



*Thakur Educational Trust's (Regd.)*  
**THAKUR COLLEGE OF SCIENCE & COMMERCE** **tcsc**

UGC Recognized \* Affiliated to University of Mumbai  
(NAAC Accredited with Grade 'A' [CPGA-3.10] \* ISO 9001:2008)

**PROJECT REPORT ON:  
A STUDY ON CREDIT RATING AGENCIES OF INDIA**

**A Project Submitted to  
university of Mumbai for partial completion of the degree of  
Bachelor of Commerce (Accounting and Finance)  
Under the faculty of Commerce**

**SUBMITTED TO:  
University of Mumbai**



**BY  
GHARAT PRANAV UMESH**

**UNDER THE GUIDANCE OF  
MOHAMMED SADIQ HASAN**

**ACADEMIC YEAR 2019-20**



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### **DECLARATION**

I the undersigned **GHARAT PRANAV UMESH** here by, declare that the work embodied in this project work titled, “**A study on Credit Rating Agencies of India**” forms my own contribution to the research work carried out under the guidance of “**MOHAMMED SADIQ HASAN**” and has not been previously submitted to any other University for any other Degree/Diploma to this or any other University.

Wherever reference has been made to previous works of others, it has been clearly indicated as such and included in the bibliography. I, here by further declare that all information of this document has been obtained and presented in accordance with academic rules and ethical conduct.

**GHARAT PRANAV UMESH**

Certified By

**Name and Signature of Guiding Teacher**  
**MOHAMMED SADIQ HASAN**

**Date:**

**Place:**



### **CERTIFICATE**

This is to certify that **GHARAT PRANAV UMESH** has worked duly completed his project work for the degree of Bachelor in Commerce (Accounting and Finance) under the faculty of Commerce and his project is entitled, “**A study on Credit Rating Agencies of India**” under my supervision.

I further certify that the entire work has been done by the learner under the guidance and that no part of it has been submitted previously for any Degree or Diploma of any University.

It is his own work and facts reported by her personal findings and investigations.

COORDINATOR

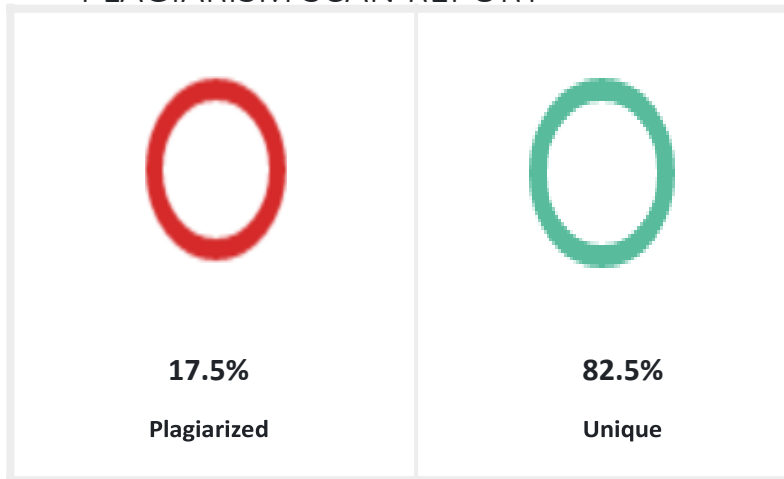
PROJECT GUIDE

PRINCIPAL

**DATE:**

**PLACE:**

## PLAGIARISM SCAN REPORT



<b>Date</b>	2020-03-05
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**Matched Source****Similarity 5%****Title:** [Moody's Corporation - Wikipedia](#)

in 1900, moody published his first market assessment, called Moody's manual of industrial and miscellaneous securities, and established john moody & company.[6] the publication provided detailed statistics relating to stocks and bonds of financial institutions, government agencies...

[https://en.wikipedia.org/wiki/Moody%27s\\_Corporation](https://en.wikipedia.org/wiki/Moody%27s_Corporation)

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**Title:** [CREDIT RATING AGENCIES IN INDIA - DOKUMEN.TIPSdokumen. tips > Documents](#)

2018/02/07 - Phelps (US) in joint venture with Alliance Capital Ltd. Calcutta were formed in India to provide various services to the investing community in India. The services rendered by these Credit Rating Agencies are discussed in ...

<https://dokumen.tips/documents/credit-rating-agencies-in-india-rating-agencies-in-india-in-joint-venture.html>

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### Similarity 2.5%

**Title:** [chapter – 4 credit rating – an overview - Shodhgangashodhganga.inflibnet.ac.in > bitstream](#)

... rating is an opinion on the future ability and legal obligation of the issuer to make timely payments of principal and interest on a specific fixed income security.

[https://shodhganga.inflibnet.ac.in/bitstream/10603/68273/9/09\\_chapter%204.pdf](https://shodhganga.inflibnet.ac.in/bitstream/10603/68273/9/09_chapter%204.pdf)

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TYBAF SEM VI project work (Gantt Chart) / Time line for project completion

Name =Pranav Gharat Class/div=TYBAF C Roll No.=8554

Task ID	Task Description	Task Duration in days	Start Date	End Date	03-Feb-20	05-Feb-20	08-Feb-20	10-Feb-20	13-Feb-20	17-Feb-20	20-Feb-20	24-Feb-20	02-Mar-20
1	Chapter No. 1: Introduction												
2	Chapter No. 2: Research Methodology												
3	Chapter No. 3: Literature Review												
4	Chapter No. 4: Data Analysis, Interpretation and Presentation												
5	Chapter No. 5: Conclusions and Suggestions												
6	Bibliography, Appendix												
7	First Draft												
8	Second Draft												
9	Final Draft												

important:

1. Referencing style APA 6th
2. The Project Report shall be bounded
3. The project report should be 80 to 100 pages
4. Gantt chart shall be filled by faculties only
5. The final draft shall be signed by guiding teacher
6. The faculties are allowed to link the tasks in Gantt chart
7. Be sure to display start and end dates for each task
8. Account for time off, holidays and internal exams
9. To define the critical path, use lines to connect a task

Students signature  
on No. of visits with date

Dr. Nishikant Jha Department  
co-ordinator B. Com (Accounting and Finance)

Project guide =  
Department=

## **ACKNOWLEDGMENT**

To list who all have helped me is difficult because they are so numerous and the depth is so enormous.

I would like to acknowledge the following as being idealistic channels and fresh dimensions in the completion of this project.

I take this opportunity to thank the **University of Mumbai** for giving me a chance to do this project.

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I would like to thank my **College Library**, for having provided various reference books and magazines related to my project.

Lastly, I would like to thank each and every person who directly or indirectly helped me in the completion of the project especially **My Parents and Peers** who supported me throughout my Project.

## **Abstract**

The banking and financial sector in India underwent an unprecedented transformation in the mid-90s with the emergency of many private as well as foreign multinational banks entering the country increasing rapidly the number of banks in India due to the economic reforms. So, the banking activities increased manifold and affected many areas of operation of banks, particularly in the field of bank lending. Banks operate on the pattern of extending credit against security given by its customers associated with the bank. The facility of extending credit agencies are recognition of the changing times in which banks must operate in a changing and ever evolving economic scenario. Growing needs and realization of higher rate of investments is giving birth to bank credit in India. With the effects and process of Globalization taking place the Financial Markets in India took a boom and huge amount of foreign currency was infused in the economy by the way of FDI and FII.

Credit rating agencies play an important role in assessing risk and its location and distribution in the financial system. By facilitating investment decisions, they can help investors in achieving a balance in the risk return profile and at the same time assist firms in accessing capital at low cost. CRAs can thus potentially help to allocate capital efficiently across all sectors of the economy by pricing risk appropriately. However, since CRAs that rate capital market instruments are regulated by SEBI and that entities regulated by other regulators (IRDA, PFRDA and RBI) predominantly use the ratings, it was felt necessary to institute a comprehensive review of the registration, regulatory and supervisory regime for CRAs. The major motivation for the exercise was to look at inter regulatory coordination so that all interested stake holders have an institutional mechanism for providing inputs feedback to ensure realization of the objective behind the regulation of CRAs. A credit rating is a measure used by creditors to determine how much they can trust a certain borrower, whether the borrower is an individual, a corporation, or a country. The credit rating is derived using past financial data or the borrower's credit history. A salaried person's credit could be estimated by just looking at his or her monthly salary. Similarly, even a company's credit line could be estimated by an investor by looking at its revenue and reports issued by CRA's and then invest in it.

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# **CHAPTER 1: INTRODUCTION**

## **Introduction**

### **Origin and Evolution of Credit Rating Agencies**

With the economic progress took place in the west, it slowly led to the development of business and personal relation of Merchants and their Customers. The merchants back then would allow only a certain people to buy goods on credit and always hesitated to extend their credit to newer client with the risk of their money drowning. But that could still be not a problem as the dealers could always use and take advantage of their proximity to the customer and could not make out whether they will be ready to pay it back or not. As trading distances increased, merchants no longer personally knew their clients and become leery of extending credit to their clients who they did not know in fear of them not being able to pay back. Business owners hesitate to extend their credit to new customers led to the birth of the credit reporting industry.

The origin for the establishment of Credit Rating Agencies in the world could be traced back to 1840 following the Economic Crisis of 1837. Mr. Lewis Tappan first established a Mercantile Credit Rating Agency (today known as Credit Rating Agency) in the year 1841 at the city of New York. Back then Mercantile Credit Agencies used to rate the people's ability to meet their financial obligation and consolidate these ratings in the published guide.

Robert Dun soon acquired the credit agency setup up Lewis Tappan and published its first report on Credit rating back in 1857. Later in the year 1933 these two agencies merged together and formed Dun and Bradstreet which acquired and owned the Moody's Investor Service in the year 1962.

Moody's drops its history back to 2 publishing companies established by John Moody, the inventor of recent bond credit ratings. IN 1900, Moody published his first market assessment, called Moody's Manual of Industrial and Miscellaneous Securities, and established John Moody & Company. The publication provided detailed statistics concerning to stocks and bonds of monetary institutions, government agencies, manufacturing, mining, utilities, and food companies. It experienced early success, selling out its first press run in its first two month. By 1903, Moody's Manual was a nationally recognised publication. Moody was forced to sell his business, because of shortage of capital, when the 1907 financial crisis fuelled several changes within the markets. Moody returned to the financial market in 1990 with an innovative idea. Rather than simply collecting information on the property, capitalization and management of companies, he now offered investors an analysis of security values. His company would publish a book that analysed the railroads and their outstanding securities. It offered brief assumptions about their relative investment quality. Moody was first to charge the subscription fees to investors.

In 1913 he extended the manual's focus to take in industrial firms and utilities; the new Moody's Manual offered ratings of public securities, indicated by a

letter-rating system hired from mercantile credit-reporting firms. The following year, Moody incorporated the corporate as Moody's Investors service. Moody's expanded its focus to include ratings for United States of America state and local government bonds in 1919 and by 1924, Moody's rated nearly the entire United States bond market.

Further expansion of the credit rating industry happened in 1916, when the Poor's Publishing Company published its first rating followed by the Standard Statistics Company in 1922, and Fitch Publishing Company in 1924. The Standard Statistics Company merged in 1941 to form Standard and Poor's, which was subsequently taken, over by McGraw in 1966. For almost 50 years, since the setting up of Fitch Publishing in 1924, there were no major new entrants in the field of credit rating and then in 1970s, several credit rating agencies commenced operations all over the world. These included the Canadian Bond Rating Service (1972), Thomson Bank watch (1974), Japanese Bond Rating Institute (1975), McCarthy Crisani and Maffei (1975 acquired by Duff and Phelps in 1991), Dominican Bond Rating Service (1997), IBCA Limited (1978), and Duff and Phelps Credit Rating Company (1980). These are credit rating agencies in operation in many other countries such as Malaysia, Philippines, Mexico, Indonesia, Pakistan, Cyprus, Korea, Thailand and Australia.

The history of credit rating in India is merely a decade and half. During this short span of time, the major rating agencies have instilled confidence in the minds of the Investors and Regulatory bodies. The major rating agencies in India are attracting the Global Rating Agencies, which have entered into alliances with them for technical assistance in fixing rating agencies in many other countries. Moreover, the Indian Rating Agencies are instrumental for the incorporation of Association of Credit Rating Agencies of Asia (ACRAA). The Indian Rating Agencies also provide adequate information to the Investors through their publications. In this chapter, an effort has been made to review the rating practices and therefore the role paid by the Indian Rating Agencies. Credit Rating Information Services of India Limited (CRISIL). The Investment Information and Credit Rating Agency (ICRA), Credit Analysis and Research Limited (CARE), DUFF 6, Phelps (US) in joint venture with Alliance Capital Ltd. Calcutta were formed in India to provide various services to the investing community in India.

