“A CRITIQUE OF CREDIT RATING AGENCIES AND THEIR ROLE IN THE FINANCIAL CRISIS ASSOCIATED WITH 2007-2009.”

Project Report

On

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By

PRIYANKA VERMA

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School of Finance &Commerce

GALGOTIAS UNIVERSITY

GREATER NOIDA

ACKNOWLEGEMENT

All praise to the almighty with whose auspicious blessings I have been able to accomplish my research report successfully. Equal credit goes to my parents who made me what I am today by their hard work, devotion, support & prayer.

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I am grateful to my guide **PROFESSOR PRIYANKA GOEL** for her efforts during my project work. My sincere thanks to all other who were associated with the project directly or indirectly for providing me the excellent guidance during the project.

DECLARATION

I, PRIYANKA VERMAAdmission no. 17GSFC101070 Student of School of Commerce, GALGOTIAS UNIVERSITY, Greater Noida, hereby declare that the project report on "A CRITIQUE OF CREDIT RATING AGENCIES AND THEIR ROLE IN THE FINANCIAL CRISIS ASSOCIATED WITH 2007-2009 " is an original and authenticated work done by me.

I further declare that it has not been submitted elsewhere by any other person in any of the institute for the award of any degree or diploma.

Name and Signature of the Student : PRIYANKA VERMA

CERTIFICATE

This is to certify that the report "A CRITIQUE OF CREDIT RATING AGENCIES AND THEIR ROLE IN THE FINANCIAL CRISIS ASSOCIATED WITH 2007-2009" has been prepared by PRIYANKA VERMA under my supervision and guidance. The project report is submitted towards the partial fulfillment of 3 year, Full time BACHALOR OF COMMERCE.

Name & Signature of Faculty :   PROF. PRIYANKA GOEL

TABLE OF CONTENT

ABSTRACT

Credit rating is a tool to assess the credit-worthiness of the borrower in simple terms or regarding a particular debt

obligation. The concept of credit rating business was started in United States in 1900s and gradually it has become a part of international financial system due to the globalisation of financial markets in mid of 1970s. This paper tells about the role of credit rating agencies in the global financial crisis due to the over reliance on these agencies by the organisations and subprime mortage crisis that was held in America in 2007-08 that led to the recession of 2008-09. The main reason of crisis was subjective rating decisionby the credit rating agencies which resulted in lack of transparency in the grades given by them. The financial crisis was initially found in some Eurozone countries like Greece, Italy, etc. and then it had reached to the whole world due sovereign debt crisis in the countries. We have assessed the new regulation on the credit rating agencies that will help to increase the transparency of the agencies.

INTRODUCTION

Credit rating is a tool to assess the credit-worthiness of the capability of the borrower in simple terms of regarding a particular debt obligation. It can be done with any of the following whether it is a person, a corporate company, state, government. It is basically a tool or risk management or we can say a link between risk and return. The credit rating symbols strictly do not signify the credit worthiness of a company. It just signifies the capability of a firm to payback or repays the principal amount or to pay the interest on a PARTICULAR DEBT INSTRUMENT with respect to which a rating symbol is obtained from a credit rating agency. It's always been a continuous or ongoing process. It's never been a one time affair. It has to be renewed from time to time on periodical basis till the instrument is finally redeemed.

The need and importance of credit rating agencies to place when it was seen that it relates to the accountability of the regulators in the ratings. India, was the first country amongst the list of the developing countries to introduce and setup a platform credit rating agency in 1988. The Reserve Bank of India (RBI) and Securities and Exchange Board of India (SEBI), made it compulsory for new categories of debt instrument and certain categories of debentures. The CRISIL setup in 1987, the first credit rating agency, ICRA ltd. (Previously know as instrument information on credit rating agency of India ltd 1991), credit analysis and research ltd. (CARE) 1994.

As we know credit ratings or the grading is a tool which assess or analyse the credit worthiness of the company or any institutions who had taken a loan. It determine the ability of an institution or an organisation ability and capabilities to pay back the certain amount within the time period.

It can be done with any of the following whether it’s a person, organisations, institutions , government.

Basically it is the tool which signifies the ability to pay back the obligations in time.

The credit rating agencies uses the symbols to signify the credit worthiness of the firm, or any type of organisations.

It is very crucial for everyone. It also signifies that the firm or an organisation who had taken the debt obligations they are able to do it on time or not with the principal amount and interest.

It is a on-going and a continuous process. It is a never been ended affair just like the management.

And it has to be renewed time to time on periodical basis till the instrument is finally redeemed.

CREDIT RATING AGENCIES

DEFINITIONS

Credit rating is a process in which the credit rating agencies assign the symbols with a specific reference to the instrument such as bonds, securities, being rated, it act as an indicator of the current and present opinion on a relative capability on the issuer to service its debt obligations in a timely fashion, it is known as credit rating.

According to Moody's, "A rating on the future ability and legal obligations of the issuer to make timely payments of principal amount and interest on a specific fixed income security. The rating measures the probability that the issuer will default on security over its life, which depending on a instrument of the expected monetary loss, should a defaulter occur**".**

According to Standard & Poor's, " it helps investor by providing and easily recognisable, simple tool that couples a possibly unknown issuer with an informative & meaningful symbol of credit rating**".**

According to ICRA, " credit rating are opinions on the relative capability of timely servicing of corporate debt and obligations**".**

As we know account to the recommendation of the company or the rating agencies we cannot buy or sell because the information is incomplete that's why we don't have to be totally dependent on the credit rating agencies.

Credit rating agencies is a company that assigns or rate to those institutions that issues it’s debt obligations such as mortgage – backed securities.

These institutions can be or may be companies, cities, non-profit organisations (NPOs), or national government, and securities issued by them which is traded in the secondary market.

Basically it measures the credit worthiness, or the ability and capabilities to pay back the obligations on time.

It also affect the intent rate applied to loans- interest rates vary because it depends upon the risk of investment.

A low rated see / investment has a high interest rate, in order to attract the more and more buyer to this investment related to high risk. Where a highly rated security or instrument (carrying a AAA rating) has a lower interest rate as compared to A low rated instrument or security, because it is consist of low – risk investment.

Low risk bond and securities which consists low risk are available to a wide range of investors, where as high risk bond and see cater or provide one narrow investing demographics.

Those Companies who generally issues the credit rating for an individual which is known as credit score , it is usually called credit bureaus and a different from the corporate rating agencies

THREE BIG RATING AGENCIES

The top three credit rating agencies in the UNITED STATES are :

- **Standard & Poor’s**
- **Fitch rating**
- **Moody’s**

GROWTH OF CREDIT RATING AGENCIES

- **1841 –** Mercantilecredit agency. (USA)
- **1900 –** Moody's investors service. (USA)
- **1916 –**Poor publishing company. (USA)
- **1922 –**Standard statistics company. (USA)
- **1924 –** Pitch publishing company. (USA)

- ❖ **1941 –**Standard & Poor's. (USA)

- ❖ **1974 –** Thomson bank watch. (USA)

- ❖ **1975 –** Japanese bond rating institutions. (JAPAN)

- ❖ **1987 –** CRISIL by ICICI (INDIA)

- ❖ **1991 –** ICRA by IFCI. (INDIA)

- ❖ **1994 –** CARE by IDBI. (INDIA)

- ❖ **2011 –** ONICRA by Mr. Sonu Mirchandani Pvt rating agency. (INDIA)

Each and every agency has its own system and they have developed their system according to their need and requirements. They all have their own grading system also for the corporates companies and organisations.

FITCH rating developed it's grading system in 1924.

And it was adopted by the another credit rating agency named as Standard & Poor’s.

As compared to the both of them Moody’s grading system is totally different.

So, here the grading or rating system is developed by the Fitch in 1924 and it was adopted by the another credit rating agencies but still the MOODY’S has meant it’s own grading system which is slipping different from the Fitch ratings grading system.

LONG TERM CREDIT RANKINGS

Fitch and Standard & Poor's use a system of letters for the grading or for the best ratings because Standard & Poor's adopted a same grading or a ranking system which is developed by the Fitch ratings.

Rankings "AAA" to "D" for issuer already defaulting on payments.

Investment grades

- **AAA –** reliable, best quality of borrowers, who never make default or delay at the time of paying back the obligations.
- **AA –** these borrowers are alsostrong, but it is a bit riskier as compared to AAA.
- **A –** it is medium grade**,** it can affect the economic situation.

- ❖ **BBB –**medium grade borrowers these are satisfactory at the moment.

Non-investment grade

- ❖ **BB –** it is lower medium grade borrowers, it will affect the economic situation**.**
- ❖ **B –** low grade , here it is very important to notice financial situation, speculative.
- ❖ **CCC –** Poor quality, vulnerable currently, and may default.
- ❖ **CC –** highly vulnerable, most speculative.
- ❖ **C –** highly vulnerable, have some problem but still continuing pay out an obligation.
- ❖ **C1**–past due on investment.
- ❖ **R –** due to its financial situation examine under regulatory supervision.
- ❖ **SD –** selectively defaulted on some obligations.

- ❖ **D –** has defaulted on obligations and Standard & Poor's believes that these borrowers mostly or generally default all the obligations.

- ❖ **NR –** not rated

MOODY'S GRADING SYSTEM

The grading or rating system of Moody’s is totally different from the Fitch ratings and Standards and Poor’s.

Moody’s has it’s own grading system which is slightly different from the grading or rating system of other companies.

Investment grades

- **Aa** –these judged to be highest quality which consist the “smallest degree of risk” .
- **Aa1, Aa2, Aa3 –**Aa rated obligations are judged to be high quality which consist loss credit risk , but sometimes in long term risk appears at greater.
- **A1, A2, A3 –** it is considered upper medium grade and are consist of low credit risk.
- **Baa1, Baa2, Baa3 –** it refers to moderate credit risk. They are considered as medium grade.

