

Credit Rating Agencies in India and World



Introduction

Credit rating evaluates credit worthiness of an individual, business or government. Credit Rating Agency provide ratings on debt instrument of the institution to the individual and investor. These agency gives various types grades to a company. A high grade represents company is

able to payback their credit and lower grade represents a company may be not able to payback their credit. so these agency assist individual and investors to taking decision according to the grade.

Indian Credit Rating Agencies

Indian Credit rating industry is mainly comprises of CRISIL, ICRA, ONICRA, SMERA and CARE. SMERA is exclusively established for rating of Small and medium enterprises (SMEs)

CRISIL : Credit Rating Information Services of India Ltd (CRISIL) is the largest rating agency in the India. Its established in 1987 and headquarter situated at mumbai.

ICRA ; Investment Credit Rating Agency (ICRA) was established in 1991 by leading Indian financial institutions and Banks. Headquarter of ICRA is situated at Gurgaon, India. ICRA is developed a linear scale for MSME sector.

CARE ; Credit Analysis and research Limited was established in 1993 and headquarter at Mumbai. CARE is a credit rating, research and advisory committee is promoted by Industrial Development Bank of India (IDBI), Unit Trust of India and other leading Institutions.

Following are the rating scale used by ICRA, CARE & CRISIL

RATING DEFINITION	CRISIL	ICRA	CARE
HIGHEST SAFETY	CRISIL AAA	ICRA AAA	CARE AAA
HIGH SAFETY	CRISIL AA	ICRA AA	CARE AA
ADEQUATE SAFETY	CRISIL A	ICRA A	CARE A
MODERATE CREDIT RISK	CRISIL BBB	ICRA BBB	CARE BBB
MODERATE DEFAULT RISK	CRISIL BB	ICRA BB	CARE BB
HIGH DEFAULT RISK	CRISIL B	ICRA B	CARE B
VERY HIGH DEFAULT RISK	CRISIL C	ICRA C	CARE C
DEFAULT	CRISIL D	ICRA D	CARE D

ONICRA ; ONICRA was established in 1993 - headquarter in Gurgaon. It analysis data and provide rating solutions for individuals and small scale enterprises.

Following Figure Depicts the grading scale used by ONICRA.

NSIC - Onicra Rating Scale			
Performance Capability	Financial Strength		
	High	Moderate	Low
Highest	SE 1A	SE 1B	SE 1C
High	SE 2A	SE 2B	SE 2C
Moderate	SE 3A	SE 3B	SE 3C
Weak	SE 4A	SE 4B	SE 4C
Poor	SE 5A	SE 5B	SE 5C

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CIBIL ; Credit Information Bureau (India) or CIBIL was founded on 2000 headquarter at mumbai. Credit Information Bureau is an organization that collects credit information of the individuals from various sources and provide consumer credit information on commercial consumer for variety of uses.

SMERA ; Small and medium enterprises rating agency (SMERA) is joint initiative by SIDBI, Dun & Bradstreet information Service Limited and various leading banks of the country. Its headquarter in Mumbai.

International Rating Agencies

Standard and Poor (S & P), Moody's and Fitch Rating agencies are the major rating agency in the world. we provide a brief details about these agencies given below ;

STANDARD AND POOR : STANDARD AND POOR (S & P) RATING agency is a american based rating agency headquarter in New York . S & P was founded in 1906 by Luther Lee Blake.The company rates borrowers on a scale from AAA to D.

MOODY'S - MOODY'S was founded by John moody in 1909 and headquarter is situated at New York City, United States. The company rank the credit worthiness of the borrower using a standardized rating scale.

FITCH - FITCH ratings was founded by John Knowles Fitch on December 24, 1913 in New York city. Fitch ratings is Dual Headquartered in New York and London. Fitch credit ratings are assigned on an alphabetic scale from AAA to D.

following are the grade table used by these rating agencies..

Sortable Table Key	Moody's	Fitch	S&P
Highest grade credit	Aaa	AAA	AAA
Very high grade credit	Aa1, Aa2, Aa3	AA+, AA, AA-	AA+, AA, AA-
High grade credit	A1, A2, A3	A+, A, A-	A+, A, A-
Good credit grade	Baa1, Baa2, Baa3, Baa4	BBB+, BBB, BBB-	BBB+, BBB, BBB-
Speculative grade credit	Ba1, Ba2, Ba3	BB+, BB, BB-	BB+, BB, BB-
Very speculative credit	B1, B2, B3	B+, B, B-	B+, B, B-
Substantial risks - In default	Caa1, Caa2, Caa3, Ca	CCC, CC, C, RD, D	CCC+, CCC, CCC-, CC, C, D

Credit Rating – Scale, Scores and Agencies

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‘Credit Rating’ is a very important topic from Bank interview’s point. Of course, it is quite possible that questions may be asked in the written examination – but when it is an interview, knowledge about this particular area is a must in your arsenal!