## **Credit Rating: Meaning and Definition**

The process of assigning a sign with specific reference to the instrument being rated, that acts as an indicator of the present opinion on relative capability on the rated, that's acts as an indicator of the current opinion on relative capability on the issuer to service its debt obligation in a timely manner, is termed as credit rating.

“A rating is an opinion on the future ability and legal obligation of the issuer to make timely payments of principal and interest on a specific fixed income security. The rating measures the profitability that the issuer will default on the security over its life, which depending on the instrument, may be a matter of days to 30 years or more. In addition, long term ratings incorporate an assessment of the expected monetary loss should a default occur.” Moody’s “Credit ratings help investors by providing an easily recognisable, simple tool that couples a possibly unknown issuer with an informative and meaningful symbol of credit quality. “Standard and Poor’s.

Rating usually expressed in alphanumeric or alphabetical signs, are easy and simply understood tool allowing the investor to differentiate between debt instruments supported on their underlying credit value. In fact, the rating is an opinion on the upcoming ability and legal obligation of the issuer to form timely payments of principal and interest on a selected fixed income security. The rating measures the probability that the issuer will default the safety over its life, which depending on the instrument could also be matter of days to 30 years or more.

In addition, long-term rating incorporates an assessment of the expected monetary loss should a default occur. Credit rating helps investors by providing an easily recognisable, simple tool that pairs a possible unknown issuer with an informative and meaningful symbol of credit quality. Credit rating are often termed as an expression, through use of symbols, of the opinion about credit quality of the issuer of security/instrument. Credit rating does not amount to any recommendations to purchase, sell or hold that security. It is concerned with an act of assigning values by approximating worth or reputation of solvency, and honesty to repose trust during a person’s capability and aim to repay.

The rating assigned are generally regarded in the investment community as an objective evaluation of the probability that a borrower will default on a given security issue. Default occurs whenever a security issuer is late in making one or more payments that it is legally obligated to make. In the case of a bond, when any interest or principal payment falls due and is not made on time, the bond is legally in default. While many defaulted bonds ultimately resume the payment of principal and interest, others never do, and the issuing company winds up in bankruptcy proceedings. In most instances, the holders of bonds issued by a bankrupt company receive only a part amount on his investments, invested, once the company's assets are sold at auction. Thus, the investor who holds title to bankrupt bonds typically loses both principal and interest. It is no wonder, then, that security ratings are so closely followed by investors. In fact, many investors accept the ratings assigned by credit agencies as a substitute for their own investigation of a security's investment quality.

## **Factors Affecting Credit Score**

Credit score is a powerful number that affects your life now and, in the future, in ways you might not even imagine. Credit Score determines interest rates you pay for credit cards and loans, and helps lenders decide whether you even get approved for those credit cards and loans in the first place. Unexpected businesses, such as insurance companies, have started to use credit scores to make decisions about you. Utility companies check your credit before establishing new service in your name. Here are some Factors that affect the Credit Score for an Individual as well as a well-established Corporate:

**Credit History:** The most important aspect while determining the score is the number of times you have been sanctioned loan previously and the number of times you paid it successfully without any default.

**Utilization of Credit:** The utilization of borrowed funds also plays an important point of assessment as, if a person or a company is one of the few that always utilizes their credit limit of the maximum at any given point of time, this indicates higher burden of debt payments and high chances of default and ultimately might lower the credit score.

**Repayment History:** While lending of funds a borrower is always bound to make timely payments for the same. However, the failure to do so will have a definite impact on one Credit Score and will always become a judgmental point for any organization to grant funds in the first place.

**Guarantors on Loan:** An impact shall also be created on one's score based on the number and type of guarantee that person has provided to other applicant as a subject matter for margin of safety for the bank or the funds lending organization. In case of inability or failure of the applicant's capacity to repay the Credit Score of the guarantor shall also affect accordingly.

**Settlement Cycles:** The term Settlement refers to the financial incapacity of the borrower to repay and the request to the lending organization to either close the loan account at lower amount or to entirely wave off the same. Banks are then very less likely to grant loans to such individuals.

However, on a broader spectrum these are the factors which most commonly pertain to an individual rather than a company. A company's credit score shall be affected by the factors like:

The amount and composition of the debts and all other liabilities outstanding in the current as well as the previous years.

The organizations ability to service its debt through the calculation of the past and likely future cash flows taking into account all the interest rate compound and all other financial obligations.

The track records of the promoters, directors as well as all other key management personnel regarding their ability and how successfully can they run the company and expand it soon,

The market wide position also gives an idea about the factors like market share of the product, demand for the product, distribution channels etc.

The value of assets which are previously and currently hypothecated to any other Financial Organization and its risk impact and assessment in case the company fails to pay its debt.

All these factors help the lending organization to know and judge the operational, organizational and the market efficiency of the company and its products.

However, in the Scope of Credit Rating of Companies in India it is generally related to evolution of the security being issued like debt, commercial papers and mutual funds lately, rather than that of company. In other words, it could be simply explained a M/s. Reliance Industries Limited gets an A2 rating for the issue of debenture. The implementation this means that the debenture of the companywide for M/s. Reliance Industries Limited have an A2 rating and not the company itself.

However, the Credit Rating will always differ from instrument to instrument and company to company. For instance, a Company is issuing both Commercial Paper as well as Certificate of Deposit, both these instruments of the same company will always have a different rating as the pattern and nature for obligations have changed. However as per the prevailing rules and regulation in India it is mandatory to have a Valid and Genuine Credit Rating prior to the issue of following securities:

As per the regulations of Securities and Exchange Board of India (SEBI) public issue of debentures and bonds convertible/ redeemable beyond a period of 18 months need credit rating.

As per the guidelines of Reserve Bank of India (RBI), one of the conditions for issuance of Commercial Paper in India is that the issue must have a rating not below the P2 grade from CRISIL/A2 grade from ICRA/PR2 from CARE.

As per the guidelines of Reserve Bank of India (RBI), Non-Banking Finance Companies (NBFCs) having net owned funds of more than Rs.2 core must get their fixed deposit programmes rated. The minimum rating required by the NBFCs to be eligible to raise fixed deposits are FA (-) from CRISIL/ MA (-) from ICRA/BBB from CARE. Similar regulations have been introduced by National Housing Bank (NHB) for housing finance companies also.

As per the regulations of the Ministry of Petroleum, the parallel marketers of Liquefied Petroleum Gas (LPG) and Superior Kerosene Oil (SKO) in India are also subjected to mandatory rating. The three rating agencies have a common approach for such rating and the dealers are categorized into four grades between 1 to 4 indicating good, satisfactory, low risk and high risk.

There is a proposal for making the rating of fixed deposit programmers of limited companies, other than NBFCs also mandatory, by amendment of the companies Act 1956.

## **FUNCTIONS, ADVANTAGES and DISADVANTAGES**

### **Functions of Credit Rating**

1. Provides superior Information

It provides superior information on credit risk for three reasons:

It is an independent rating agency, and is likely to provide an unbiased opinion; unlike brokers, financial intermediaries and underwriters who have a vested interest in the issue,

Due to professional and highly trained staff, their ability to assess risk is better, and finally,

The rating firm has access to a lot of information, which may not be publicly available.

2. Low cost information

A rating firm gathers, analyses, interprets and summarizes complex information in a simple and readily understood formal manner. It is highly welcome by most investors who find it prohibitively expensive and simply impossible to do such credit evaluation of their own.

3. Basis for a proper risk and return

If an instrument is rated by a credit rating agency, then such instrument enjoys higher confidence from investors. Investors have some idea as to what is the risk that he/she is likely to take, if investment is done in that security.

4. Healthy discipline on corporate borrowers

Higher credit rating to any credit investment tends to enhance the corporate image and visibility and hence it induces a healthy discipline on corporate.

5. Greater credence to financial and other representation

When a credit rating agency rates a security, its own reputation is at stake. Therefore, it seeks high quality financial and other information. As the issue complies with the demands of the credit rating agency on a continuing basis, its financial and other representations acquire greater credibility.

6. Formation of public policy

Public policy guidelines on what kinds of securities are eligible for inclusions in different kinds of institutional portfolios can be developed with greater confidence if debt securities are rated professionally.

## **Advantages of Credit Rating**

### **I. Advantages to Investor**

#### 1. Safeguards against bankruptcy

Credit rating of an instrument done by credit rating agency gives a thought to the investors about degree of monetary strength of the issuer company which enables him to form a decision about the investment. Highly rated instrument of a corporation gives an assurance to the investors of security of instrument and minimum risk of bankruptcy.

#### 2. Recognition of risk

Credit rating provides investors with rating symbols which carry information in easily recognizable manner for the benefit of investors to perceive risk involved in investment. It becomes easier for the investors by looking at the symbol to understand the worth of the issuer company because the instrument is backed by the financial strength of the company which in detail cannot be provided at the minimum cost to each one and at the same time they cannot also analyse or understand such information for taking any investment decisions. Rating symbol gives them the idea about the risk involved or the expected advantages from the investment.

#### 3. Credibility of issuer

Rating gives a clue to the credibility of the issuer company. The rating agency is quite independent of the issuer company and has no “Business connections or otherwise any relationship with it or its Board of Directors, etc. Absence of business links between the rater and the rated firm establishes ground for credibility and attract investors.

#### 4. Independence of investment decisions

For making investment decisions, investors have to seek advice of financial intermediaries, the stock brokers, merchant bankers, the portfolio managers etc. about the good investment proposal, but for rated instruments, investors need not depend upon the advice of these financial intermediaries as the rating symbol assigned to a particular instrument suggests the credit worthiness of the instrument and indicates the degree of risk involved in it.

#### 5. Choice of Investments

Several alternative credit rating instruments are available at a particular point of time for making investment in the capital market and the investors can make choice depending upon their own risk profile and diversification plan.

### **II. Benefits of rating to the company**

Company which had its credit instrument or security rated by a credit rating agency is benefited in many ways as summarized below:

1. Lower cost of borrowing

A company with highly rated instrument has the opportunity to reduce the cost of borrowing from the public by quoting lesser interest on fixed deposits or debentures or bonds as the investors with low risk preference would come forward to invest in safe securities though yielding marginally lower rate of return.

2. Wider audience for borrowing

A company with a highly rated instrument can approach the investors extensively for the resource mobilization using the press media. Investors in different strata of the society could be attracted by higher rated instrument, as the investors understand the degree of certainty about timely payment of interest and principal on a debt instrument with better rating.

3. Rating as marketing tool

Companies with rated instruments improve their own image and avail of the rating as a marketing tool to create better image in dealing with its customers feel confident in the utility products manufactured by the companies carrying higher rating for their credit instruments.

4. Reduction of cost in public issues

A company with higher rated instrument is able to attract the investors and with least efforts can raise funds. Thus, the rated company can economize and minimize cost of public issues by controlling expenses on media coverage, conferences and other publicity stunts and gimmicks. Rating facilitates best pricing and timing of issues.

5. Motivation for growth

Rating provides motivation to the company for growth as the promoters feel confident in their own efforts and are encouraged to undertake expansion of their operations or new projects. With better image created though higher credit rating the company can mobilize funds from public and institutions or banks from self-assessment of its own status, which is subject to self-discipline and self-improvement, it can perceive and avoid sickness.

## **Disadvantages of Credit Rating**

### **1. Biased rating and misrepresentations**

In the absence of quality rating, credit rating is a curse for the capital market industry, carrying out detailed analysis of the company, should have no links with the company or the persons interested in the company so that the reports impartial and judicious recommendations for rating committee. The companies having lower grade rating do not advertise or use the rating while raising funds from the public. In such cases the investor cannot get information about the riskiness of instrument and hence is at loss.

### **2. Static study**

Rating is done on the present and the past historic data of the company and this is only a static study. Prediction of the company's health through rating is momentary and anything can happen after assignment of rating symbols to the company. Dependence for future results on the rating, therefore, defeats the very purpose of risk inductiveness of rating. Many changes take place in economic environment, political situation, government policy framework which directly affect the working of a company.

### **3. Concealment of material information**

Rating Company might conceal material information from the investigating team of the credit rating company. In such cases quality of rating suffers and renders the rating unreliable.

### **4. Rating is no guarantee for soundness of company**

Rating is done for an instrument to assess the credit risk, but it should not be construed as a certificate for the matching quality of the company or its management. Independent views should be formed by the user public in general of the rating symbol.