Non-investment grade

- **Ba1, Ba2, Ba3 –** obligations rated Ba considered to have "questionable credit quality".

- **B1, B2, B3 –**they are considered speculative and high credit risk . It has generally a " poor credit quality".

- **Caa1, Caa2, Caa3 –**obligations rated Caa judged or considered to be poor and it consists high credit risk, " have extremely poor quality".

- **Ca –** these are highly speculative and are usually in default.

- **C –** these obligation are the lowest rated of bonds and are in default and " recovery values are low".

Others

- **WR –**withdrawn rating

- **NR –** not rated

- **P –** provisional

There are many credit rating agencies some of them are as follows:

- **CRISIL –**(credit rating and information services (India) Ltd.)
- **ICRA–**(investment information and credit rating agencies of India Ltd.)
- **CARE –** (credit analysis and research Ltd.)
- **FITCH –** (rating India Pvt Ltd.)
- **DUFF & PHELPS INDIA PRIVATE LIMITED.**
- **SMERA –** (SME rating agencies of India Ltd.)

A BRIEF OVERVIEW OF INDIAN CREDIT RATING AGENCIES

CRISIL – Its stands for "credit rating information service of India Ltd".

It is the largest and huge credit rating agencies in India.

It has huge market share of 65% in Indian market.

It is established in 1987, it has also offers its services in others areas such as – manufacturing, service, financial, SME sector (S&P) , now holds the majority shares or stake in CRISIL.

- **AAA, AA, A –** good credit risk

- **BBB, BB –** Average credit risk

- **B, C, D –** low credit risk

CARE–it stands for "credit analysis and research Ltd.".

It is established in 1993, it promoted and backed by the IDBI, CANARA BANK, UTI and others financial institutions and NBFCs is also included.

CARE gives the ratings to these organisations or to these sectors –financial organisations, state government, municipal corporations, public entities, and special purpose vehicles.

ICRA – it is promoted by the MOODY'S, it is a leading agency.

It only focuses and provide ratings in these sectors –mutual fund, hospital, infrastructure and development, construction, cop government and real estate companies.

SMERA – it is a joint venture of some learning banks of the country which primarily focuses on the rating of MSME segment established in 2011.

Grading system:

- **AAA, AA, A –**low credit risk
- **BBB, BB –**moderate credit risk
- **B, C –** high credit risk
- **D –** defaulted

ONICRA – it is a private credit rating agency which is established by the – Mr.Sonu Mirchandani.

He analyse data and provide the ratings or solution for every kind of enterprise and as well for individual.

It has a credible and versatile experience in operating across these sectors like finance, accounting, back end management, application processing, analyatcs relations.

So, this does not mean rating agencies can be the sole deciding factor which is helpful in taking decisions regarding a fund selection. An investor can compare the data from one agency to other and can make the decision on the basis of differences he made.

MEANING OF SYMBOLS USED BY CREDIT RATING AGENCIES:

SAFETY/RISK	DEBENTURE	MEANING OF SYMBOL

Highest Safety	**AAA**	The principal money and interest is safe even if there are negative changes in the economy of the country during the year and it will be timely paid by the company.
High Safety	**AA**	Same as in case of the highest safety.
Adequate Safety	**A**	The principal money and interest is safe even if there are negative changes in the economy of the country but there will be delay in the payment by the company. The company will not become week.
Moderate Safety	**BBB**	If there is negative change in the economy of the country the

		thecountry will become weak.
Inadequate Safety	**BB**	There are more uncertainties within the company then it's competitors.
High risk	**B**	Small changes in the economy of the country will result in more adverse effects of the issuer company.
Substantial Risk	**C**	Presence of prevailing factors in the company will result in future adverse effect.
Default	**D**	Highly risky company

The factors generally considered by the credit rating agencies for rating or grading of manufacturing companies are as under:

i. Industry risk
ii. Companies industry and market position
iii. Operating efficiencies
iv. Accounting quality
v. Financial flexibility
vi. Earnings expectations
vii. Financial leverage
viii. Cash flow adequacy
ix. Management evaluation

SOME IMPORTANT ISSUES IN CREDIT RATINGS

a) **Investment grades / Speculative grades**

Investment grades means top 4 grades – i.e. AAA, AA, A and BBB.

Speculative grades are the bottom 4 grade –i.e. BB, B, C and D.
Speculative bonds are also known as junk bonds or non-investment grades.

b) **Surveillance**

It means periodical review of the financial position of the issuer company by CRA, accordingly the suitable upward or downward movement in the grades assigned to the debt instrument of such company. And such newly assigned grades are published in the newspapers and on website of CRA agree from the very beginning that surveillance will continue till the instrument are redeemed.

c) **Credit watch:**

It means whenever any mega event takes place in the issuer company which has sudden effect on the financial position of such company, then CRA shall immediately re – assigned the credit rating symbol on the basis of such change in the financial position, with out waiting for the periodical review.

d) Ownership as a rating consideration

If the holding company of the issuer company is financially very strong, and as per the past track records the holding company has been supporting the issuer company from time to time, then the issuer company shall receive benefits of the strong holding company in the rating symbol assigned to the debt instrument of such issuer company.

The credit rating agencies issues symbolic indications to the companies which determine the companies ability to pay its debts obligations in time. So it tells about the credit worthiness of an obligor to investors. The blindly trust of companies or investors on the ratings or grades given by the credit rating agencies cause the global financial crisis in the period of 2007 - 2009. The main cause of crisis was giving higher ratings to Companies of Eurozone countries and subprime mortgage crisis held in United States of America.

There have been more than 175 credit rating agencies on national and international level all over the world but the strongly reputed agencies are Moody's, Standard & Poor's, and Fitch that contributes 94% of shares in the credit rating market.

Therefore the credit rating market had an oligopolistic structure in the market which permits the CRA's to take benefit of the market power and also intercepted the active functioning of the market. The CRA'S depend on issuer of the debt securities for their payment rather than investors. Sometimes CRA's exaggerate the soundness of debtors for not losing its current clients. This inaccurate ratings gives no ha to the credit rating agencies but it creates a dangerous situation for the investors as they are being exploited by the fraud Companies.

To overcome this issue , many regulation agencies have been vested which provides codes of conduct for the credit rating agencies.

FUNCTIONS OF CREDIT RATING AGENCIES

- It complies financial data essential which is necessary for
- the loan decisions and as well as for the insurance also.

- It involves a statistical analysis which describe the company condition through a rating to a borrower.

- Credit rating agencies provides the objective Analysis of the organisation which describes the ability to pay back its credit obligation.

- **Superior information –** it provides best and superior information to the users who have a need of it.

- **Low cost information –** it is Avery cheapest source through which we can collect the data or information about the rating of the organization.

- It also maintains a healthy discipline on corporate borrowers.

A credit rating is issued by the credit rating agencies which describes or analyse the credit worthiness of the securities issued by the company, government, co-operation, and other entities or institutions.

Mainly the rating agencies given the ratings and are represented as AAA, AAB, Ba3, CCC etc.

It is just like a marketing or grading system, where the highest rating AAA is given to that borrower or that company who has the highest capability to pay its debt obligations on time or who has the highest probability to pay its obligations in future.

So, AAA is the best and safest debt securities considered to buy.

IMPORTANCE OF CREDIT RATING AGENCIES

Basically credit rating agencies represents the ability or analyse the caps of the borrower to paying back.

It will affect the score card of the borrower.

If a company has a down grade ratings then it will affect its value or as well as in present also, due to this down grade ratings the value of debt, bonds, pushes down and interest rates on loan raises automatically.

These factor will influence the investors decision of investing directly or indirectly.

A company precise a down turn in its working or fortune and it's rating is get lowered or down turn, then the investors might ask for the higher returns to lend it, that's why judging it to be a riskier bet.

For example

If a economic condition and political policies of a country are looks so gloomy, shiny and attractive, but it rating are down graded by the global credit agencies or other reasons which is influencing the flow of investment in the country.

So, on a macroscopic level, we can see that these changes or these factors affect economic policies of a nation which is not good.

So, it is a very important for every country to make an endorsement from a good reputed companies and to convince that rating agency which makes the life easier for countries and financial institutions who are issuing bonds.

Basically, they tell the investors by examining the records or by tracking the records, how likely is to be able to pay back the obligations.

As we know globally, Standard & Poor's, Moody's, and Fitch ratings group are recognised or known as the big three credit rating agencies.

In terms of acceptability and influence these Three Big Companies have a huge global market share 95% as per CFR REPORT, USA 2015.

FEATURES OF THE CREDIT RATING AGENCIES

Specificity –it specifies the things in a well mannered way.

Relativity – it relates all the data into the practical life which helps in taking decisions regarding investment.

Guidance –it provides relative guidance to the investors according to their need and requirements.

Not a recommendation – it does not provide a recommendation, itonly provide a suggestion about the credit rating of the company.

No guarantee – it does not take any guarantee about it suggestionthat the company arising profit or loss in future.

Quantitative and qualitative–it provides both the aspects regarding something or anything.

DIFFERENCE BETWEEN CREDIT RATING AND CREDIT SCORE

As we know that these two words are looking similar but basically they are different from each other.

These two terms are interchanged but they do not exactly same. Here are the differences Between the credit rating and credit score.

Credit rating

Credit rating basically refers to the credit worthiness or ability to pay back the obligations of a company, business, organisations, institutions. However it is not really used to individual like you and me. It provides an understanding that the company is able or capable to pay its debt obligations in time.

These rating are based on corporate financial instruments and it is usually denoted or showed with the help of alphabetical symbols like –

AAA, BBB, B, C, D etc.

Higher rankings is a good symbol where lower rating is a probability of new default pays.