1. Credit Rating

'Credit rating' the assessment of the creditworthiness of a borrower or a loan taker; creditworthiness refers to the ability of a borrower to 'service the loan', i.e., pay back the loan along with the interest.

2. How is it done?

Assessment of creditworthiness and subsequently the rating of a borrower can be made in general terms on his business as a whole to project a favourable image to the industry at large.

Or it can be undertaken at the request of the borrower specifically with respect to a particular debt or financial obligation, or for the purpose of applying for a fresh loan.

The entity which wants the credit rating done – it can be the Bank too, which before it approves a loan wants to know the creditworthiness of the prospective borrower, or the borrower itself – pays to the rating agencies for their services.

3. How are the ratings done?

- The rating agencies conduct their procedures to gauge the credit worthiness of the entity with due diligence based on latest industry standards, requirement, economic and financial climate and the entity's own past and present performances and expected/viable future plans, etc.
- The borrower/entity will always want to have the highest possible credit rating; the lender/bank will expect an average rating!

It is the job of the credit rating agency to strictly adhere to objectivity in attaching a particular rating to an entity.

4. Implications of 'rating'.

- Ratings have an impact on the interest rates charged by the lenders/Banks.
- Higher credit rating means – the borrower is highly creditworthy – that he/it is in a comfortable position with regards to his/its business operations and will generate enough turnover/adequate cash flow/income/profit from the regular business, in the foreseeable future to be able to service the loan/debt without any default. -Since a higher credit rating means lower chances of 'default', banks charge a lower rate of interest on such accounts.
- The opposite is true as well. Where the credit rating is lower – the risk of the borrower defaulting is higher – which is why the banks charge higher rate of interest!
- Thus from a borrower's point of view higher rating and lower interest is preferable! Whereas banks go for a break even on risk and return!
- Thus if you are asked in an interview – how are credit rating and interest rate related – your answer should be – they are 'inversely related'! (Like a boss! And you can also explain it in brief – higher credit rating = lower interest rate!)

5. Which are the credit rating agencies?

In India the most popular credit rating agencies are:

- CRISIL** – Credit Rating Information Services of India Ltd.
HQ in Mumbai/ Subsidiary of Standard and Poor's
- CARE** – Credit Analysis and Research Limited

HQ in Mumbai

iii. **ICRA Ltd.** – Indian Credit Rating Agency Ltd.

HQ in Gurgaon/ An Associate of Moody's

iv. **India Ratings** – India Ratings and Research Pvt. Ltd.

HQ in Mumbai.

v. **Brickwork Ratings India Pvt. Ltd.**

HQ in Bengaluru.

vi. **SMERA – SME Ratings Ltd.** – set up for Micro, Small and Medium Enterprises.

HQ in Mumbai.

RBI allows the usage of ratings by these rating agencies for assigning Risk Weights in calculating 'Risk Weighted Assets'.

Important to also know – that in India the Credit rating agencies (CRA) are regulated by SEBI.

Internationally there are:

- Standard and Poor's (New York, USA)
- Moody's (New York, USA)
- Fitch Group (dual HQ – London and New York)

6. What are the ratings? How are they denoted?

Credit rating agencies typically assign letter grades to indicate ratings.

For Long-term loans the rating symbols are as follows:

- AAA – highest degree of safety – lowest credit risk
- AA – high degree of safety – low credit risk
- A – adequate degree of safety – low credit risk
- BBB – moderate degree of safety – moderate credit risk (the above four are 'Loan Worthy Ratings')
- BB – Moderate risk
- B – High risk
- C – Very High risk
- D – Default – they are already defaulting!

For short term loans the rating symbols are as follows:

- A1 – strong degree of safety – lowest credit risk
- A2 – strong degree of safety – low credit risk
- A3 – moderate degree of safety – credit risk higher than A1 and A2
- A4 – minimal degree of safety – high credit risk
- D – Defaulting already and expected to default