### **5. Human Bias**

Finding off the investigation team, at times, may suffer with human bias for unavoidable personal weakness of the staff and might affect the rating.

Reflection of temporary adverse conditions:

Time factor affects' rating, sometimes, misleading conclusions are derived. For example, company in an industry might be temporarily in adverse condition but it is given a low rating. This adversely affects the company's interest.

Down Grade:

Once a company has been rated and if it is not able to maintain its working results and performance, credit rating agencies would review the grade and down grade the rating resulting into impairing the image of the company.

Difference in rating of two agencies:

Rating done by the two different credit rating agencies for the same instrument of the same issuer company in many cases would not be identical. Such differences are likely to occur because of value judgement differences on qualitative aspects of the analysis in two different agencies.

## **TYPES OF RATING**

### **1. Bond / Debenture Rating**

The ratings provided to every single debenture and bond is known as Bond Rating. These ratings range from short to medium terms and can peculiarly decide its future and general subscription. While AAA being the Highest and the Best Quality of Bonds / Debentures to be subscribed and C and D being the ones with highest amount of risk or are in default already.

### **2. Personal Ratings**

The ratings allotted to an individual on the basis of his or her past financial credit history and cash flows is known as Personal Rating. Generally, these ratings are allocated in the form of Scores ranging from 300 to 900. While any score above 750 points is considered to be as good can get a loan to an individual easily. However, scores within the range of 300 to 700 are considered to be as risk, lower the score higher the chances of default. In India often, this Score is used and inter Changed with CIBIL SCORE.

### **3. Equity Ratings**

Rating of equity shares issued by a company is called equity rating. An evaluation of a stock's expected performance and / or its risk level as judged by a rating agency such as Standard and Poor's. A stock rating will usually help the investor to find out fair value for the stock, based on an objective evaluation of the company. The greater the amount by which the fair value exceeds the market value, the more highly recommended buy for the stock is. Conversely, if the market value of the stock exceeds the fair value of the stock, then analysts recommend that the stock to be sold. Most stock rating systems give stocks 1 to 5 stars, with 5 being the best and highly.

### **4. Structured Obligations**

A structured obligation is a modified way to raise funds from the market. Organizations which use this method create a Special Purpose Vehicle or SPV (usually a Trust) and commit their existing assets or future receivables to it. It then creates special ownership rights called as Pass Through Certificates or PTCs and sells them to prospective investors. These certificates can come in various pools or tranches, some being high credit quality while others taking the lower grade. As a result, they enjoy different return profiles as well. Credit rating agencies assessed the risk associated with the transaction with the main trust on cash flows emerging from the asset would be enough to meet committed payments, to the investors in worst case scenario.

### **5. Sovereign Ratings**

Is a rating of a country, which is being considered whenever a loan is to be extended, or some major investment is envisaged in a country? It is a grading of a country's ability to meets financial obligations. Credit rating agencies

provide these ratings and investors use this to assess the level of risk related with investing in a country. The rating may also include an evaluation of a country's political risk. For example, India has been given BAA 2 rating by Moody's as on November 2017. Sovereign rating is the first thing most institutional investors will look at when deciding to invest money abroad. This rating gives the investor an immediate understanding of the level of risk associated with investing in the country. A country with a sovereign rating will therefore get more attention than one without. So, to attract foreign money, most countries will strive to obtain a sovereign rating and they will strive even more so to reach investment grade. In most circumstances, a country's sovereign credit rating of AAA indicates lowest risk.

## **6. Bank Ratings**

CRISIL as well as ICRA both are engaged in the Bank Credit Ratings in India based on the following 6 parameters collectively known as CAMELS:

### **a. C stands for Capital Adequacy**

Capital Adequacy in this term means the efficiency of the bank's reserves and deposit in the way how well the bank manages its funds and its practices while loan sanctioning and other aspects. In India, the banks need to maintain at least 10% of the Capital as safety reserve against risky assets if the bank.

### **b. A Stands for Asset Quality**

The loan is examined to determine non-performing assets. An asset/loan is considered nonperforming asset where either interest or principal is unpaid for two quarters or more. Ratios like NPA to Net Advances, Adequacy of Provision & Debt Service Coverage Ratio are also calculated to know exact picture of quality of asset of a bank. Basically, this helps Agencies to determine and predict the future earnings and projected risk and analysis of threat to the bank.

### **c. M stands for Management**

Management assessment determines whether an institution is able to properly react to financial stress. This component rating is reflected by the management's capability to point out, measure, look after and control risks of the institution's daily activities. It covers management's ability to ensure the safe operation of the institution as they comply with the necessary and applicable internal and external regulations.

### **d. E stands for Earnings**

A bank's ability to create appropriate returns to be able to expand, retain competitiveness, and add capital is a key factor in rating its continued viability. Credit Rating Agencies determine this by assessing the company's growth, stability, valuation allowances, net interest margin, net worth level and the quality of the company's existing assets. e. L stands for Liquidity

To assess a bank's liquidity, Credit Rating Agencies look at interest rate risk sensitivity, availability of assets that can easily be converted to cash, dependence on short-term volatile financial resources. Liquid and current ratios are determined to find out banks' ability to meet its short-term claims.

**f. S stands for Sensitivity**

Sensitivity to 'market risk', the "S" in CAMELS is a complex and evolving measurement area. It was added in 1995 by Federal Reserve and the OCC primarily to address interest rate risk, the sensitivity of all loans and deposits to relatively abrupt and unexpected shifts in interest rates. In 1995 they were also interested in banks' lending to farmers, and the sensitivity of farmers ability to make loan repayments as specific crop prices fluctuate. Unlike classic ratio analysis, which most of CAMELS system was based on, which relies on relatively certain, historical, audited financial statements, this forward look approach involved examining various hypothetical future price and rate scenarios and then modelling their effects.

**7. Real Estate Ratings**

CRISIL has started assigning rating to the builders and developers with the objective of helping and guiding prospective real estate buyers. CRISIL thoroughly scrutinizes the sale deed papers, sanctioned plan; lawyers report government clearance certificates before assigning rating to the builder or developer. Experience of the builder, number of properties built by the builder, financial strength, and time taken for completion are some of the factors taken into consideration by the CRISIL before giving a final rating to the real estate builder developer.

## **CHAPTER 2: ROLES AND OPERATIONS OF CREDIT RATING AGENCIES**

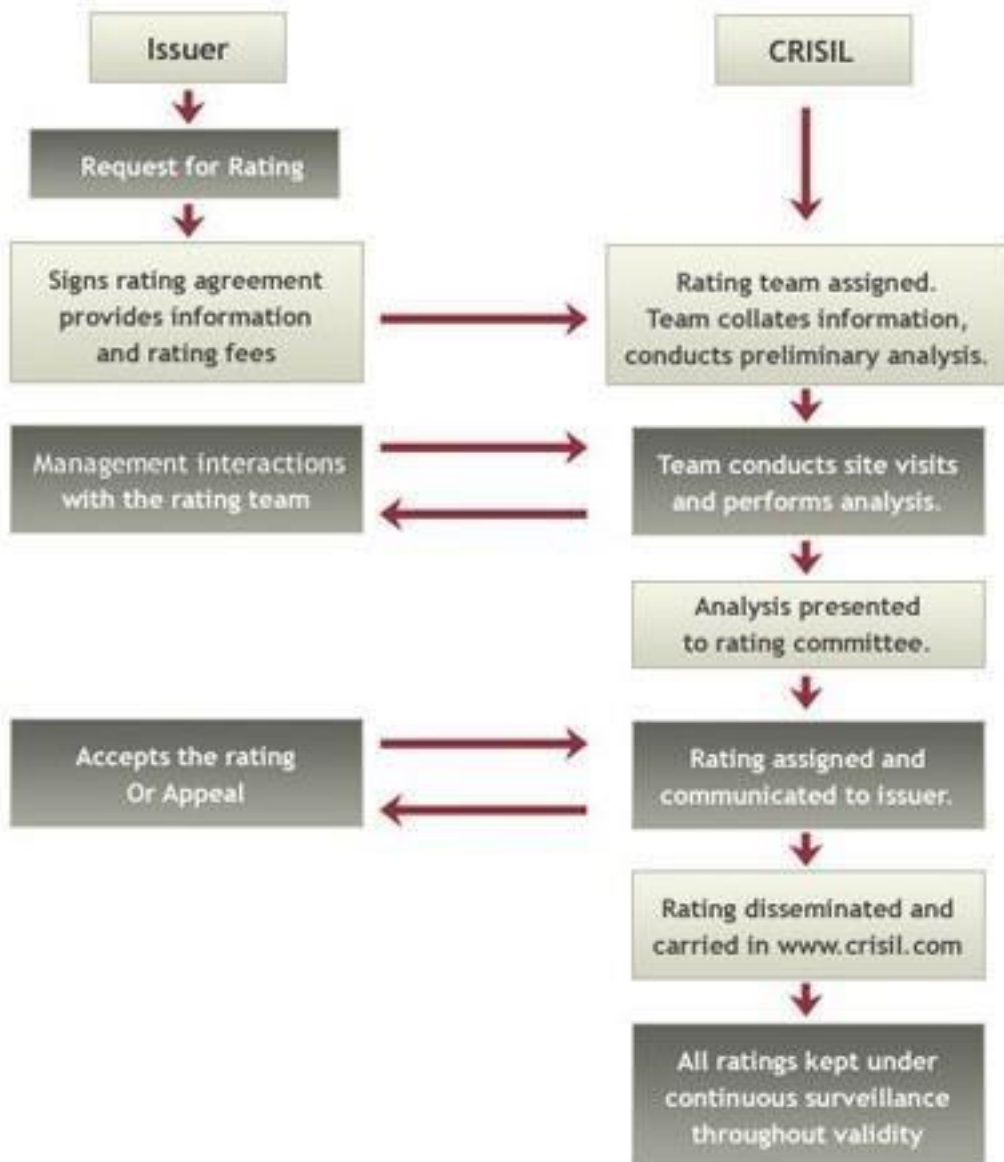
## **ROLES AND OPERATION OF CREDIT RATING AGENCIES**

### **CRISIL**

Credit Rating Information Services of India Limited incorporated in the year 1987 is India's first Credit Rating Agency incorporated with its headquarters at Mumbai Maharashtra. CRISIL is jointly promoted by ICICI Limited (Industrial Credit and Investment Corporation of India Limited) and The Unit Trust of India. However, in the year 2005, S and P acquired a major controlling stake in CRISIL Limited after the public offering which approximately is close to 58.5% and became its major Shareholder. CRISIL has been always a successfully run company throughout its past. It first Commences its operations in January of the Year 1988 with the leadership and guidance of Mr. N Vaghul and the Chairman and Mr. Pradip Shah as the Managing Director. CRISIL has pioneered in Credit Rating in India for more than 30 Years and is truly an Industry Leader with more than 55,000 rating entities including Large Medium and Small enterprises.

#### **A. Rating Procedure**

1. The company or the entity that wants itself or its instruments to get a credit rating directly contact CRISIL at its office around the globe.
2. Upon receiving the request of the company, CRISIL then forms an Analytical Team and assigns the same for the evolution of the request.
3. Once the Team is formed it then request the company to provide with information inputs like previous Balance Sheets, P & L Statements, Raw Material Supplier, Sales Details, etc.
4. Once all the information is received then the Team further analysis and scrutinizes it and arrives at a conclusion and allots a rating to the request.
5. After the ratings allotment is decided the Team and CRISIL then communicates the same to its Client.
6. Most companies think that after this point the rating allocated to them is permanent, but CRISIL continuously monitors the Company and update its rating from time to time.



<b>LONG TERM</b>	<b>MEDIUM TERM</b>	<b>SHORT TERM</b>
1. AAA- Highest Safety	1. FAAA: Highest Safety	1. P1: Very strong
2. AA- Highest Safety	2. FAA: Adequate Safety	2. P2: Strong Safety
3. A- Adequate Safety	3. FA: Safety	3. P3: Adequate Safety
4. BBB-Moderate Safety	4. FB: Inadequate Safety	4. P4: Favourable
5. BB- Inadequate Safety	5. FC: High Risk	5. P5: Default
6. B- High Risk	6. FD: Default	
7. C- Substantial Risk		
8. D- Default		

## **2. ICRA.**

Investment Information and Credit Rating Agency of India Limited incorporated in the year 1991 by leading financial / investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating

Agency. ICRA Limited was original set up as a joint venture between Moody's Investors Services and many Indian Commercial Banks having a stake of 26% with Industrial Finance

Corporation of India and the rest 74% was comprised of Unit Trust of India, Punjab National Bank Limited, Bank of Baroda Limited etc. Out of the 74% Shares held 28% (as in the year 2001) Shares were held by Moody's Investor Services, However Moody's has now gained and become the Controlling Shareholder of ICRA Limited with a total shareholding of 56.01% in total. ICRA Limited was setup under the leadership of Mr. Parab Kumar Chaudhary as the Chairman and Mr. Naresh Takkar as the Managing Director at Gurugram.