Credit score

It is just a number and it is calculated by the credit bureaus and provided to the individuals with the help of credit information report.

It plays an crucial role in any one’s life I today’s era.

This is can be in between 300 to 900.

It plays an important role in loan and in the approval process of credit cards.

So it is a very important thing which is maintained by the each and every individual seriously.

Tips to maintain and to improve a good credit score

- Collect the report from experts or anywhere to think it is authentic . Review the report for any type of error or mistake.
- Try to reduce the number of debt of those with high interest due to down turn.
- If there is any due is remaining , try to pay out as soon as possible. If you can’t pay in full , then try to pay it into the parts.
- Try to pay all the bill on time without delaying due to any reason , because it may cause a huge or a serious damage to your report.
- Try to avoid credit from financial companies , because it may also harm to your credit score.
- Don’t apply for huge credit account. Because it is not fruitful for you.

Credit score will determine your financial status and capability , so you should always try to keep it good as you can because such type of action may harm to your credit report which is not good for you.

OBJECTIVEOFTHESTUDY

Theobjectiveofthestudyis:

Tounderstandthemeaning,scope,androleoftheCreditratingagencies.

Toknowthathowmanypeopleareawareaboutthecreditratingagenciesandtowhichagencytheywantedtoprefer,iftheyhavealittlebitknowledgeofit.

Toanalysetheroleofcreditratingagenciesinthefinancialcrisisintheperiodof2007-2009.

RESEARCH METHODOLOGY

SAMPLE SIZE : The sample is comprised of the 100 respondents who completed or attempted the all questions of the questionnaire, it is from a statistical point of view.

METHODS OF DATA COLLECTION : This study is based on the **primary data**. The data used in the study were collected through the help of questionnaire and which is filled by the 100 respondents.

Secondary data was collected from the articles, published research papers, internet, and through the other sources as well.

This procedure consist of reading of articles, books and other things related to the information of credit rating agencies, that how they analyse , how theydo the work and their rating symbols also.

QUESTIONNAIRE : The questionnaire consist of 18 questions, which has two sections basically.

It is basically divided into two parts:

1. First part consist of all the details related to the respondents.

2. Second part consist the details regarding that how many people are aware about the credit rating agencies and their perceptions also.

   Which agency they wanted to prefer, and why.

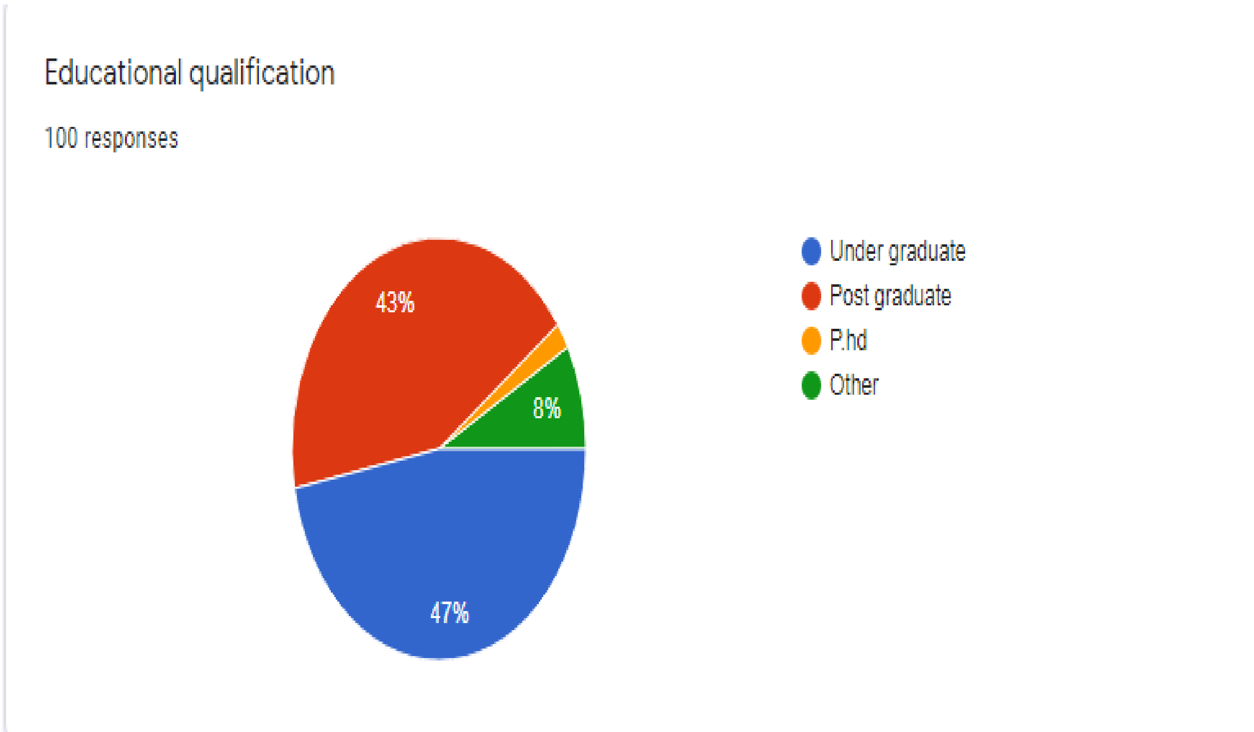
LIMITATION OF RESEARCH

This research is carried out as a part of project with limited resources. Thus a limited 100 respondents were taken for sample of the study.

The sample respondents are taken randomly for the study, from the different parts of Noida. So, basically it is the perception or the reflection of the respondents of the Noida.

DATA ANALYSIS AND INTERPRETATION

1. On the basis of education



HENCE THERE ARE:

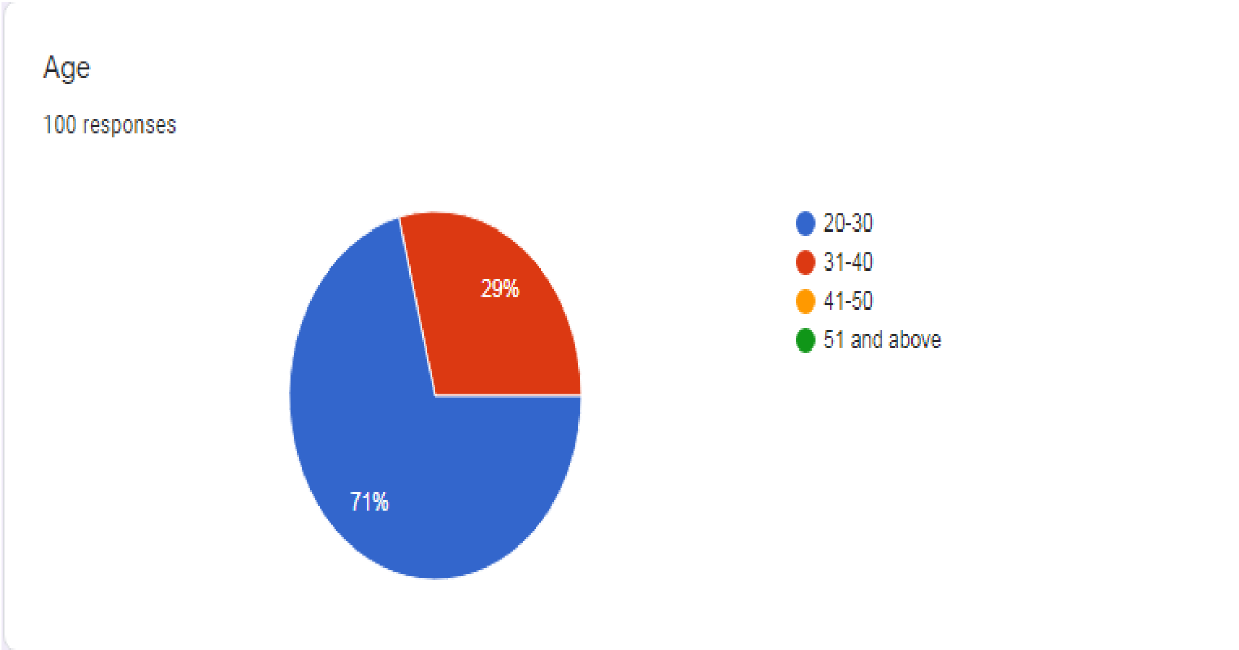
Under graduate = 47%

Post graduate = 43%

P.hd = 2%

Others = 8%

2. On the basis of Age



HENCE THERE ARE ALL THE PEOPLE ALMOST BELONG TO THE 20-30 AGE GROUP AND OTHERS BELONG TO THIS AGE GROUP 31-40

AGE GROUP:

