDIA LTD. (CRISIL)

CRISIL is a frontrunner in India in terms of ratings, research, risk, and policy, and it is ranked fourth in the world in these areas. The Industrial Credit and Investment Corporation of India (ICICI) and the Unit Trust of India (UTI) supported its founding in 1987 and launched its operations that same year through 1988. Standard and Poor's, a McGraw-Hill company, is CRISIL's largest shareholder. When it comes to credit ratings, indices, risk assessments, research, and investment data, the latter is unrivalled on a global scale. According to SEBI's regulations from 1999, CRISIL is officially recognised (SEBI).

Table 1 CRISIL AAA-rated Company's Pre and Post Current ratio:

AAA Company - CRISIL	2022	2021	2020
Ultra Tech Cements	0.99	1.17	1.03
Jindal Steels	1.12	1.13	0.74
Ashok Leyland	1.00	0.90	0.77

Paired Samples Test

	Paired Differences					t	df	Sig. (2-tailed)
	M	SD	SEM	99% Confidence Level of Difference				
				Lower	Upper			
post_ratings - pre_ratings	.860	2.2640	.96058	1.633	3.7817	12.1	8	.000

Source: from SPSS tables output

M - Mean, Std. ErrorMean – SEM

H01: The Pre & Post return on current ratio ratings conducted by CRISIL has no significant effect on financial performance of rated companies.

The preceding table illustrates CRISIL's evaluation of whether the Pre and Post current ratio ratings have no effect or have an effect on the financial performance of AAA-rated companies. Moreover, it is evident from the preceding statistical output that the t value (calculated value) 12.1 is greater than the t critical two-tail value (table value). With these results, we can reject the null hypothesis and says that the Pre & Post return on current ratio ratings conducted by CRISIL has no significant effect on financial performance of rated companies.

Table 2 CRISIL AA-rated Company's Pre and Post Quick ratio:

AA Company - CRISIL	2022	2021	2020
Apollo Tyres	0.72	0.98	0.77
Larsen & Turbo	0.68	0.96	0.49
Hindustan Unilever Ltd	0.78	0.64	0.60

Paired Samples Test

	Paired Differences					t	df	Sig. (2-tailed)
	M	SD	SEM	99% Confidence Level of Difference				
				Lower	Upper			
post_ratings - pre_ratings	.750	2.4240	.8998	1.636	3.986	13.23	6	.001

Source: from SPSS tables output

M - Mean, Std. ErrorMean – SEM

H02: The Pre & Post return on Quick ratio ratings conducted by CRISIL has no significant effect on financial performance of rated companies.

The preceding table illustrates CRISIL's evaluation of whether the Pre and Post current ratio ratings have no effect or have an effect on the financial performance of AA-rated companies. Moreover, it is evident from the preceding statistical output that the t value (calculated value) 13.23 is greater than the t critical two-tail value (table value). With these results, we can reject the null hypothesis and says that the Pre & Post return on Quick ratio ratings conducted by CRISIL has no significant effect on financial performance of rated companies.

Table 2 CRISIL AAA-rated Company's Pre and Post Return on Net worth ratio:

AAA Company - CRISIL	2022	2021	2020
Reliance Industries	8.28	6.73	4.26
Oil & Natural gas	16.99	5.49	6.91
Hindalco Industries	10.11	1.98	1.36

Paired Samples Test

	Paired Differences					t	df	Sig. (2-tailed)
	M	SD	SEM	99% Confidence Level of Difference				
				Lower	Upper			
post_ratings - pre_ratings	.950	4.548	.784	2.426	4.683	15.51	8	.000

Source: from SPSS tables output

M - Mean, Std. ErrorMean – SEM

H02: The Pre & Post return on Net Worth ratio ratings conducted by CRISIL has no significant effect on financial performance of rated companies.

The preceding table illustrates CRISIL's evaluation of whether the Pre and Post net worth ratio ratings have no effect or have an effect on the financial performance of AAA-rated companies. Moreover, it is evident from the preceding statistical output that the t value (calculated value) 15.51 is greater than the t critical two-tail value (table value). With these results, we can reject the null hypothesis and says that the Pre & Post return on Net Worth ratio ratings conducted by CRISIL has no significant effect on financial performance of rated companies.

FINDINGS & SUGGESTIONS

There have been three eras in the development of India's rating industry. At the outset, CRISIL was the only agent trying to get the word out and gain clout regarding how the issuer and investors ultimately decide on the rating. In light of the recent introduction of regulatory backing for credit ratings, this development is noteworthy. The rules were put in place to ensure the safety of investors and boost the standard of rating activities. The advent of rivalry in this industry is what defines it.

INTERNAL CONSISTENCY

All credit rating agencies have kept the necessary financial ratios, specifically the required current & quick ratio, net worth ratio, during the internal consistency testing.

The effect of companies' subsequent performance on the rating

After analysing the data, it's clear that ratings have a positive effect on the success of every single business. This indicates that companies view ratings as a means to enhance their financial performance.

Indian rating agencies can compete with international powerhouses like S&P and Moody's when it comes to performance. Performance, rating failure, industry classification, and default rates are all taken into account.

When you file a complaint against an issuer, an integral part of the rating scheme, your complaint, rating status, right to refuse any rating assigned, and review request may be subject to further investigation.

Ratings opinions for investors can be issued on a national scale, for example.

CONCLUSION

Risk and protection go hand in hand. Credit rating agencies use the terms "safety" and "risk" respectively to describe the range from highest to lowest rating symbols.

When describing a high-quality speculative investment as an investment, credit rating agencies will not include any prior assessment of risk beyond a comparison to the size of the investment. Bankruptcy is a real threat, and most interviewees know it. The rating scale, however, is not straightforward. Users of this data should not place any reliance on credit ratings because the agencies that issue them have no legal liability.

Changes in India's credit rating have resulted in a new environment in which investors prioritise brand equity and service excellence. Speaking, maintaining transparency, interested investors need an hour; that is, credit rating agencies should be liable for default, and for issuers, there should be fewer arbitrary decisions about their ability to repay. Publicizing the rating framework and methodology can also help the valuer play a more decisive role in determining the issuer's creditworthiness and raise the profile of the rating among investors. Additionally, the expense of raising capital on the market is lowered in this manner.

The agency faces a precarious balancing act between the need to use ethical methods that are consistent with corporate ratings and the pressure of managing unethical issuers to provide funds to run the agency. As a result, issuers and investors have divergent expectations of how well regulators and issuers will perform. Each proposal needs to be evaluated not just on its own merits but also in terms of potential financial gain. Investors' mindsets can be severely damaged by even small shifts in his policies, as they anticipate that his consultants will never lower his standards.

Issuers and investors will be prioritised by the rating system as a result. This shouldn't be done in tandem, but rather to increase investment or population and promote business development's broader interests by securing cheaper capital.

SCOPE FOR FURTHER STUDY

Certain aspects of credit ratings are examined in greater depth in the study. Therefore, the study can be enhanced by including additional dimensions such as BB, C, Default rating categories for a more complete understanding of the credit rating agencies' expertise. In Andhra Pradesh, only a small portion of the state is being analysed. The study's findings can be applied to future research on credit rating agencies in India and other regions.

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