However, in the year 2014-15 Mr. Parab Kumar Chaudhary retires and resigned from the post of Chairman and was replaced by Mr. Arun Duggal as a Non-Executive Chairman later.

### **A. Rating Procedure**

1. The company or the entity that wants itself or its instruments to get a Credit Rating contest ICRA Limited at its offices directly around the globe.
2. Upon receive the request ICRA, then forms a Rating Team which would evaluate, scrutinize, analyses and allot ratings to the request.
3. Once a Rating Team is formed it then request the company with required amount and type of information required to process and allot a Credit Rating.
4. ICRA just does not only rely on the information provided by the company itself but also collects and verifies information from the secondary sources to ensure a just and fair ratings.
5. Upon collection of the information ICRA scan and sets aside all the important information and request a meeting with the Management, which would help them to get to know about the future expansion plans, current performance and this allows them a have a Plant or Office visit which indirectly helps to verify office culture and factuality of the information provided.

6. Once the Rating Team has successfully completed its meeting with the management and had a plant visit it then sits down for an internal meeting to analyses the collected data and come up with basic interpretations.
7. Once this review meeting has been concluded the Rating Team then moves on to thorough scrutinization of the data and allocate a Credit Rating to the request.
8. Then the allocated ratings are communicated to the requesting company and a letter stating the same is issued.

Once the Ratings are allocated and Communicated the Team then continuously monitors, reviews and update them as and when during the course of operation of the company and market conditions.

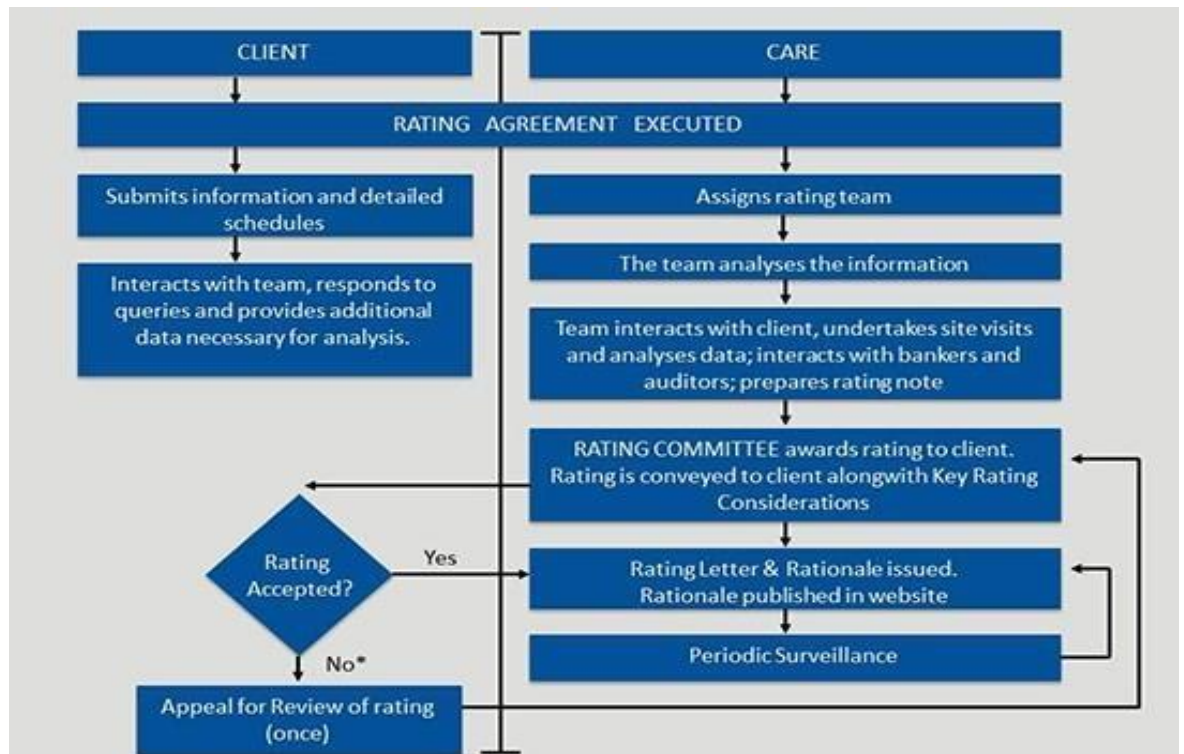
<b>LONG TERM</b>	<b>MEDIUM TERM</b>	<b>SHORT TERM</b>
1. LAAA: Highest Safety	1. MAAA: Highest Safety	1. A1+, A1: Highest Safety
2. LAA+, LAA, LAA- : High Safety	2. MAA+, MA A, MAA-: High Safety	2. A2+,A2: High Safety
3. LA+, LA, LA-: Adequate Safety	3. MA+, MA, MA-: Adequate Safety	3. A3+, A3: Adequat e Safety
4. LBBB+, LBBB, LBBB-: Moderate Safety	4. MB+, MB, MB-: Inadequate Safety	4. A4+,A4: Risk Prone
5. LBB+, LB, LB-: Risk Prone	5. MC+, MC, MC-: Risk Prone	5. A5: Default
6. LC+, LC, LC-: Substantiall y Risk	6. MD: Default	

### **3. CARE**

Credit Analysis and Research Limited incorporated in the year 1993 by the virtue of Joint Venture between Industrial Development Bank of India Limited (IDBI BANK) along with many other financial institutions, investment institution, bank and finance company. CARE is one of the amongst the top 3 Credit Rating Agencies in India. CARE Ratings commenced operations in April 1993 and in over 25 years, it has established itself as the second-largest credit rating agency in India. With the rating volume of debt of around Rs. 108.47 lakh crores (as on March 31, 2018). CARE has also emerged as the leading agency for covering many rating segments like that for banks, sub-sovereigns and IPO gradings. CARE was initially setup under the Guidance and Leadership of Mr. Rajesh Mokashi as the Chief Executive Officer and Managing Director with its serving headquarters at Mumbai.

#### **A. Rating Procedure**

1. The company that wants itself or its instruments to have a Credit Rating approaches and request CARE Ratings at its offices around the globe directly.
2. Upon placing the request, the company must submit a standard part of information as per the procedure of the company.
3. Upon receiving such information, the facts and figure are then scrutinized and test for their validity and parameters.
4. Once this is done then CARE Ratings forms an Internal Assessment Team which in turn decides to undertake and plan a site visit.
5. Once such visit is done, the team then arrives on final conclusions and allocate the rating to the request which in turn is then communicated to the client.
6. Upon allocation these ratings are then continuously monitored and updated from time to time and as per market conditions.



## Rating Symbols

LONG TERM	MEDIUM TERM	SHORT TERM
1. CARE AAA: Highest Safety	1. CARE 1: Excellent Safe	1. PR1: High Rate of Return
2. CARE AA: High Safety	2. CARE 2: Very Well Safe	2. PR2: Strong Capacity for repayment
3. CARE A: Adequate Safety	3. CARE 3: Adequate Safety	3. PR3: Adequate capacity for Repayment
4. CARE BBB: Moderate Safety	4. CARE 4: Favorable Safe	4. PR4: Minimal Degree of Safety
5. CARE BB: High Risk	5. CARE 5: Default	5. PR5: Likely to be default
6. CARE B: Substantially Risk		
7. CARE C: Extremely High Risk		
8. CARE D: Likely to be default soon		

## **INTERNATIONAL CREDIT RATING AGENCIES**

### **1. Moody's Investor Services**

Moody's traces its history back to two publishing companies established by John Moody, the inventor of modern bond credit ratings. In 1900, Moody published his first market assessment, called Moody's Manual of Industrial and Miscellaneous Securities, and established John Moody & Company. The publication provided detailed statistics relating to stocks and bonds of financial institutions, government agencies, manufacturing, mining, utilities, and food companies. It experienced early success, selling out its first print run in its first two months. By 1903, Moody's Manual was a nationally recognized publication. Moody was forced to sell his business, due to a shortage of capital, when the 1907 financial crisis fueled several changes in the markets. Moody returned in 1909 with a new publication focused solely on railroad bonds, Analysis of Railroad Investments, and a new company, Moody's Analyses Publishing Company. While Moody acknowledged that the concept of bond ratings "was not entirely original" with him—he credited early bond rating efforts in Vienna and Berlin as inspiration—he was the first to publish them widely, in an accessible format. Moody was also the first to charge subscription fees to investors. In 1913 he expanded the manual's focus to include industrial firms and utilities; the new Moody's Manual offered ratings of public securities, indicated by a letter-rating system borrowed from mercantile credit-reporting firms. The following year, Moody incorporated the company as Moody's Investors Service. Other rating companies followed over the next few years, including the antecedents of the "Big Three" credit rating agencies: Poor's in 1916, Standard Statistics Company in 1922, and the Fitch Publishing Company in 1924. Moody's expanded its focus to include ratings for U.S. state and local government bonds in 1919 and, by 1924, Moody's rated nearly the entire U.S. bond market.

#### **A. Rating Procedure**

1. The rating relationship begins with an introductory meeting or teleconference call.

The purpose of this meeting is to introduce Moody's and to provide a high-level description of the ratings process and products.

2. The analyst or analysts assigned to an Issuer or Obligation (“Lead Analyst”) begins the credit analysis by collecting relevant information on the Issuer or obligation from publicly available sources.
3. The Issuer will be asked to provide relevant financial and non-financial information. The accurate list of information may vary according to the sector and market information.
4. Analysts engage in a discussion with Issuers, or their representatives, about their ratings, including credit strengths and weaknesses and trends in their industries
5. Once information has been gathered, the Lead Analyst will conduct the initial analysis of the Issuer or Obligation by applying the relevant credit rating methodologies, which may include consideration of both quantitative and qualitative factors
6. The Lead Analyst will formulate his or her recommendation for consideration by a rating committee.
7. Once a rating committee reaches a decision and the appropriate external communications have been drafted regarding a credit rating action, the Lead Analyst typically contacts the Issuer or its designated representative to inform them of the committee’s decision.
8. Except for those credit ratings which are clearly identified as point-in-time ratings, once a credit rating has been published, Moody’s will monitor that credit rating, as deemed appropriate, on an ongoing basis and will modify the credit rating as necessary in response to changes in our opinion of the creditworthiness.



LONG TERM	SHORT TERM
<ol style="list-style-type: none"> <li>1. AAA – Highest Safety</li> <li>2. AA – High Safety</li> <li>3. A – Adequate Safety</li> <li>4. BAA – Moderate Safety</li> <li>5. BA – Inadequate Safety</li> <li>6. B – High Risk</li> <li>7. CAA – Substantial Risk.</li> <li>8. CA – High Risk with potential default in near future.</li> <li>9. C- Highest Risk, probably in default already.</li> </ol>	<ol style="list-style-type: none"> <li>1. P1: Very Strong Safety</li> <li>2. P2: Strong Safety</li> <li>3. P3: Adequate Safety</li> <li>4. NP: No safety in chances of Default.</li> </ol>

## 2. S and P

Standard & Poor's Financial Services LLC (S&P) is an American financial services company. It is a division of S&P Global that publishes financial research and analysis on stocks, bonds, and commodities. S&P is known for its stock market indices such as the U.S.-based S&P 500, the Canadian S&P/TSX, and the

Australian S&P/ASX 200. S&P is considered one of the Big Three credit-rating agencies, which also include Moody's Investors Service and Fitch Ratings. The company traces its history back to 1860, with the publication by Henry Varnum Poor of *History of Railroads and Canals in the United States*. This book compiled comprehensive information about the financial and operational state of U.S. railroad companies. In 1868, Henry Varnum Poor established **H.V. and H.W. Poor Co.** with his son, Henry William Poor, and published two annually updated hardback guidebooks, *Poor's Manual of the Railroads of the United States* and *Poor's Directory of Railway Officials*. In 1906, Luther Lee Blake founded the **Standard Statistics Bureau**, with the view to providing financial information on nonrailroad companies. Instead of an annually published book, Standard Statistics would use 5-by-7-inch cards, allowing for more frequent updates.