20-30 = 71%

31-40 = 29%

41-50 = 0 %

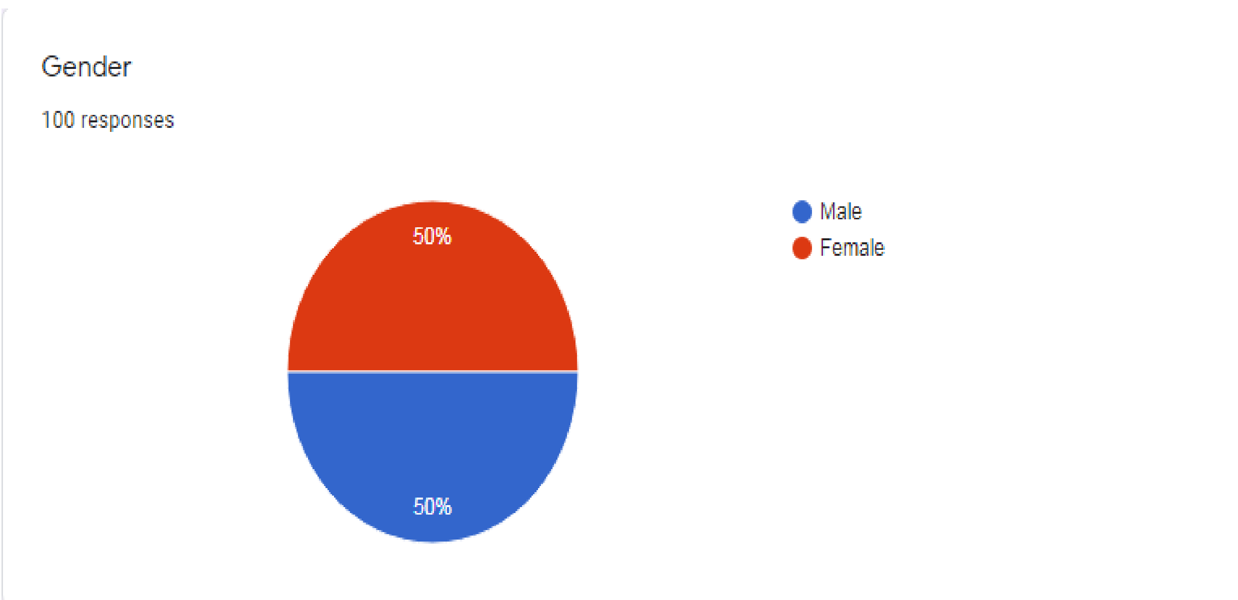
51 and above = 0%

3. On the basis of Gender

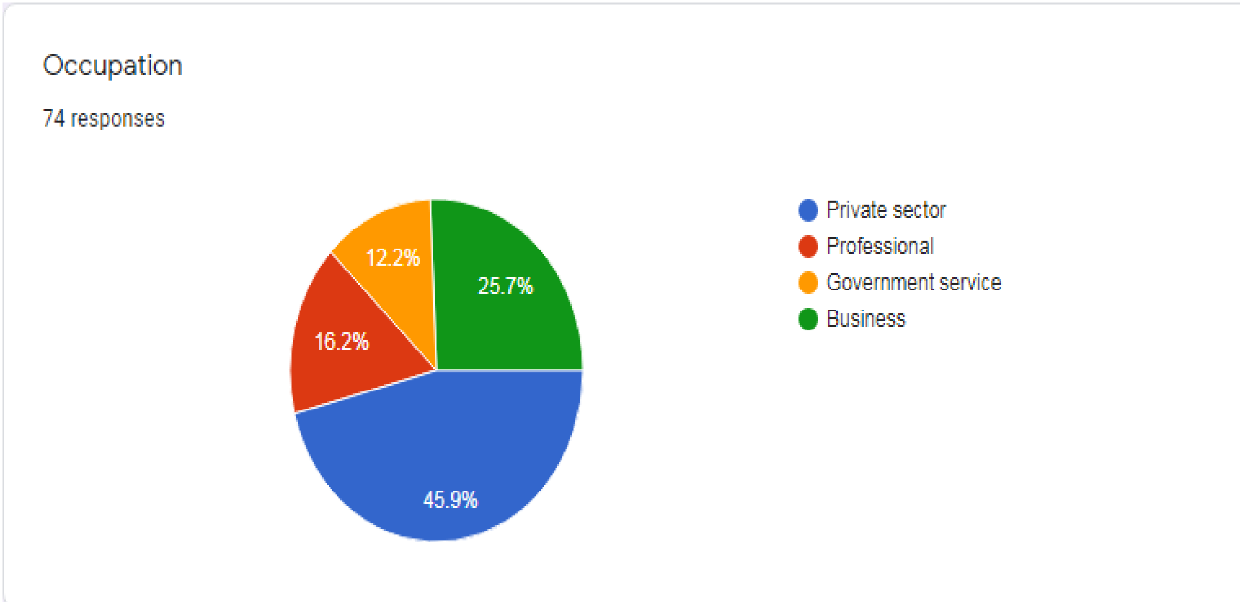
HENCE THERE ARE EQUAL RATIO OF MALE AND FEMALE BOTH.

MALE = 50%

FEMALE = 50%



4. On the basis of Occupation



HENCE THERE ARE:

