

Credit Rating by CRISIL

Shailesh Nandlal Pandey

Shail.199222@gmail.com

Megha M. Bhogawar

meghabhogawar@gmail.com

MMS Student, Mumbai University, Mumbai, India

MMS Staff, Mumbai University, Mumbai, India

Abstract

A rating is essentially an evaluation tool used by analysts or rating agencies to assess the financial strength of any investment option. Specifically, a credit rating is a numerical assessment of the creditworthiness of a borrower, either in general terms or concerning a particular debt or financial obligation. Companies and governments are typically evaluated by credit rating agencies such as S&P Global, Moody's, or CRISIL in India. These agencies are compensated by the entity seeking the credit rating for itself or one of its debt issues.

Introduction

The purpose of this project on CRISIL includes:

- Understanding the operations of Credit Rating Agencies
- Appreciating the importance of credit ratings in the financial market
- Examining CRISIL's role in national development
- Decoding rating symbols and their meanings
- Comprehending various terminologies used in credit rating agencies

Profile of the Organization

CRISIL is an innovative global analytics company committed to enhancing market efficiency. As India's leading provider of ratings, data research, analytics, and solutions, CRISIL has established a reputation for growth, innovation, and a global presence. It offers independent opinions, actionable insights, and effective solutions to over 100,000 clients. CRISIL operates in several countries including India, Argentina, Australia, China, Hong Kong, Poland, Singapore, Switzerland, UAE, the UK, and the USA. CRISIL is mainly owned by S&P Global Inc., a prominent provider of ratings, benchmarks, analytics, and data to global capital and commodity markets.

Management Team:

- John L. Berisford (Chairman)
- M. Damodaran (Independent Director)
- Vinita Bali (Independent Director)
- Girish Paranjpe (Independent Director)
- Ewout Steenberg (Director)
- Martin Fraenkel (Director)
- Shyamala Gopinath (Independent Director)
- Ashu Suyash (Managing Director and CEO)

Review of Literature

The literature review highlights authors' perspectives on credit rating agencies, helping to understand their methodologies and identify existing issues.

Meaning and Concept:

A credit rating represents a rating agency's opinion on the likelihood that a debt obligation will be repaid on time and in full. This opinion assists stakeholders in comparing investment options and facilitates issuers' access to funding. CRISIL assigns ratings using global, regional, and national scales. For example, CRISIL's domestic ratings are based on the sovereign rating of the Government of India, typically rated 'AAA'.

Literature Review:

- Frank Partnoy (2017)
- Patrick Bolton, Xavier Freixas, and Joel Shapiro (2012)
- Timothy E. Lynch (2009)
- Marwan Elkhoury (2008)

Research Methodology

Research involves systematically finding solutions to scientific and social problems through objective analysis. Research methodology encompasses research design, data collection, and data analysis, explaining why specific techniques are used to address research questions.

Detailed Analysis

Preliminary Analysis:

The rating process begins with a request from the issuer, followed by signing a rating agreement and collecting fees. The analytical team, separate from the business development team, then assesses the issuer's credit risk profile based on preliminary information about its business, management, and financial risks.

CRISIL's Rating Scales:

CRISIL assigns ratings in several categories:

- Long-term: Ratings range from 'CRISIL AAA' to 'CRISIL D' for instruments with maturity over one year.
- Short-term: Ratings from 'CRISIL A1' to 'CRISIL A4' and 'CRISIL D' for instruments with maturity up to one year.
- Dual Ratings: Assigned to debt instruments with original maturity over one year but with a put option within a year.
- Structured Obligation (SO) Ratings: Given to securitized or asset-backed transactions with credit enhancements, making them bankruptcy-remote from the issuer.
- Credit Enhancement (CE) Ratings: Assigned to instruments backed by external credit enhancements but not bankruptcy-remote.
- Fixed Deposit (FD) Ratings: Range from 'FAAA' to 'FD'.
- Financial Strength Ratings: For insurance companies, ranging from 'AAA' to 'D'.
- Corporate Credit Ratings: For issuers, ranging from 'CCR AAA' to 'CCR D' and 'CCR SD' for selective default.

Findings

CRISIL provides an independent assessment of financial instruments, linking risk with potential returns. The company also benefits from the Service Export Incentive Scheme (SEIS), receiving significant financial incentives. CRISIL's Employee Stock Option Scheme (ESOS) grants options to employees to acquire company equity shares. Moreover, CRISIL engages in corporate social responsibility activities, such as education and women empowerment initiatives, and environmental conservation.

Conclusions

Credit facilitates agreements between lenders and borrowers, using debt instruments to raise capital. Credit ratings offer investors simplified tools to make informed decisions. Properly assigned ratings can greatly benefit investors and contribute to a safer investment environment.

Recommendations

Investors should be made aware of credit ratings and their significance. Credit rating agencies should thoroughly examine all aspects of businesses when assigning ratings. Although credit ratings are informative, investors should also consider other factors and not solely rely on these ratings.

References

- Books: 'Regulation and the Credit Rating Agencies' by Dineil Cash
- Websites:
 - [Investopedia](https://www.investopedia.com/)
 - [CRISIL](https://www.crisil.com/)
 - [Moneycontrol](https://www.moneycontrol.com/)
 - [Screener](https://www.screener.in/)