In 1941, Paul Talbot Babson purchased Poor's Publishing and merged it with Standard Statistics to become **Standard & Poor's Corp.** In 1966, the company was acquired by The McGraw-Hill Companies, extending McGraw-Hill into the field of financial information services.

### A. Rating Procedure

1. Initiation of a Credit Rating begin with the issuer or the organization directly approach S and P and request for a credit rating of the security being issued or for the organization itself.
2. Upon receiving such request, the client in turn then needs to submit various kinds of documents to S and P as to help them in their evaluation which shall be true in all manner, as S and P themselves also collect some information from the secondary sources and match it with data provided. This ensure that the provided data is credible in nature.
3. Once the data has been collected, the team then interacts with the management and gets their opinion on the growth of the company. This allows S and P to have a Plant Visit, as well as clear any doubts regarding the financials or any other matter in fact directly face to face with the management.

4. Once the management interactions are complete, then S and P appoints an internal Rating Team which is responsible for the analysis and interpretation of the data and assign a rating to the said organization, issuer or the security.
5. Once a rating is allocated to the request, it is the communicated to the client and he may request for an appeal of the same to re-evaluate if they think ratings are not perfect.
6. However, a client can appeal only once, after which they will have to accept the allocated rating if revised. Once the allocation procedure is done, then these ratings are continuously monitored as well updated according to the market changes as and when happening.

### B. Rating Symbols

Long Term	Short Term
1. AAA – Highest Safety	1. A1: Highest Safety
2. AA – High Safety	2. A2: High Safety
3. A – Adequate Safety	3. A3: Moderate Safety
4. BBB – Moderate Safety	4. B: Minimal Degree of Safety
5. BB – Inadequate Safety	5. C: High Risk, Chance of default.
6. B – High Risk	6. D: Highest Risk, in Default.
7. CCC – Substantial Risk	
8. CC: Higher risk, No safety.	
9. C: Highest Risk	
10. D- Default	
11. R- Under Regulatory Supervision	
12. SD- Selectively Defaulted on some class or part of Security.	

## **CHAPTER 3: RESEARCH METHODOLOGY**

## **Research Methodology**

Methodology is an essential part of research to find answer to the research objective that initiate the same. Therefore, it figures as an important part of the study. In addition, the procedure followed to collect, capture, process and analysed data is presented.

## **OBJECTIVES OF THE STUDY**

The objectives are designed to have a particular direction to the study like what aspect of the topic is going to be studied. A topic can be studied from various parameter, the objectives designed for a project gives an idea that in what manner the topic is studied, what is the flow of project, what are the variables selected for the project, etc.

The main objective of this study is to know about the operations and working of Credit Rating Agencies in India. Credit Rating is considered as objectives assessment of borrower's ability to repay while considering all kinds of Financial as well as Business Risk.

- i) To understand Functional and Working of Credit Rating Agencies.
- ii) To study factor which affect the Credit Score.
- iii) To understand importance of Credit Rating Agencies.

## **HYPOTHESIS OF THE STUDY**

Hypothesis is referred as the presumptions made by an individual to study the research project. These presumptions are made in a way to satisfy the objectives framed for the projects. Framing of hypothesis is an important part of the research as in this step the research problem or the problem statement is designed on which the entire research is based.

The hypothesis or the research problem of the study is designed in such manner to find out the relationship between the variables, i.e. does the effect has any impact on the other. We can also say that the following hypothesis will let us know how closely they are correlated with each other.

Hypothesis 1: -

H0: There is no significant influence of credit rating on consumer's decision.

H1: There is significant influence of credit rating on consumer's decision

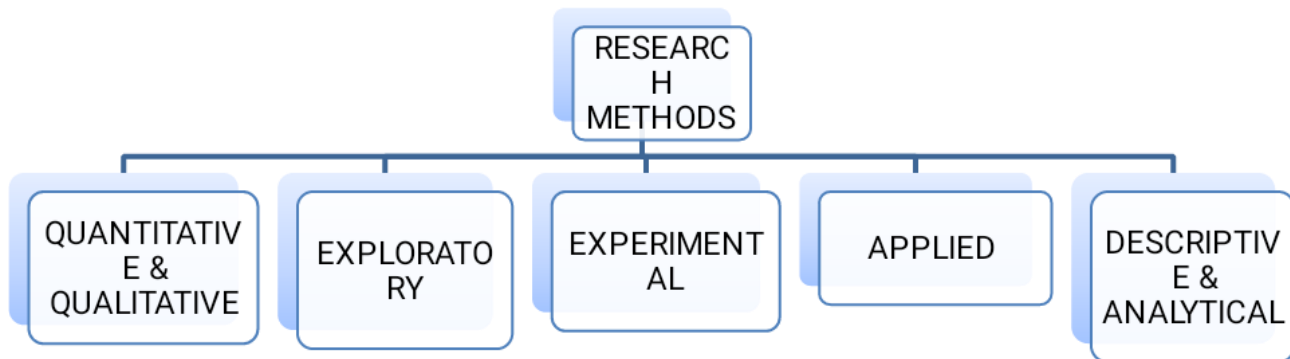
Hypothesis 2: -

H0: There is no significant influence of credit rating agencies in India's development.

H1: There is significant influence of credit rating agencies in India's development.

## TYPE OF STUDY

The research method used in project varies upon the topic that is being studied. The research topic and the research method go hand in hand. Some types of research methods are: -



- **QUANTITATIVE RESEARCH**—  
Quantitative research is applied to solve problems using numbers. This research puts an emphasis on solving problems through collection of numeric data, interpreting the data and drawing conclusions from them.
- **QUALITATIVE RESEARCH**—  
Qualitative research is applied using words, feelings, emotions, non-numeric data which is not actually quantifiable. The data and information used in qualitative research cannot be interpreted using mathematical equations and formula.
- **EXPLORATORY RESEARCH**—  
Exploratory research is the research that is conducted for the first time. To study this research there is no ROL and is purely based on primary data collection. This research is applied when some topic is being studied for the first time. It is loosely structured and there is no need for the testing of hypothesis.
- **EXPERIMENTAL RESEARCH**—  
Experimental research is the type of research that is done on a continuous basis. This is to find something new in the field being researched. This research takes place in fields such as that of I.T., Medicine, Construction, Agricultural, Science etc. This is to find a solution to the never-ending problems and also to upgrade and update the existing sectors.
- **APPLIED RESEARCH**—  
Applied research is the research that is based on existing applications. This research is used to check the validity of existing applications. It helps in eliminating the theory by adding the basics of principles. It works on the assumption that there is no change in variables. It is also known as action research.

➤ **ANALYTICAL RESEARCH**—

Analytical research is the research where the researcher uses the pre-defined facts and information and analyze them in order draw critical conclusions of the research.

➤ **DESCRIPTIVE RESEARCH**—

Descriptive research is the in-depth study of the topic being researched. It is studied by taking “Review of Literature” as a base to see what has already been studied and what conclusions have already been derived from them. The method is usually used to study the characteristics of the topic being researched.

Descriptive method is most commonly seen in research related to social science, finance etc.

Our research is based on descriptive research. It helps to know qualitative and quantitative aspects of study. It studies the characteristics of credit rating agencies and see to it that how we can bring more agencies in India. It is used because this topic is being studies only to understand the concept and the problem it faces. However, my research also studies Review of Literature which acts as a base for Descriptive study.

**SAMPLE SIZE**

Sample size determination is the process of choosing the number of respondents/observations to include in a statistical sample. It is an important feature of a research study because on the basis of sample size data is collected and interpreted to give accurate and appropriate results.

The correct and appropriate sample size is said to give more accurate results. For example, in a census, data is collected from the entire population. Therefore, the sample size is equal to population of the country. Keeping in mind the rate of non-response and non-availability of respondents, the sample size was taken between 25 — 50 science students of Mumbai University. It was Random sampling method that was considered to decide the sample size.

Due to the sample size being small there may be slight inaccuracy of data that can be rectified by further study.

**SAMPLE DESIGN**

The sample design used to represent the survey data is in the form of Pie-Charts and Bar-Charts based on the 80 respondents of the survey. Probability sampling was used to collect responses.

## **DATA COLLECTION METHOD**

Data for the study was collected from the primary as well as secondary sources.

### **PRIMARY SOURCE OF DATA COLLECTION**—

Primary source of data collection consisted of survey method. The survey was collected through a Structured Questionnaire. The questionnaire was prepared keeping in mind the objectives of the study and factors that were to be considered for the study. Questionnaire was prepared in such a manner that it could be easily understood by the respondents. The questionnaire being structured was in a single format to save time of the respondents.

### **SECONDARY SOURCE OF DATA COLLECTION**—

The secondary source of data collection is assessed to gain information and knowledge about our research problem that may be previously discussed by some other researcher. The secondary is referred to know what has already been discussed and what more scope can be there for research.

The secondary data is taken from selective websites and from online publication of some researchers. The secondary data was useful for the study of Review of Literature. We could study various aspects of different researchers which gave us an idea about the factors being previously discussed and also the conclusions drawn from them. It also gave us an insight on what more could be studied to solve the research problem.

## **LIMITATIONS OF THE STUDY**

Limitations of a research project arise when there are uncontrollable variables which are harder to be brought in control. This reduces the accuracy of results.

1. The research was carried out in a short period of time which was also limited to geographical locations.
2. The sample size was small i.e. 50 Respondents. By increasing the number of respondents, the study would have been more accurate.
3. The scope of discussion was limited as a very in-depth study was needed in every field of science. This helps in finding an accurate solution.
4. The interpretation of this study is based on the assumptions that the respondents have given answers very accurately and honestly.
5. Students being reluctant to answer the survey can affect the validity of the research.

## **CHAPTER 4: REVIEW OF LITERATURE**

## Review of Literature

**Vepa (2006)**, in her study made an attempt to trace trends in the corporate debenture issues of the private sector in India and the rating trends of the same with special reference to the pioneer rating agency of India- CRISIL. The time period of the study was from 1991-1992 to 2004-05. The author observed that the number of public and right issues had decreased during the period under study, whereas the percentage of private placement out of total issues had increased consistently. Many of the debt instruments including debentures were downgraded during the period but the presence of multiple credit rating agencies gave scope to issuers to approach more than one credit rating agency with a hope to secure better ratings. The author highlighted that when credit rating becomes mandatory in 1992-93 in India, private placements of debentures gained importance as a preferred route of financing as a credit rating was not mandatory for private placements but in spite of that, the debentures or issues which were rated were more safe and reliable than the unrated ones by the investors.

**Cantor et al. (2007)** analysed the behaviour of various plan sponsors and investment managers regarding the use of rating guidelines in the conduct of their investment activities. For the purpose of study, 200 plan sponsors and investment managers of US and Europe were taken as sample. They also investigated a number of important issues regarding the linkage between market dynamic and guidelines were widespread but their forms and motivations vary considerably but the usage of ratings appeared remarkably similar in US and Europe. Further, they found that the adoption of rating-based guidelines by investment managers was dominated by client requirements rather than the regulatory needs. They also highlighted that the market participants expressed a preference on more accuracy of ratings over more stability of ratings.

**Czarnitzki and Kraft (2007)**, in their study, tested whether the credit ratings give more specific information about creditworthiness of the firms as compared to the publicly available information (which is available to the potential investors without any substantial cost). They select a sample of about 8000 firms of German manufacturing sector for the purpose of study and the time period of study was 1999-00. They compared the ratings given by leading German credit rating agency 'Credit reform' with the publicly available information. The study revealed that the young firms were more likely to default than the established ones. Further, the lower the productivity the more would be probability of default. They further inferred that credit rating has some additional informational value for lenders but the rating agencies overemphasized the factor 'firm size' in construction of rating index.

**Jain and Sharma (2008)**, in their paper, attempted to examine the working of credit rating agencies in the light of role played by them in capital market as information disseminators. The authors identifies conflicts of interest affecting the rating decisions and the manner in which the regulations have attempted to address them. Further, they also studied the regulatory framework for credit

rating agencies in India. The authors revealed that credit rating agencies play a certain role in the capital markets through their informed and independent analysis. The various conflicts of interest highlighted in the study were relating to the fee charged, ancillary services of credit rating agencies, ownership interest of credit rating agencies in client securities and the problem of notching. The study highlighted that despite the significance role played by credit rating agencies in capital markets, they are not properly regulated as not much responsibility is put on them in respect of their rating actions. Further, in the Indian context too, the authors revealed certain loopholes in the regulatory system of credit rating agencies. These included deficient disclosure regime, lack of private enforcement regime, management conflict of interest and lack of rules for structured finance ratings, which need to be corrected in a proper and timely manner.

