

The logo of Galgotias University, featuring a stylized 'G' composed of several curved, overlapping bands in shades of red, yellow, and blue.

CREDIT RATING

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LECTURE - 5

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Topics to be covered

- ❖ Introduction
- ❖ Meaning of credit rating agency
- ❖ CRISIL
- ❖ CARE
- ❖ ICRA

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MEANING OF CREDIT RATING

What Is a Credit Rating?

A credit rating is a quantified assessment of the creditworthiness of a borrower in general terms or with respect to a particular debt or financial obligation. A credit rating can be assigned to any entity that seeks to borrow money—an individual, corporation, state or provincial authority, or sovereign government.

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CREDIT RATING AGENCY

A credit rating agency (CRA) is a company that rates debtors on the basis of their ability to pay back their interests and loan amount on time and the probability of them defaulting. These agencies may also analyse the creditworthiness of debt issuers and provide credit ratings to only organisations and not individuals consumers. The assessed entities may be companies, special purpose entities, state governments, local governmental bodies, non-profit organisations and even countries. Individual customers are rated by specialised agencies known as credit bureaus that provide a credit score to every customer based on his/her financial history.

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CREDIT RATING AGENCY

Credit rating agencies in India do not have a distant past. They came into existence in the second half of the 1980s. As of now, there are six credit rating agencies registered under SEBI namely, CRISIL, ICRA, CARE, SMERA, Fitch India and Brickwork Ratings. Ratings provided by these agencies determine the nature and integrals of the loan. Higher the credit rating, lower is the rate of interest offered to the organisation.

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CRISIL: Credit Rating Information Services of India Limited

CRISIL: It was the first credit rating agency set up in India in 1987. Today, CRISIL has become a global analytical company that rates companies, researches the markets and provides risk and policy advisory services to its clients. At the time of incorporation, the agency was promoted by ICICI Limited, UTI and many such financial institutions. The agency started operations in 1988.

CRISIL is headquartered in Mumbai. CRISIL provides independent opinion and efficient solutions by performing data analysis and research. It has a strong track record of growth and innovation. CRISIL has expanded its business operation to USA, UK, Poland, Argentina, Hong Kong, China and Singapore apart from India. The majority shareholder of CRISIL is Standard & Poor's, one of the biggest credit rating agencies of the world.

CRISIL works with various governments and policy-makers in India and other developing nations to enhance and improve the infrastructure and meet the demands of the region. The agency has rated around 5180 SMEs in India and has issued in excess of 10,000 SME ratings overall. CRISIL commands revenue of Rs 1,110 cr with a net income of Rs 298 Crores and an operating income of Rs 320 cr.

CARE: Credit Analysis and Research limited

CARE: CARE stands for Credit Analysis and Research limited was established in 1993 and since then it has gone on to become India's second largest credit rating agency. It was promoted by Industrial Development Bank of India (IDBI), Unit Trust of India (UTI) Bank, Canara Bank and other financial institutions. CARE has its headquarters in Mumbai and regional offices in New Delhi, Bangalore, Chennai, Hyderabad, Ahmedabad and Kolkata. CARE has the primary function to perform rating of debt instruments, credit analysis rating, loan rating, corporate governance rating, claims-paying ability of insurance companies, etc. It also grades construction entities and courses undertaken by maritime training institutions. Ratings provided by CARE include financial institutions, state governments and municipal bodies, public utilities and special purpose vehicles.

CARE: Credit Analysis and Research limited

The Information and Advisory Service Department of CARE prepares credit rating and reports on requests from business partners, banks and other financial entities. It also conducts sector-based studies and provides necessary advisories for valuation, financial restructuring and credit appraisal systems. CARE conducts an extensive research and rates SMEs based on their financial health. These ratings are provided under 8 levels where CARE SME 1 signifies excellent financial health with negligible risks and CARE SME 8 rank signifies lowest credit quality with highest credit risk.

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ICRA: Investment Information and Credit Rating

ICRA: Originally named as Investment Information and Credit Rating Agency, the organisation was set up in 1991. It was a joint venture of Moody's and Indian financial and banking service organisations. It was renamed to ICRA Limited and was listed in the Bombay Stock Exchange and National Stock Exchange in April 2007. ICRA, which is an independent professional corporate investment information and credit rating and advisory agency, is headquartered in Gurugram, Haryana.

ICRA assigns corporate governance rating, performance ratings, grading and provides ranking to mutual funds, hospitals and construction and real estate companies. The agency generates revenue of Rs 2.28 Billion. ICRA has a major focus on the MSME sector. To cater to its clients, the dedicated team of professionals have developed a linear scale for the concerned sector. It helps the agency to benchmark peers quite easily. ICRA ratings are used to analyse the credit risk in India. It does not cater to the international companies and organisations.

SMERA: Small and Medium Enterprises Rating Agency

SMERA: Small and Medium Enterprises Rating Agency of India is one such agency that functions exclusively for the sector it was formed for, i.e. Micro, Small and Medium Enterprises. This agency was founded in 2005 by Small Industries Development Bank of India (SIDBI), Dun and Bradstreet Information Services India Private Limited (D&B) and various public, private sector and other MNC banks of India. The agency has its headquarters in Mumbai. SMERA has been registered with SEBI as a credit rating agency and accredited by Reserve Bank of India in 2012. It is an external credit assessment institution (ECAI). SMERA rates bank loans under Base II guidelines. Grading of various instruments like IPO, bonds, commercial papers, NCDs, fixed deposits, security receipts, etc. is done by SMERA which can be used by all banks for capital adequacy requirements calculation as authorised by the RBI.

SMERA pioneered SME rating in India and till date it has rated more than 38,000 enterprises. Financial institutions highly consider SMERA ratings before approving or lending funds.

ONICRA

ONICRA: It is the private rating agency established by Sonu Mirchandani under ONIDA Finance. It is headquartered in Gurugram, Haryana. The agency provides credit ratings, conducts risk assessment and provides analytical solutions to individuals, corporates and MSMEs. The solutions offered by the agency helps organisations take informed decisions about lending funds to individuals, MSMEs and other organisations. After its establishment in 1993, the agency has gained expertise in assessing micro, small and medium enterprises. It is one of the seven agencies licensed by the National Small Industries Corporation (NSIC) for the rating of SMEs. Onicra provides grading services as well. Its grading services include education grading, healthcare grading, solar energy grading and APMC grading. Onicra has signed MoUs with 16 banks and NBFCs in India to provide interest rate concession to up to 1% to top MSME units. It performs a wide range of tasks such as accounting, finance, analytics, customer relations and back-end management. More than 2500 SMEs have been rated by Onicra in the past two and a half decades.

FITCH INDIA

FITCH India: India Ratings and Research (Ind-Ra) is a credit rating agency that provides time-bound, accurate and prompt credit opinions. It is 100% owned subsidiary of the Fitch Group. Ind-Ra covers corporate issuers, financial institutions, banks, insurance companies, urban local bodies, structured finance and project finance. Fitch's Ind-Ra is headquartered in Mumbai and has branch offices in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad and Kolkata. Ind-Ra is recognised by Securities and Exchange Board of India, National Housing Bank and the Reserve Bank of India. Fitch is a major financial information service provider and rating agency having its operations in more than 30 countries across the globe. It checks credit capacity of global leaders in all industries.

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THANK YOU

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