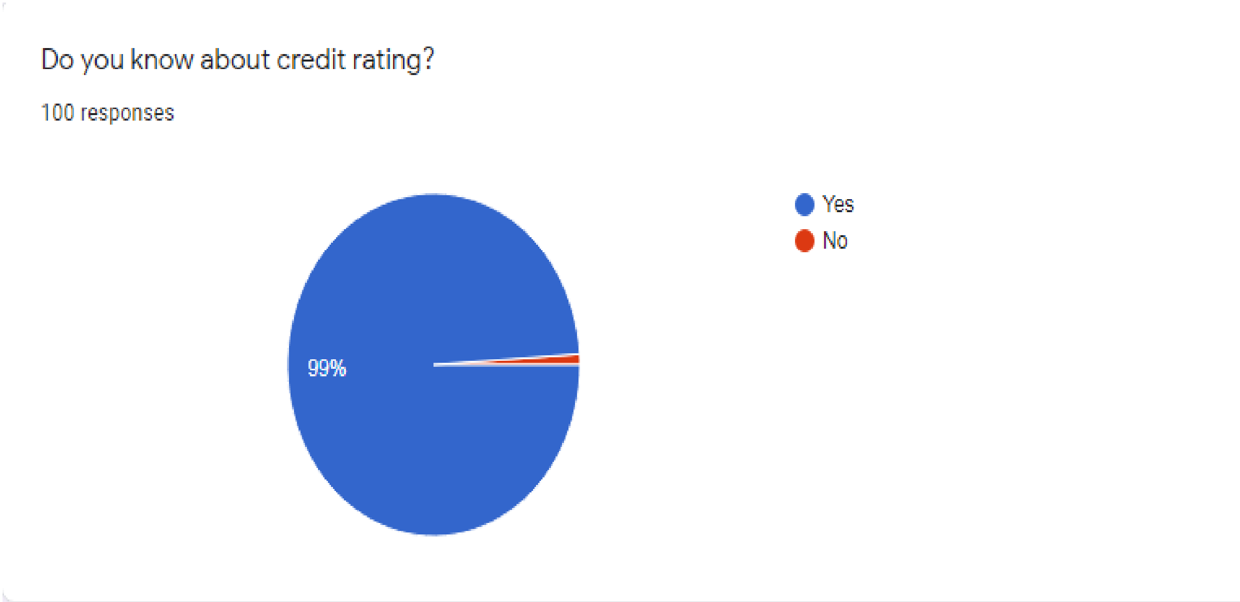
PRIVATE SECTOR = 45.9%

PROFESSIONAL = 16.2%

GOVERNMENT SERVICE = 12.2%

BUSINESS = 25.7%

5. **How many know about the credit rating agencies?**

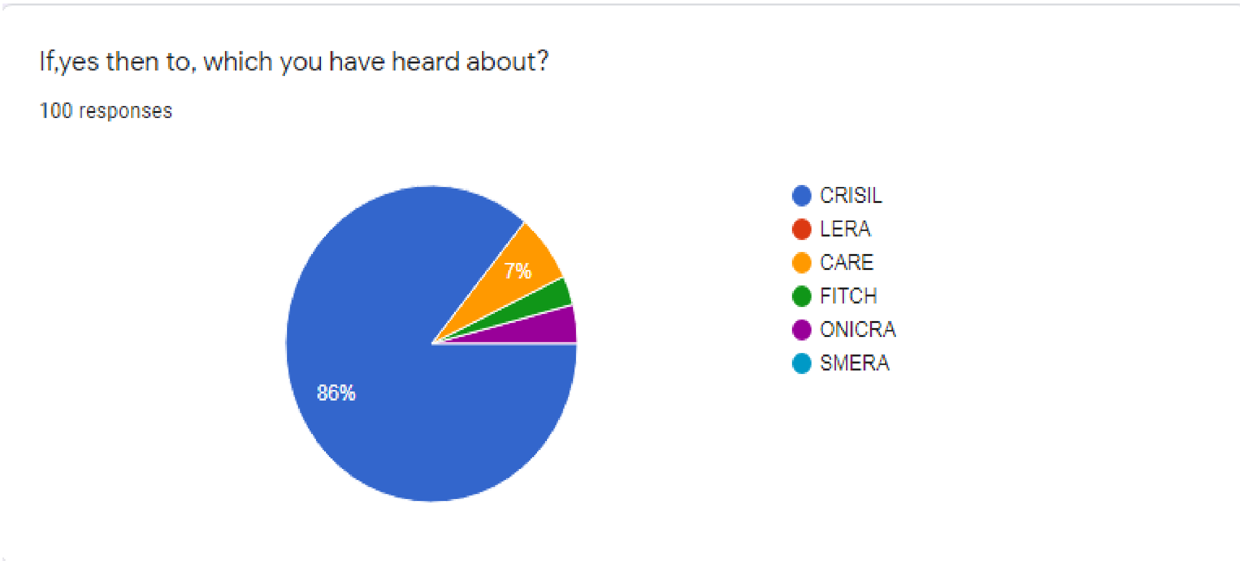


HENCE EVERYONE IS KNOW ABOUT THE CREDIT RATING EXCEPT THE ONE PERCENT OF POPULATION

YES = 99%

NO = 1%

6. Which you have heard?



HENCE THERE ARE EVERY ONE IS AWARE ABOUT THE CREDIT RATING AGENCIES

CRISIL = 86%

CARE = 7%

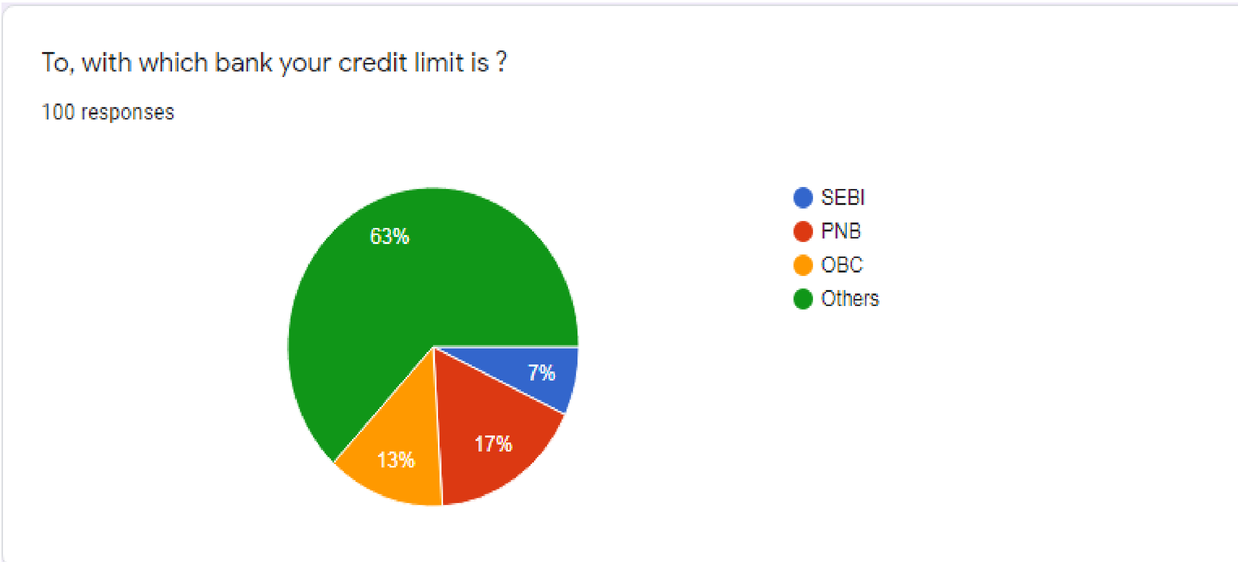
LERA = 0%

FITCH = 2%

ONICRA = 5%

SMERA = 0%

7. Credit limit



HENCE THERE ARE:

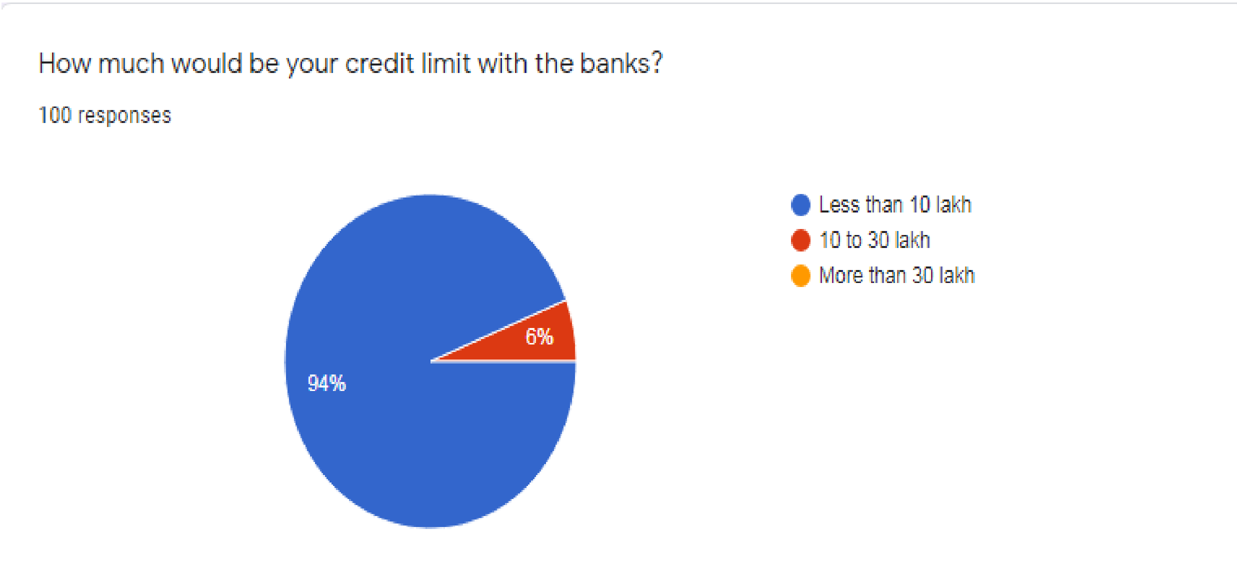
SBI = 7%

PNB = 17%

OBC = 13%

OTHERS = 63%

8. How much would be your credit limit with the banks ?



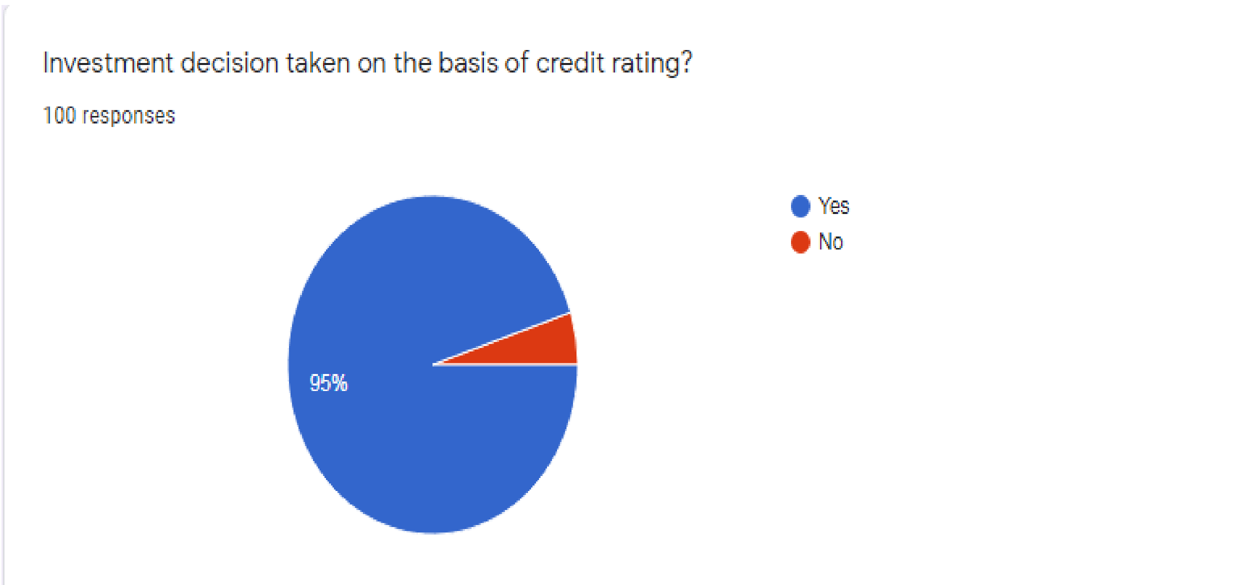
HENCE THERE ARE:

Less than 10 lakh = 94%

10 to 30 lakh = 6%

More than 30 lakh = 0%

9.Investment decisions

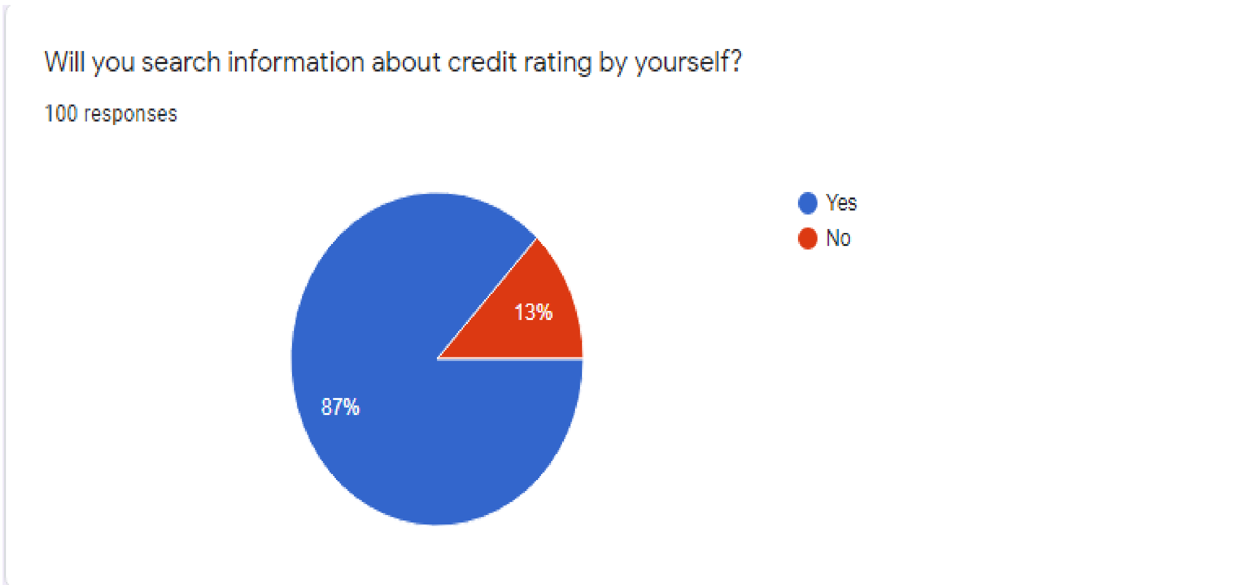


HENCE THERE ARE :