**Reddy and Gowda (2008)**, in their paper explained the importance and problems of credit ratings in India. They also highlighted the basis of credit rating and credit rating practices prevalent in India. For this purpose, the opinions of sample of investors from Hyderabad were taken. The results of the study inferred that majority of the respondents were aware of the existence of various credit rating agencies including CRISIL, CARE, ICRA, etc. About 40% (80 out of 200) of the respondents depend on credit rating for their investment in debt instruments but more than 50% from them (94 out of 180) rely on CRISIL for their investment than the other credit rating agencies. The study worked out that though there is confusion among various investors due to existence of more than one credit rating agency but majority of them are satisfied with the guidance of credit agencies.

**Bhattacharyya (2009)**, in her paper, evaluated the issuer rating system in India with special reference to ICRA's issuer rating model, since ICRA introduced the issuer rating services in India in 2005. The author identified various quantitative variables having major impact on the issuer rating along with their relative importance with the help of discriminant analysis. The time period of the study is from the date when the issuer rating started in 2005 to March 2008 and the sample consists of 17 companies which have been rated by ICRA during this period. The study highlighted that out of the ten variables being used by ICRA for issuer rating the PBIT & debt plus net worth ratio, current ratio and net sales growth rate play an important role but the qualitative factors can also affect the ratings at any time.

**Bheemanagauda and Madegowda (2010)** made an attempt to evaluate the performance of credit rating agencies in India including CRISIL, ICRA and FITCH. Secondary data relating to long-term debt instruments from time period 2000-08 has been used for the purpose of the study. The analysis of the study brings out that during the given period there is substantial increase in the rating business in India. During the study period, the maximum percentage of instruments rated is assigned the investment grade rating. As far as rating revisions are concerned, the study depicts that the downgrades were more than double the upgrades both in terms of number of instruments and the volume of debt. This depicts that the ratings were issuer biased. So, the authors suggested

that stringent methods should be adopted to avoid frequent downgrades. The study further highlights that among the agencies which maintain the stability of ratings, Fitch India Ratings hold the top most position followed by CRISIL, ICRA and CARE in line.

## **CHAPTER 5: CASE STUDY**

## **IPO GRADING AND CASE STUDY OF JUST DAIL LIMITED**

IPO grading is the grade assigned by a Credit Rating Agency registered with SEBI, to the initial public offering (IPO) of equity shares or any other security which may be converted into or exchanged with equity shares at a later date. The grade represents a relative assessment of the fundamentals of that issue in relation to the other listed equity securities in India. It was started in the year 2006. Such grading is generally assigned on a five-point point scale with a higher score indicating stronger fundamentals and vice versa as below.

IPO grade 1: Poor fundamentals

IPO grade 2: Below-average fundamentals

IPO grade 3: Average fundamentals

IPO grade 4: Above-average fundamentals

IPO grade 5: Strong fundamentals

IPO grading has been introduced as a process to make additional information available for the investors in order to facilitate their assessment of equity issues offered through an IPO.

IPO grading is optional. It was mandatory previously. However, with effect from February 04, 2014 IPO grading has been made optional for the issuer. IPO grading can be done either before filing the draft offer documents with SEBI or thereafter. However, the Prospectus/Red Herring Prospectus, as the case may be, must contain the grade/s given to the IPO by all CRAs approached by the company for grading such IPO.

IPO Grading is intended to provide the investor with an informed and objective opinion expressed by a professional rating agency after analysing factors like business and financial prospects, management quality and corporate governance practices etc. However, irrespective of the grade obtained by the issuer, the investor needs to make his/her own independent decision regarding investing in any issue after studying the contents of the prospectus including risk factors carefully.

IPO grade/s cannot be rejected. Irrespective of whether the issuer finds the grade given by the rating agency acceptable or not, the grade has to be disclosed as required under the ICDR Regulations. However, the issuer has the option of opting for another grading by a different agency. In such an event all grades obtained for the IPO will have to be disclosed in the offer documents, advertisements etc.

## CASE STUDY OF JUST DIAL LIMITED



The services sector is not only the dominant sector in India's GDP, but has also attracted significant foreign investment flows, contributed significantly to exports as well as provided large-scale employment. India's services sector covers a wide variety of activities such as trade, hotel and restaurants, transport, storage and communication, financing, insurance, real estate, business services, community, social and personal services, and services associated with construction. This is where Just Dial Steps in. In India people have now become more attracted towards technology and adapt themselves to new and evolving Country.

1. Search Engines are a major part of the promotion and audience targeting in India as of 2018-19.
2. Around 78% of the business want themselves to be listed on all kinds of various platforms and be seen in public domain and space.
3. Adding to it, India is one amongst the Major Countries that attract Large Sums of Foreign Investments in terms of Service Sector.

### ABOUT JUST DIAL LIMITED

Justdial is an Indian-based search services company founded by Venkatachalam Sthanu Subramani Mani and established by A&M Communications Private Limited. The company's headquarters is in Mumbai, Maharashtra, India and has its offices in Ahmedabad, Bangalore, Chandigarh, Chennai, Coimbatore, Delhi, Hyderabad, Jaipur, Kolkata and Pune. Just Dial was in news on November 10, 2017 for expected acquisition by Google and based on this news the share prices at NSE rose about 20%. Founded in the year 1996, Justdial was founded by Managing Director and Chief Executive Officer, V.S.S. Mani N.B, M.B. He started the company with 6 employees, some rented computers and borrowed furniture in a hired garage space. The idea was conceived by Mr. Mani while working for United Database India (UDI), a yellow page's company in the year 1987. The number 2888-8888 initially belonged to Mumbai's Kandivali Exchange but was later acquired by Mani. He initiated this concept after understanding the convenience in delivering such information over a call instead of it being stored in a book. However, the official establishment of the company was on standby as Mani

was unable to make an investment of Rs. 15,000 for a land line service. The company later began with a seed capital of Rs. 50,000. With the reach of the internet increasing, Mani decided to go online with Justdial.com in 2007. As of December 2015 Justdial, had 10,198 employees. Justdial has a database of approximately 21.8 million listings and 452,900 active paid campaigns as of June 30, 2018.

This grade indicates that the fundamentals of the IPO are strong relative to the other listed equity securities in India. However, this grade is not an opinion on whether the issue price is appropriate in relation to the issue fundamentals. The offer price for the issue may be higher or lower than the level justified by its fundamentals.

The grade is not a recommendation to buy, sell or hold the graded instrument, its future market price or suitability for a particular investor. To arrive at the overall grade, amongst various other parameters, CRISIL has considered the company's business prospects, its financial performance, management capabilities and corporate governance practices.

## **DETAILED GRADING RATIONALE**

### **1. Business Prospectus**

#### **A. First Mover Advantage**

Just Dial was the first phone-based search engine to launch its services in India. Beginning with just two cities – Mumbai and Delhi – today its services are available across India. Having initiated search operations via only phone, five years ago it embraced the new-era media of the internet, mobile internet and SMS. Today, Just Dial is the most preferred brand in the local search engine space primarily due to excellent user experience. Contact numbers for its voice search - 88888 88888 and 6999 9999 - have a strong recall.

#### **B. Strong Database**

Just Dial's database lists 21.8 million businesses as of FY 18, which largely consist of MSMEs (micro, small and medium enterprises). New data is added and updated regularly by 270 employees. To expand its network in existing and new cities, it has appointed resellers to collect data in their respective territories. More than just the scale of its database, Just Dial's ability to consistently keep it updated has been the reason for strong growth in usage of its search services.

#### **C. Innovations and Growth**

- Segmentation of listings through the use of geo-codes to increase the relevance of search results to user's requirement.
- Allowing users, the option to search using either voice or mobile app or mobile internet or the SMS.
- An indigenously developed algorithm platform provides search results that are relevant to user's requirement and at the same time offer an effective mix of paid and un-paid listings.

- An indigenously developed platform supports faster turnaround of voice-based searches.
- Each of its eight centres, which support voice-based search, can act as disaster recovery centres for others, if necessary, to ensure continuous support for voice-based searches.
- Reviews and ratings: Just Dial also encourages its users to provide reviews and ratings of products or services used by them. It has already received ~11 million reviews and ratings.
- Reverse auction: Users are asked if they would want product/service providers to call them for their requirement. If the user opts for the same, he gets an SMS with details of offerings from different providers who also call up the user for the user's requirements. This enables the user to make an informed decision without directly reaching out to product or service providers. Also, with the development of the mobile app Just Dial has now allowed user as well as the listing companies to manage the everything with one go.



Source: Justdial Limited

#### **D. Strong Uptick of Paid Campaigns**

Just Dial's ability to grow the number of searches has also been complemented by its ability to convert free listings into paid listings/campaigns. Searches by users are potential business leads for listings, i.e., the return for their investment in advertising through Just Dial. They can measure business leads generated through Just Dial's search platform through:

- Details of number of times the respective listing has been part of a search result.
- Reverse auction provides the respective listing with business leads to whom it can directly market and sell their products and services.

Historically, Just Dial has always taken 100% advance for paid campaigns, which has enabled it to operate with negative working capital. As a result, the

company's receivables have been extremely low. This signifies its ability to consistently monetize growth in searches across its platform.

### **E. Targeting Avenues of Growth**

On the one hand, Just Dial has accumulated a huge database of users and their consumption patterns, and on the other it has an extensive database of product and service providers which could serve its users' requirements. It plans to leverage its large database of listing and growing number of searches, taking advantage of the

'pull effect', and offer more services to both:

1) Targeted marketing campaigns: Just Dial plans to leverage its database to generate target marketing data concerning consumer preferences and MSMEs. With the consent of its users, it plans to launch target marketing campaigns for its listings. 2) Structured data for business: Just Dial also plans to use data analytics to leverage its existing user/search data to provide structured data to various businesses, products and services.

3) Quick Quotes: Just Dial is in the process of developing Quick Quotes – a product that will provide prospective buyers with a price quote from multiple vendors. It will be available 24 hours a day and seven days a week. Prospective buyers will also receive real time updates of revised quotes by vendors through SMS and email. This service is expected to be available on all platforms (voice, SMS, internet and mobile internet).

### **F. Target Marketing**

Just Dial plans to expand its reach in cities where it already exists, and where they believe there are more opportunities to be tapped. The majority of its database is across 11 highly populated cities, whose population in turn are expected to increase with higher urbanization. While so far, the company has been dependent more on word-of-mouth publicity and the SEO Tapping, it is planning to utilize the IPO proceeds for aggressive brand promotion. It plans to market its search offerings to attract new users and increase the usage per user by providing solutions to multiple search requirements.

Just Dial plans to continue to push its search platform's ability to deliver measurable results to its listings and aggressively grow its first-time paid advertisers by offering specialized packages (along with its existing packages) with different ticket sizes, convert non-premium packages to premium packages and penetrate the existing free listings

### **G. Low Barriers to Entry**

Local search services industry has low entry barriers as any player can:

- Establish a database of product and service providers
- Establish search platform based on voice, internet, mobile WAP and SMS
- Conduct strong branding, sales and marketing to drive search requests

- Generate revenues through paid listings/campaign ads by providing competitive pricing
- As these factors would require significant initial investment (cash burn), a player with a strong balance sheet and willingness to invest in the initial period can enter and make an impact on the local search services industry.

## H. Amidst Growth Despite of Competition

While Just Dial started its services in 1996 and has had the first-mover advantage, competition exists. Getit has been present since 1986 and Sulekha.com has been present since 1998. Also, multiple players have been providing yellow page services, and other search engines - like Google - have been present for years.

Sr No.	Name	Year of inception	Promoter	Platform	Database coverage (cities/towns)*	Listing (mn)	PE investor
1	Getit	1986	Delhi-based TEJ Bandhu group	Voice, online, print	~35	NA	ASTRO group, Helion Venture Partners
2	Just Dial	1996	Mr V.S.S. Mani	Voice, online, SMS, Mobile internet	~1,750	~7	SAIF, SAPV (Mauritius), Sequoia Capital India Investments III, EGCS Investment Holdings, Tiger Global Four JD Holdings and Tiger Global Five Indian Holdings
3	Sulekha.com	1998	Mr Satya Prabhakar, Founder and CEO	Online	~60	~2	IMG (New York), Norwest Venture Partners (Palo Alto), Mitsui (Tokyo)
4	Askilaila	2007	Mr Kiran Konduri, Mr Shriram Adukoorie	Online, SMS	~1,200	NA	Matrix Partners, Lightspeed Venture Partners, SVB

Source: CRISIL Research, 2012

Search platforms: Just Dial's peers have been providing search services across voice, online, print (yellow pages) and SMS platforms. Convenience to users has been everybody's common mantra.

**Reach:** Just Dial has developed a database of product and service providers in 2100+ cities and towns. Its voice-based search services are accessible in ~250 cities through its main hotline number 6999 9999. These services can also be accessed across India through another hotline number +91 88888 88888. Its peers like Askilaila is present in 1,200 cities/towns and Askme in 525 cities/towns.

**Database:** As most of Just Dial's peers are private players, details of their databases are unavailable. Sulekha.com has a database of ~2 mn and Askme's database is more than 3 mn. Also, it is difficult to assess as to which database is consistently updated and which one provides relevant search results to users.

Growth in number of searches is the only way to gauge the same which, again, is available only in Just Dial's case. Performance on the web: Amongst the Indian websites, www.justdial.com has been ranked 39 by [www.alexa.com](http://www.alexa.com) (in 2012), a provider of details of websites across the globe and their usages across various parameters. Just

Dial's ability to grow its online search services is visible from strong growth in online searches.

### **I. Google**

The world's largest search engine - Google - has been present in India for many years, providing search services and navigation services through Google maps. Providing local search services in any country is passé for a global player like Google. In India, it introduced interactive voice response (IVR)-based local search service in Hyderabad in April 2008. However, it was unable to achieve scale, making the business unviable. As a result, it closed this service in December 2010. A comparison of Google India and Just Dial's FY15 financial highlights that the latter's revenues were 22% of Google India's revenues (includes software development, IT-enables services and advertisement revenue through 'AdWords program'). Globally, Google's search services are based on technology while the search market in India requires collection and maintenance of database through feet-on-street and voice-based search option. Hence, the probability of Google re-entering the local search market is low but any such move by Google is a key monitorable.

### **J. Experienced management but bandwidth remains a monitorable**

Just Dial's management, led by Mr. Mani, has been proactive in consistently meeting customer expectations both on technology and search content front. The company has been able to demonstrate stronger execution capabilities in the local search market than peers driven by a strong top management - led by promoters and their second line. For future growth, the company will have to significantly ramp-up its senior and second line of management. Also, the company is heavily dependent on Mr. Mani for strategic planning.

In Q2FY12, Just Dial demerged its US operations under Just Dial Global Pvt Ltd (JD

Global), which is owned by its promoters and Sequoia Capital. Currently, Just Dial's promoters, Mr. Mani and Mr. Krishnan, play an important role in the strategic planning and operations of Just Dial. JD Global provides local search services in the US as Just Dial provides in India. If JD Global's operations take away significant bandwidth of promoters and senior management of Just Dial, then it could adversely impact the latter's core operations in India.

## **2. FINACIAL PERFORMANCE**

Just Dial's revenues increased at 9.9% CAGR over FY15 - FY18 to Employee cost comprises the largest cost for Just Dial. As a percentage of revenue, it increased to 54% in FY18 from 45% in FY15 as employee cost is not linear to revenues. EBITDA margin decreased to 12.70% in FY18 from 43.17% in FY07. As Just Dial's business is not capital intensive and it does have very small

amount of debt, the fall in EBITDA margin has led to a decline in PAT margin. PAT margin declined to 18.31% in FY18 from 23.54% in FY15. Also, ROE dropped to 14.62% in FY18 from 20.62% in FY15.

5 YEAR BALANCE SHEET OF M/s. JUST DIAL LIMITED

	Mar 19	Mar 18	Mar-17	Mar-16	Mar-15
	12 mths	12 mths	12 mths	12 mths	12 mths
<b>EQUITIES AND LIABILITIES</b>					
<b>SHAREHOLDER'S FUNDS</b>					
Equity Share Capital	64.76	67.39	69.54	69.47	70.49
Total Share Capital	64.76	67.39	69.54	69.47	70.49
Reserves and Surplus	933.87	911.81	835.64	602.01	602.82
Total Reserves and Surplus	933.87	911.81	835.64	602.01	602.82
Total Shareholders' Funds	998.63	979.2	905.18	671.48	673.32
<b>NON-CURRENT LIABILITIES</b>					
Deferred Tax Liabilities [Net]	17.28	0	0	0	0
Other Long-Term Liabilities	33.26	18.68	10.04	4.56	4
Long Term Provisions	0	0	0	0	0.13
Total Non-Current Liabilities	53.30	18.68	10.04	4.56	4.13
<b>CURRENT LIABILITIES</b>					
Trade Payables	30.13	21.56	13.71	19.63	13.76
Other Current Liabilities	465.59	390.92	336.72	256.83	253.18
Short Term Provisions	0	0	0	5.05	20.17
Total Current Liabilities	497.16	412.48	350.43	281.52	287.12
Total Capital and Liabilities	1549.09	1,410.36	1,265.65	957.56	964.56
<b>ASSETS</b>					
<b>NON-CURRENT ASSETS</b>					
Tangible Assets	124.11	146.02	152.21	134.33	86.99
Intangible Assets	2.04	2.88	3.86	4.49	5.16

Capital Work-In-Progress	5.94	0	8.59	0	0
Fixed Assets	132.09	148.9	164.66	138.82	92.15
Non-Current Investments	1269.65	1,120.90	909.97	0.45	0.45
Deferred Tax Assets [Net]	0	12.42	23.94	0.73	2.36
Long Term Loans and Advances	12.69	11.84	12.13	62.69	37.05
Other Non-Current Assets	9.76	11.85	14.94	0	0.06
Total Non-Current Assets	1424.19	1,305.91	1,125.64	202.69	132.06
CURRENT ASSETS					
Current Investments	21.43	22.19	54.73	703.06	772.17
Trade Receivables	0	0	0	0.13	0
Cash and Cash Equivalents	40.44	57.5	52.52	33.62	42
Short Term Loans and Advances	1.54	2.44	3.44	15.76	17.66
Other Current Assets	61.49	22.32	29.32	2.29	0.66
Total Current Assets	124.90	104.45	140.01	754.87	832.5
Total Assets	1549.09	1,410.36	1,265.65	957.56	964.56
OTHER ADDITIONAL INFORMATION					
CONTINGENT LIABILITIES, COMMITMENTS					
Contingent Liabilities	6.16	94.47	129.07	22.22	45.59
CIF VALUE OF IMPORTS					
EXPENDITURE IN FOREIGN EXCHANGE					
Expenditure in Foreign Currency	2.30	2.53	5.79	7.53	3.89
REMITTANCES IN FOREIGN CURRENCIES FOR DIVIDENDS					
Dividend Remittance in Foreign Currency		-	-	0.11	-
EARNINGS IN FOREIGN EXCHANGE					

FOB Value of Goods		-	-	-	-
Other Earnings		-	-	-	-
<b>BONUS DETAILS</b>					
Bonus Equity Share Capital		-	-	-	-
<b>NON-CURRENT INVESTMENTS</b>					
Non-Current Investments Quoted Market Value		-	-	-	-
Non-Current Investments Unquoted Book Value	957.80	802.39	590.18	0.45	0.45
<b>CURRENT INVESTMENTS</b>					
Current Investments Quoted Market Value	-	-	-	220.36	-
Current Investments Unquoted Book Value	21.43	22.19	54.73	487.8	772.17
Source: Dion Global Solutions Limited					

### 5 YEAR PROFIT AND LOSS STATEMENT OF M/s. JUST DIAL LIMITED

	Mar-19	Mar-18	Mar-17	Mar-16	Mar-15
	12 mths	12 mths	12 mths	12 mths	12 mths
<b>INCOME</b>					
Revenue from Operations [Gross]	916.21	781.77	709.81	678.28	588.3
Revenue from Operations [Net]	916.21	781.77	709.81	678.28	588.3
Other Operating Revenues	0	0	8.8	12.55	1.5
Total Operating Revenues	916.21	781.77	718.61	690.83	589.8
Other Income	68.25	65.86	87.06	58.49	48.86
Total Revenue	984.46	847.63	805.67	749.32	638.65
<b>EXPENSES</b>					
Employee Benefit Expenses	497.14	441.58	440.88	377.41	308.77
Depreciation and Amortization Expenses	33.65	36.42	40.14	31.1	24.1
Other Expenses	165.43	175.77	168.17	142.88	115.24
Total Expenses	696.35	653.77	649.19	551.39	448.11
	Mar-19	Mar-18	Mar-17	Mar-16	Mar-15
	12 mnths	12 mths	12 mths	12 mths	12 mths
Profit/Loss Before Exceptional, Extra Ordinary Items and Tax	288.11	193.86	156.48	197.93	190.54
Profit/Loss Before Tax	288.11	193.86	156.48	197.93	190.54
<b>Tax Expenses-Continued Operations</b>					
Current Tax	59.89	50.68	32.58	54.51	55.28
Deferred Tax	21.42	0	2.56	1.62	-3.86
Tax For Earlier Years		0	0	0	0.23
Total Tax Expenses	81.31	50.68	35.14	56.13	51.65
Profit/Loss After Tax and Before Extra-Ordinary Items	206.80	143.18	121.34	141.8	138.89
Profit/Loss from Continuing Operations	206.80	143.18	121.34	141.8	138.89
Profit/Loss for The Period	206.80	143.18	121.34	141.8	138.89
	Mar-19	Mar-18	Mar-17	Mar-16	Mar-15
	12 mnths	12 mths	12 mths	12 mths	12 mths

OTHER ADDITIONAL INFORMATION					
EARNINGS PER SHARE					
Basic EPS (Rs.)	30.95	20.97	17.46	20.12	19.76
Diluted EPS (Rs.)	30.88	20.95	17.35	19.95	19.62
VALUE OF IMPORTED AND INDIGENIOUS RAW MATERIALS					
STORES, SPARES AND LOOSE TOOLS					
DIVIDEND AND DIVIDEND PERCENTAGE					
Equity Share Dividend	0	0	0	0	14.1
Tax on Dividend	0	0	0	0	2.87
Equity Dividend Rate (%)	0	0	0	0	20
Source: Dion Global Solutions Limited					

### 3. MANAGEMENT CAPABILITIES AND CORPORATE GOVERNANCE

Just Dial's top management is headed by promoter Mr V. S. S. Mani (MD and CEO). Along with his friends, he had cofounded a local search engine – Ask me in 1989. Later, he transferred his stake in Ask me to his friends. Prior to this, he worked for the yellow pages of United Database India Pvt. Ltd. Currently he holds 42.99% stake (preconversion of preference shares) in Just Dial.

Mr. V. Krishnan, executive director, has been associated with the company since its inception. He has 18 years of experience in the field of marketing, operations and strategic planning. Just Dial has an experienced senior management team. Mr. Shreos Roychowdhury, is the Chief Technology Officer of our company and is responsible for technological innovation, R&D in the company. He has approximately 19 years of experience (7 years with Justdial) in several domains including machine learning, GIS, search engines and real-time systems. Prior to joining Justdial, he worked with Reliance ADAG, Ibibio Group, Altosys (Apollo Hospitals Group) and Tech Mahindra. Mr. Abhishek Bansal is the Chief Financial Officer of our Company and is responsible for finance, accounting, treasury, audit, legal and compliance functions of the company. He has been associated with our Company since May, 2014. He has approximately 8 years of experience. Prior to Justdial, he has worked in Investment Banking with Credit Suisse as Equity Research Analyst covering multiple sectors. Mr. Jaimin Shah is the Chief Technology Officer for Justdial's Omni and related products. He has been associated with our Company since April, 2012. He holds a Bachelor's degree in Technology and has 17 years of experience He brings rich

technological experience and leadership skills having worked with Infomedia 18, Yodlee India Pvt Ltd, Oracle India Pvt Ltd and Hughes Software Systems. The independent directors, though newly inducted, have a strong corporate background. The board consists of eight directors including three independent directors. Chairman Mr. B. Anand joined the company's board as an independent director In August 2011. Currently, he is also a group director (finance) of Future Group. Mr. Sanjay Bahadur joined the board as an independent director in August 2011. He has 27 years of experience in the field of construction. He is presently the CEO - global constructions and chemicals division - of Pidilite Industries Ltd. Mr. Malcolm Monterio joined the board as an independent director in August 2011. He is the CEO of DHL Express, South Asia and a member of the DHL Asia Pacific management board. Mr. Ravi Adusumalli represents SAIF Partners and has been on Just Dial's board since October 2006. He has 15 years of experience in the field of finance and investment. He is currently a managing partner and heads the India office of SAIF Partners.