YES = 95%

NO = 5%

10. Information about rating agency

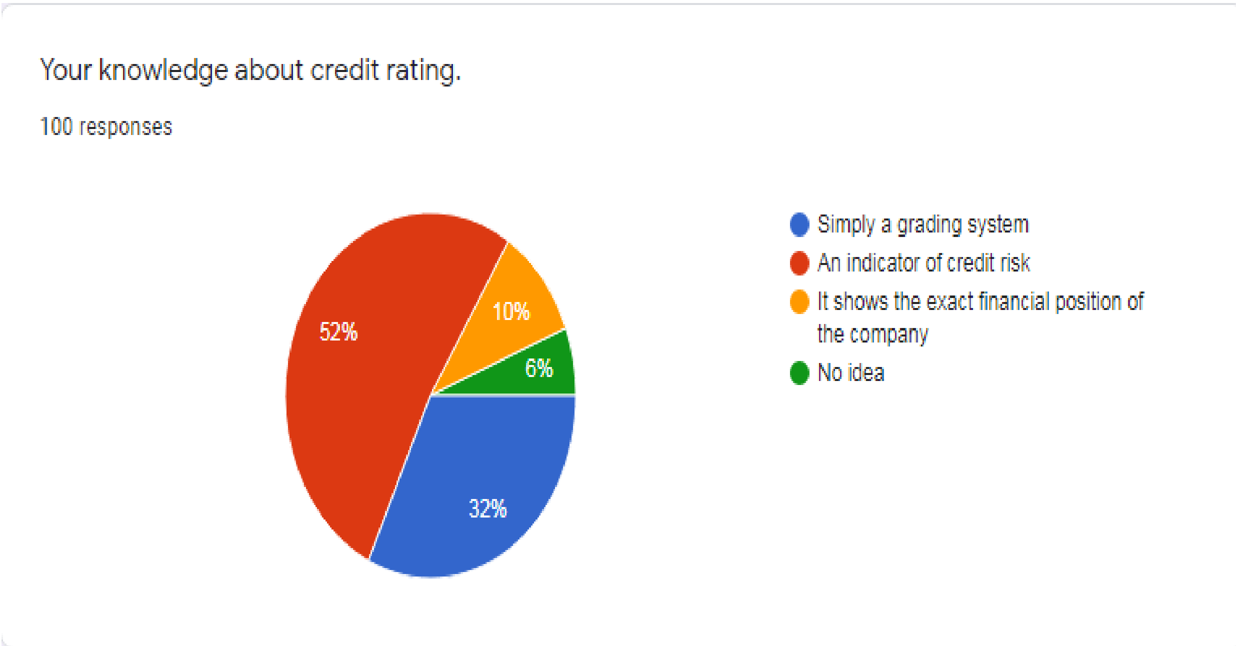


HENCE THERE ARE :

YES = 87%

NO = 13%

11. Knowledge about Credit rating



HENCE THERE ARE:

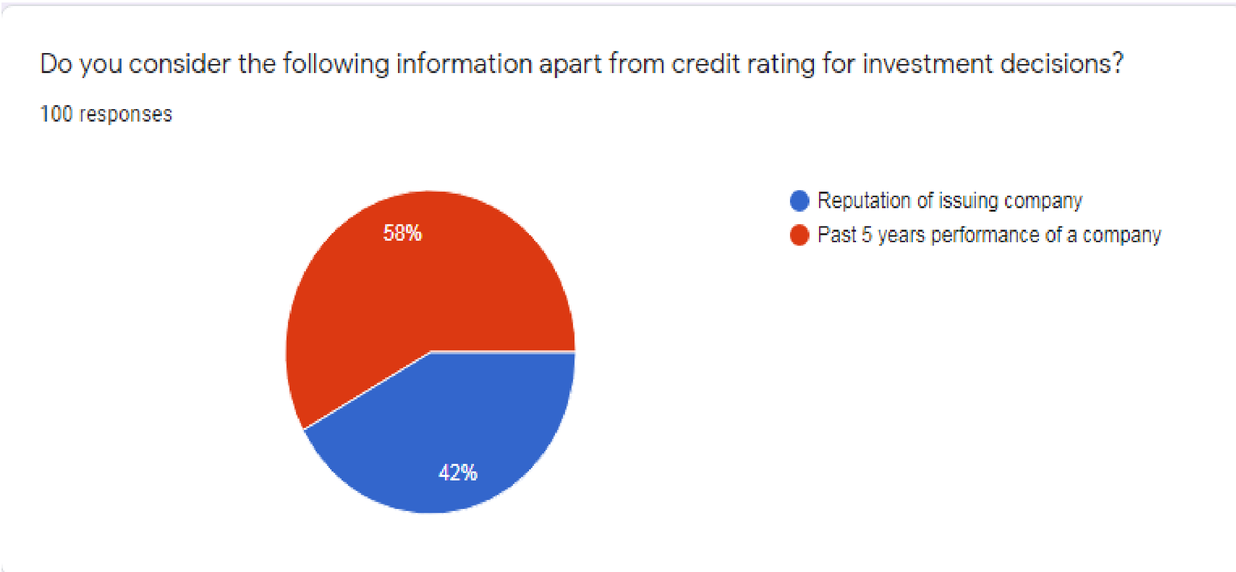
Simply a grading system = 32%

An indicator of credit risk = 52%

It shows the exact financial position = 10%

No idea = 6%

12. Which information also you will consider for the investment decision.

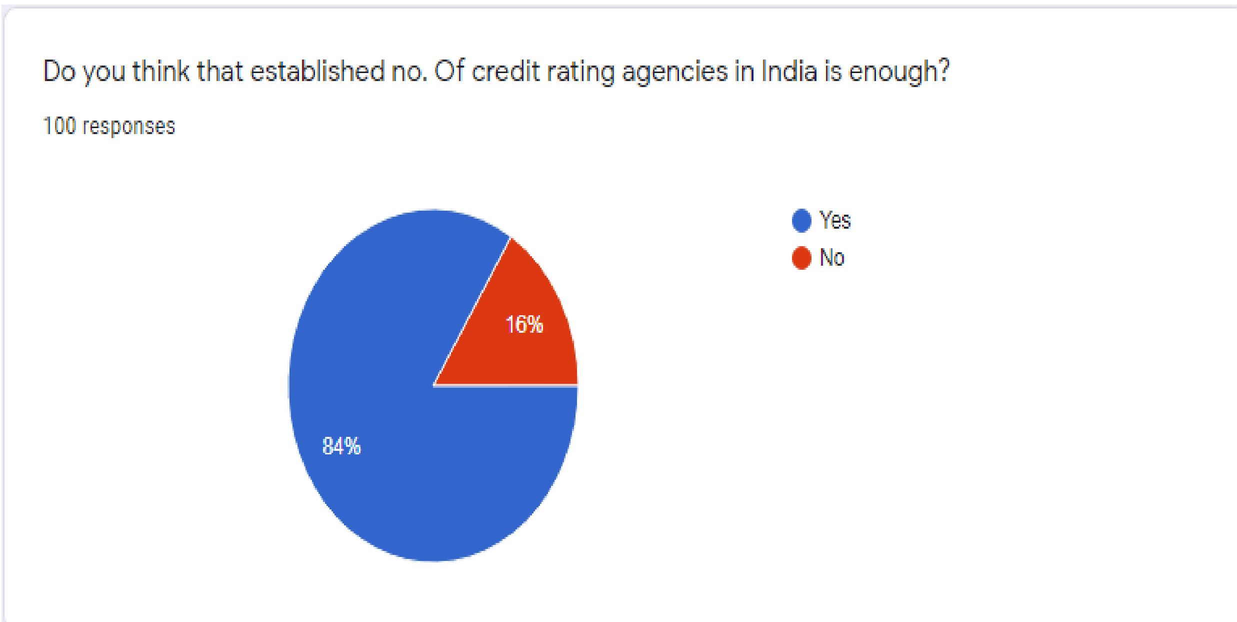


HENCE THERE ARE:

Reputation of issuing company = 42%

Past 5 years performance of the company = 58%

13. Established Credit rating agencies are enough or not.

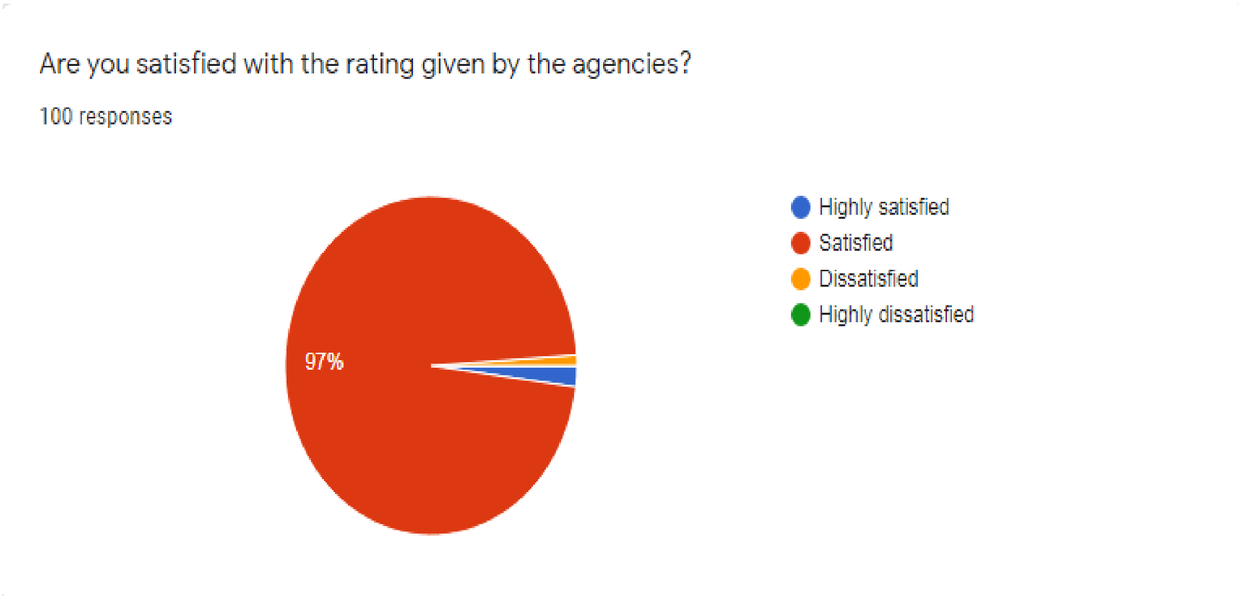


HENCE THERE ARE :

YES = 84%

NO = 16%

14. Satisfied with the ratings.



HENCE THERE ARE :

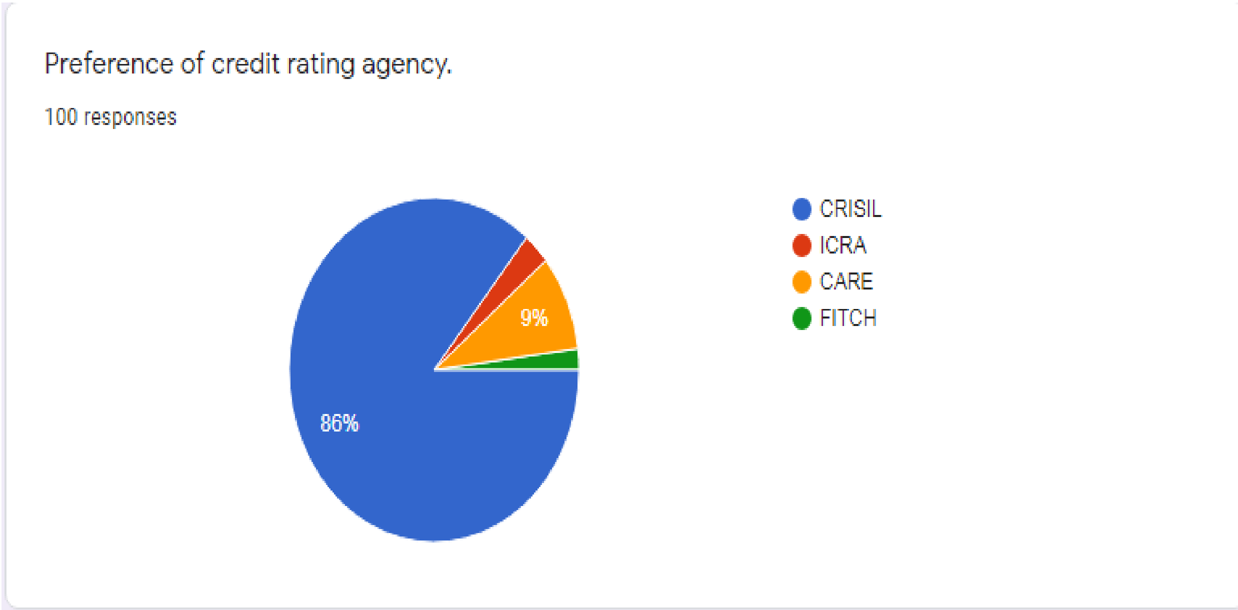
Highly satisfied = 2%

Satisfied = 97%

Dissatisfied = 1%

Highly dissatisfied = 0%

15. Preference of Credit rating agency .



HENCE THERE ARE :

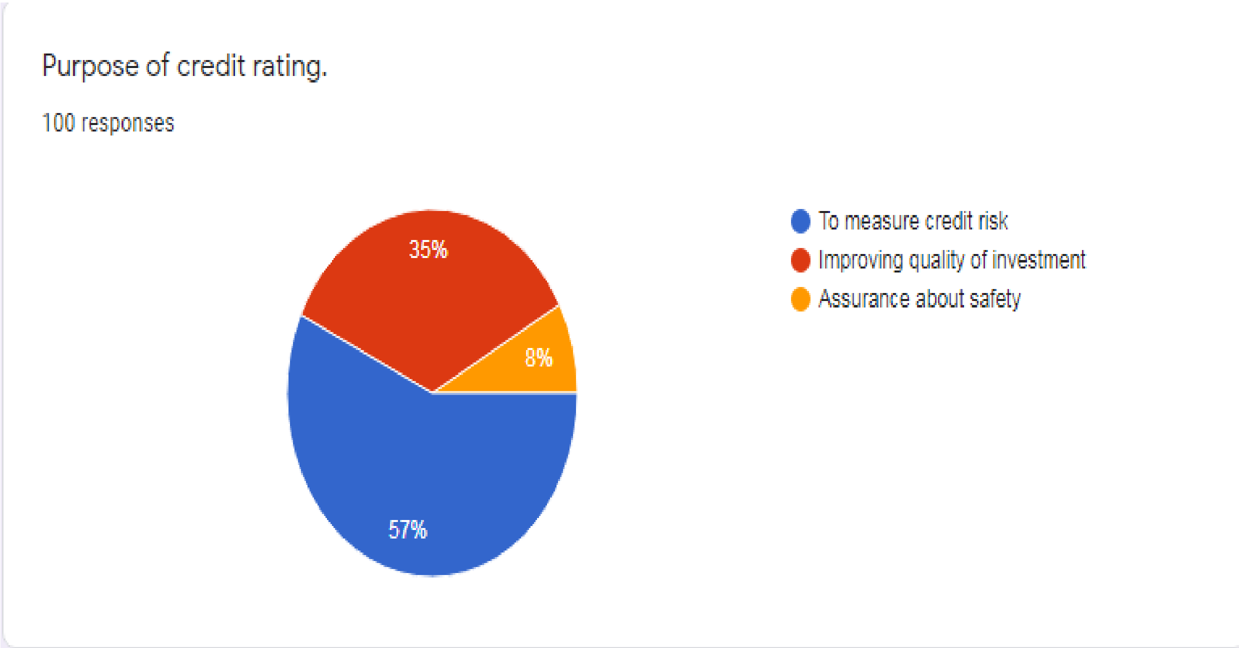
CRISIL = 86%

ICRA = 3%

CARE = 9%

FITCH = 2%

16. Purpose of the CREDIT RATING AGENCIES.



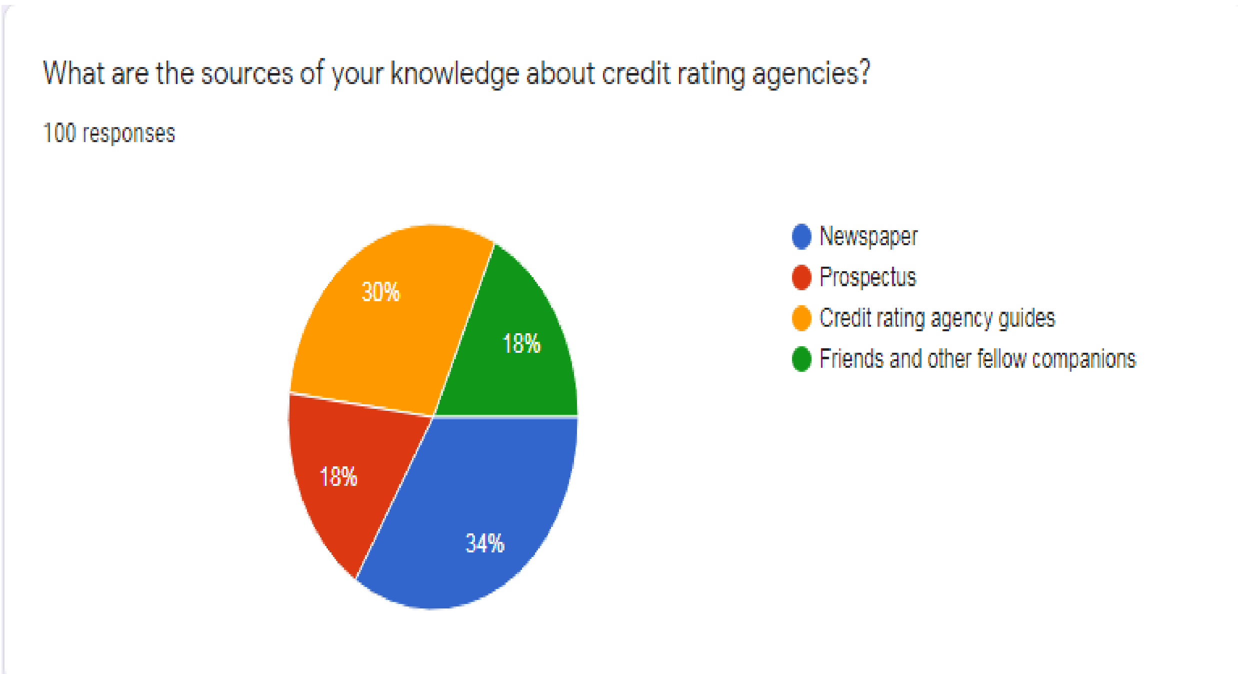
HENCE THERE ARE :

To measure credit risk = 57%

Improving quality of investment = 35%

Assurance about safety = 8%

17. Sources of your knowledge about CRA's.



HENCE THERE ARE :

Newspaper = 34%

Prospectus = 18%

Credit rating agencies guides = 30%

Friends and other fellow companions = 18%

18. Ratings are helpful

HENCE THERE ARE EVERYONE IS SAYING YES THAT THE RATINGS ARE HELPFUL FOR THEM. NO ONE IS SAYING NO.

ANALYSIS AND INTERPRETATION OF THREE BIG CREDIT RATING COMPANY

CRA	**TOTAL CHANGES**	**RATINGS**	**OUTLOOKS**
Longterm foreign currency rating by FITCH	54	UPGRADE - 4 DOWNGRADE – 33	UPGRADE – 4 DOWNGRADE – 13
Long term foreign currency rating by MOODY	68	UPGRADE – 0 DOWNGRADE – 40	UPGRADE – 5 DOWNGRADE – 23
Long term foreign currency rating by STANDARD AND POOR	79	UPGRADE – 6 DOWNGRADE – 43	UPGRADE - 8 DOWNGRADE – 22
TOTAL of foreign currency	201	UPGRADE – 10 DOWNGRADE - 116	UPGRADE – 17 DOWNGRADE – 58

COUNTRY	**TOTAL CHANGES**	**RATINGS**		**OUTLOOKS**	
		UPGRADE	**DOWN GRADE**	**UPGRADE**	**DOWN GRADE**
Austria Belgium Cyprus	3 7	0 0	1 3	0 0	2 4

Estonia	23	1	18	0	4
Finland	15	4	3	5	3
France	1	0	0	0	1
Germany	5	0	2	0	3
Greece	1	0	0	0	1
Ireland	36	3	23	3	7
Italy	26	0	15	4	7
Luxembourg	10	0	7	0	3
Malta	2	0	0	0	2
Netherlands	5	0	3	0	2
Portugal	2	0	0	0	2
Slovakia	19	0	14	1	4
Slovenia	12	2	2	3	5
Spain	16	0	10	1	5

INTERPRETATION

This is the rating given by the top 3 credit rating agencies named as FITCH RATINGS, MOODY and STANDARD and POORS to the companies of Eurozone countries after the sovereign debt crisis. As the public debt had been increased during the time of global financial crisis in the year of 2007-2009. There were budget deficit in some Eurozone countries like Greece, Italy, etc. These countries were subjected to investigation by the participants as their budget deficit became double than the previous year. During the investigation , it was found that incorrect rating was given by the CRA’s to these countries.

The CRA did not make any judgements in spite of the lapse in macroeconomic indicators of these Eurozone countries before burst of sovereign crisis.CRA had increased sovereign credit rating of these countries . sovereign credit rating means to rate a national government. It defines the level of risk of investment in a country. Euro zone countries could borrow at low rate due to the increase in the sovereign credit rating of troubled euro zone countries was successively downgraded after the debt crisis. This resulted in increase in the crisis.

Government bond rate of Euro zone countries has been reduced as there was high level of risk involved. But the government was providing high borrowing rates to sustain the sovereign debt in which resulted in further downgrades.

This table shows the number of changes arises or made in grades or ratings of Euro zone countries after the sovereign debt crisis.i.e, between January 2008 and December 2011 by the top three credit rating agencies named as Fitch, Standard and Poor. They have given rating to long term foreign currency debt of companies of Eurozone countries. Ratings given by them differ from each other. These three CRA's observed the following changes:

1. There were found that total of 201changes in rating and Outlook (indications) in long term foreign currency debt of corporate of Eurozone countries.
2. The change in rating of long term foreign currency debt includes 10 ratings upgrades, 116 downgades,

3. 17 positive changes or variations and 58 negative variations indications (Outlook).
4. Downgades in rating and Outlook constituted about 86.5% of differences in sovereign credit rating of Euro zone countries.
5. The reason of downgades in rating and Outlook by credit rating agencies were the poor economic condition in of Eurozone countries during the year of sovereign debt crisis.
6. Fitch observed total changes in terms of rating upgrade and downgade as well as positive and negative variation in Outlook were 56 which constituted 4 upgrades, 33 downgrades, 4 positive and 13 negative changes in outlook.
7. Moody observed total changes in terms of rating and outlook of long term foreign currency debt were 68 that constituted 0 upgrade, 40 downgade in rating, 5 positive and 23 negative variations in outlook.
8. Standard & Poor noticed that the total changes of 79 that constituted 6 upgrades, 43 downgrades, 8 positive and 22 negative changes in Outlook.
9. All the three agencies named as Fitch, Moody, S&P have given their rating downgades and negative variations which vary from each other.
10. These negative variations show that position of Eurozone countries are given that shows the number of upgrades and downgades by countries.

FINDINGS

Through the whole Analysis done during the project, it is observed that almost everyone is aware about the credit rating agencies.

But, basically there are not fully aware about the functioning and thier process through which they provides the rating to the companies, corporates, organisations, institutions, etc.

Regarding the source of information collected with the help of questionaire, every one know about rating agencies, and from the population every one is heard about the CRISIL that is, 87% and little bit about the others. They also take investment decisions on the basis of Credit rating given by the rating agencies.

According to the analysis most of the people will collect the information about Credit rating agencies by themself and other remaining bill take help from the other sources. And most of the population think it is a indicator of credit risk and other remaining thinks that it is a simple grading system. And according to then established Credit rating agencies are enough. And almost everyone is satisfied with the rating and they will prefer CRISIL.

So, this analysis says that or finds that rating are helpful for the population while taking the decisions regarding investment.

- According to credit rating agencies Fitch, rating downgrades and negative variations in outlooks constituted about**85.185%** of changes in sovereign Credit rating of Euro zone countries.

Rating downgade and variations in outlook =

Downgrades in rating + Downgades in Outlook *100 / total

Changes

= (33+13)*100 / 54

= 85.185%

- According to the credit rating agencies Moddy, rating Downgades and nagative variations in outlook constituted about **92.647%** of changes in sovereign Credit rating of Eurozone countries that is

  =(40+23)*100 / 68

= 92.647%

- According to credit rating agencies Standard &poor, rating Downgades and negative variations in out outlook constituted about **82.278%** of changes in sovereign Credit rating of Eurozone countries I.e.

= (43+22)*100 / 7

= 82.278%

- The countries that are having rating Downgades and negative variations in outlook constituted 100% of changes in sovereign credit rating of Eurozone countries.
- All these Eurozone countries were in a very poor condition and hence they were criticized by all three Credit rating agencies namely Fitch, Moody and S&P.

SUGGESTIONS

- There is a need to strengthen the accuracy of Credit rating and reduce systemic risk.
- Regulatory authority needs to rank the companies in terms of performance.
- Regulatory authorities need to facilitate the ability of investors to hold credit rating agencies accountable in civil lawsuits for influated Credit rating, when a credit rating agency knowingly fails to conduct a reasonable investigation of the rated security.
- Regulatory authorities need to insure Credit rating agencies institution internal controls, Credit rating methodologies and employee conflict of interest safeguards that advance rating accuracy.
- Regulators should use their examination, inspection and regulatory authority to insure Credit rating agencies assign higher risk to financial instruments whose performance cannot be predicted due to their complexity.

CONCLUSION

Credit rating is a primary tool of management. As we know it is a connection between risk and returns.

Actually, what they do - they provide or give rating or grades to debt securities of government and corporates too. It is a tool which assess the Credit worthiness, ability, capability of the borrower to pay back its debt obligations in time, in simple terms.

Under this efficiency of credit rating agencies is most important for the proper functioning of the debt market. It is used by the regulators of the financial market in many ways like - refinancing by bank, and for various activities. As we know due to the carelessness or due to other reasons we were faced the global financial crisis in the year of 2007-2009, due to this it is very important to examine the functioning carefully by the CRA's.

The main cause of the crisis was the giving higher ratings to the companies of Eurozone countries. It also caused great recession in year of 2007-2009 in the whole world.

So, basically there is need to regulate or make the rules and regulations of credit rating agencies or more strict. That's why many international regulation have been established in order to regulate and manage these agencies. Sometimes Credit rating agencies exaggerate the soundness of the things while giving the rating of the government and corporates, it does not give harm to rating agencies but create a dangerous situation for the companies who are exploiting.

The international organisations of securities commission provided statement of principles with reference to activity of Credit rating agencies in September 2003 and also provided CODE OF CONDUCT for credit rating agencies which defines the manner in which these agencies should work.

QUESTIONNAIRE

1. Name of the respondent :

2. Educational qualification :

a) Under graduate
b) Post graduate
c) P.hd
d) Others

3. Age :

a) 20 - 30
b) 31 - 40
c) 41 -50
d) 51 and above

4. Gender :

a) Male
b) Female

5. Occupation :

a) Private sector
b) Professional
c) Government services
d) Business

6. Do you know about Credit rating?

a) Yes
b) No

7. If, yes then to, which you have heard about?

a) CRISIL
b) LERA
c) CARE
d) FITCH
e) ONICRA
f) SMERA

8. To, with which bank your credit limit is?
   a) SEBI
   b) PNB
   c) OBC
   d) Others

9. How much would be your credit limit with the banks?
   a) Less than 10 lakh
   b) 10 to 30 lakh
   c) More than 10 lakh

10.Investment decision taken on the basis of credit rating?

a) Yes
b) No

11. Will you search information about Credit rating by yourself ?

a) Yes
b) No

12. Your knowledge about Credit rating.

a) Simply a grading system
b) An indicator of credit risk
c) It shows the exact financial position of the company
d) No idea

13. Do you consider the following information apart from Credit rating for investment decisions?

a) Reputation of issuing company
b) Past 5 years performance of a company

14. Do you think that established no. Of Credit rating agencies in India is enough?

a) Yes
b) No

15. Are you satisfied with the rating given by the agencies?

a) Highly satisfied
b) Satisfied
c) Dissatisfied
d) Highly dissatisfied

16. Preference of Credit rating agency.

a) CRISIL
b) ICRA
c) CARE

d) FITCH

17. Purpose of Credit rating.

a) To measure credit risk
b) Improving quality of investment
c) Assurance about safety

18. What are the sources of your knowledge about Credit rating agencies?

a) Newspaper
b) Prospectus
c) Credit rating agency guides
d) Friends and other fellow companions

19. Do you think that the ratings are helpful?

a) Yes
b) No

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