#### **4. CONCLUSION**

Just Dial Limited was slated to be offered for public subscription in the year May 2013, with outlook back support of 5/5 rating from CRISIL Research. With a backing of strong management and clear thoughts as well as technological evolution in India, Just Dial limited will surely be able to have a strong foot hold for the market share. The company also has shown a tremendous growth of 40% increase in the CAGR over the year of 2012-2015. However, there was a fall in revenue and growth figures due to very strong competition from Indiamart Intermesh and Google India after that. With signing of Mr. Amitabh Bacchan as the promotional ambassador for the brand a large sum of people has been attracted towards the paid listing on Just Dial. This has led to an effective increase in the NPAT margins as well the revenue matters with a rapid expansion Tier 2 – Tier 4 cities. However, the outlook may turn “negative” if the company doesn't hold on to its market share or fails to rapidly adapt itself to newer technology and uses its funds effectively.

# **ROLE OF CREDIT RATING AGENCIES IN THE SUB PRIME CRISIS, 2007**

## **1. INTRODUCTION**

The economy of the United States has been Earth's largest since the early 1870s. Its gross domestic product (GDP) was estimated as \$13.8 trillion in 2007. It is a mixed economy and private firms make the majority of microeconomic decisions, while being regulated by the government. The U.S. economy maintains a high level of productivity (GDP per capita, \$45,900 in 2007 with the U.S. population hitting 302 million), although it is not the world's highest. The U.S. economy has maintained a high overall GDP growth rate, a low unemployment rate, and high levels of research and capital investment. Major economic concerns in the U.S. include national debt, external debt, entitlement liabilities for retiring baby boomers that have already begun entering the Social Security system, corporate debt, mortgage debt a low savings rate, and a large current account deficit. These extensive waterways have helped shape the country's economic growth over the years and helped bind America's 50 individual states together in a single economic unit. The number of available workers and, more importantly, their productivity help determine the health of the U.S. economy. Throughout its history, the United States has experienced steady growth in the labour force, a phenomenon both cause and effect of almost constant economic expansion. In the United States, the corporation has emerged as an association of owners, known as stockholders, who form a business enterprise governed by a complex set of rules and customs. Brought on by the process of mass production, corporations such as General Electric have been instrumental in shaping the United States. Through the stock market, American banks and investors have grown their economy by investing and withdrawing capital from profitable corporations. Today in the era of globalization American investors and corporations have influence all over the world.

## **2. SUB PRIMES**

Sub Primes are a category of borrowers who are classified as a tarnished borrower with very limited credit history and cases of non-payments with it. Basically, they can be classified as borrowers with high amount of risk associated with them if a credit line is extended. Whereas Subprime Lending also known as B paper Lending, Near Lending or a Second chance lending is a type of loan r a credit line extended to such individuals or corporations who are not well suited and for one in exchange of higher rates of interest than the normal lending. In other words, these loans or credit line are for those who do not qualify for the best market rates due to lack of credit history. Subprime lending is risky for both lenders and borrowers due to the combination of high interest rates, poor credit history, and adverse financial situations usually associated with subprime applicants. A subprime loan is offered at a rate higher than normal loans (A-Paper) due to the increased risk. Subprime lending encompasses a variety of credit instruments, including subprime mortgages, subprime car loans, and subprime credit cards, among others. The

term "subprime" refers to the credit status of the borrower (being less than ideal), not the interest rate on the loan itself. With banks and financial institution looking at achieving higher amounts of profits easy lending of loans made a way out for increased number of bankruptcies and defaults which led to constantly fluctuating national economy in the US, increased number of consumer debt and borrowers being more cautious than ever and turning down proposal in majority for a potential customer. Statistically it was found that nearly 25% of the population in the US falls under the Subprime category. Generally, subprime borrowers will display a range of credit risk characteristics that may include one or more of the following:

- A. Two or more loan payments paid past 30 days due in the last 12 months, or one or more loan payments paid past 90 days due the last 36 months;
- B. Judgment, foreclosure, repossession, or non-payment of a loan in the prior 48 months;
- C. Bankruptcy in the last 7 years;
- D. Relatively high default probability as evidenced by, for example, a credit bureau risk score of less than 620 (depending on the product/collateral), or other bureau or proprietary scores with an equivalent default probability likelihood.

### **3. THE MELTDOWN**

The "SUB PRIME MORTGAGE CRISIS" began in the late of 2006 with a sharp rise in number of home loan closure which was followed with an increasing pattern in the year 2007 and 2008. It all began with the housing bubble burst in the US and high default rates of home loan of Sub primes as well as other adjustable rate mortgages. Loan Incentives and long terms rising trend in the increasing prices of the property which encouraged borrowers to assume new mortgages and loans, making them believe that refinancing or repaying the same would have been easy at latter stage. During the year 2007, nearly 1.3 million hosing loan accounts in the US were subject to foreclosure activity, which was high against the previous years. Where as of December 2007 banks and financial institutions were of estimation that the subprime defaults would nearly reach 200-300 Billion US Dollars. As subprime loans being extremely risky and have very high potential of defaults most of the financial institutions and banks had already passed on and transferred the risk to various third-party investors via Mortgage Back Securities and Collateralized Debt Obligation which made them safe of their revenues and cash flows irrespective of the default status. Many of the banks and financial institution also create Special Purpose Entities who would just look after this business. Due to the non-performing of the assets used to back the CDO and MBS corporates as well as investors holding them encountered huge losses. Also, various originations in the country could not raise any new credit through issue of Commercial Papers due to high risk of defaults already pertaining alongside the Stock Market crash. The liquidity concerns drove central banks around the world to act to provide funds to member banks to encourage the

lending of funds to worthy borrowers and to re-invigorate the commercial paper markets. Traditionally all the risk pertaining to loans was assumed by the originating banks solely but with the newer products coming up and globalization the phase securitization has now become more relevant in the financial markets. Now, with these newer products coming into the market the credit risk is now broadly shared between banks and investors jointly through a variety of complex variety of investment vehicles named as CDO and MBS. CDO, essentially, is a repacking of existing debt, and in recent years MBS collateral has made up a large proportion of issuance. In exchange for purchasing the MBS, third-party investors receive a claim on the mortgage assets, which become collateral in the event of default. Further, the MBS investor has the right to cash flows related to the mortgage payments. CDO valuation is complex and related "fair value" accounting for such "Level 3" assets is subject to wide interpretation. This valuation fundamentally derives from the collectibles of subprime mortgage payments, which is difficult to predict due to lack of precedent and rising delinquency rates. Banks and institutional investors have recognized substantial losses as they revalue their CDO assets downward. Most CDOs require several tests to be satisfied on a periodic basis, such as tests of interest cash flows, collateral ratings, or market values. For deals with market value tests, if the valuation falls below certain levels, the CDO may be required by its terms to sell collateral in a short period of time, often at a steep loss, much like a stock brokerage account margin call. Subprime borrowing was a major contributor to an increase in home ownership rates and the demand for housing. This demand helped to increase the housing price and consumer spending. Between 1997 and 2006, American property prices increased by 124%. Some homeowners used the increased property value experienced in the housing bubble to refinance their homes with lower interest rates and take out second mortgages against the added value to use the funds for consumer spending. U.S. household debt as a percentage of income rose to 130% during 2007, versus 100% earlier in the decade. Excess Construction during the boom period, increasing foreclosure rates and unwillingness of many homeowners to sell their homes at reduced market prices have significantly increased the supply of housing inventory available. Sales volume (units) of new homes dropped by 26.4% in 2007 as compared to the prior year. Further, a record of nearly 4 million unsold existing homes was available. This excess supply of home inventory places significant downward pressure on prices. As prices decline, more homeowners are at risk of default and foreclosure. Further adding to the meltdown, Credit Rating Agencies also played a major role in fueling to the housing bubble crisis.

#### **4. ROLE OF CREDIT RATING AGENCIES**

Credit Rating Agencies have played a very sever role in damaging the US economy and contributing to the Subprime Crisis of 2007. Some news journal and paper even cited that the very sole reason behind this housing bubble burst was the ways and the methods through which these rating agencies operated.

The following were the deviations and ways found out and suggest by the CRA's to increase their business.

### **1. PRODUCT STRUCTURING**

At the inception of the structuring process, the CRAs took lower rated mortgage bonds combined with equity, to form a Mezzanine CDO to enable it to receive a higher rating. During the second stage, these intermediate rated (AA or BB) Mezzanine CDO or normal CDOs were combined again to form AAA rated securities. The rating agencies advised their clients on structuring the debt of the products thereby creating a chain of multi-layered mortgage products and then consequently rating them as AAA ratings. Thus, the products created at every stage carried more risk and illiquid securities than the previous ones yet carried a rating of AAA. As mortgage securities became increasingly complex with little transparency on composition and characteristics of these loans held in the pools, investors relied more on the CRAs.

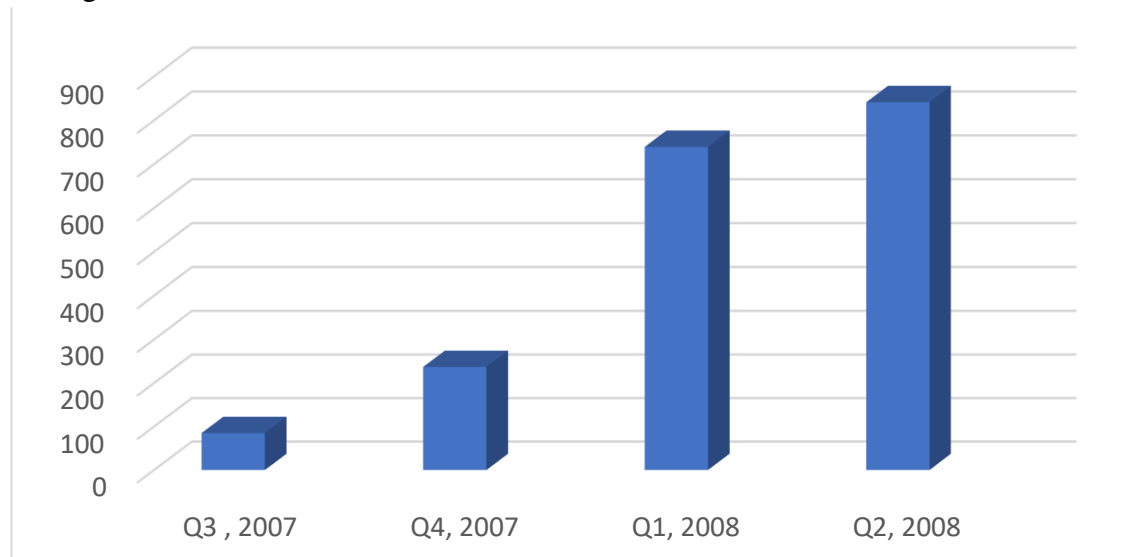
### **2. METHODOLOGY ERRORS**

CDO and MBS are a type of instrument which are as very different in offering from Vanilla bonds and other products not only in the aspect of design but also in aspect of inheriting liquidity interest rates and credit risk. However, despite the fact most of the CRA's used same rating matrix for them and Similar letter-grade scales (AAA to C or Aaa to C) were used to rank the relative default risk of all long-term, fixed-income securities, including structured credit products. Using similar rating scale for structured products lead to an underestimation of systemic risk as structured products have downgrade dynamics, which are different than those of corporate or sovereign bonds. This clearly highlighted the fact that the complexity of the structured products was something the CRAs were not adequately geared to rate. The CRAs assigned extremely safe, AAA ratings to structured products that later turned out to be extremely risky, and in some cases worthless, which was corroborated by the fact that almost 56% of the ratings were subsequently downgraded

### **3. BUSINESS AND RATINGS**

There was a clear conflict of interest in rating agencies working closely with the investment banks to design these cutting-edge sophisticated products. It would be difficult for the agency to assign a low rating to a product it had itself designed. CRAs played a dual role in this process by providing credit assessments of the underlying collateral asset pools as also being involved in designing the specific structure of SPs. Rating agencies began to see spectacular profits from the boom in these structured products. In fact, most of their incremental earnings were from such complex products giving them the biggest incentive in the success of these products. Conflicting interest was also motivated by the objective of magnifying earnings and profits at the cost of quality assurance because of the rating companies being publicly traded companies. After all the fiasco, chaos and the burst Credit Rating agencies immediately started to downgrade their originally assigned rating from a very

safe investment to mere junk bonds and extremely risky. This clearly depicts that how untrue and unethical agencies were in assessing and providing rating just for the sake of expanding their business and earning spectacular and unordinary profits. The graph below clearly depicts how huge these downgrades were.



Source: Fortune Magazine, 2008 (RS. In Billion US Dollars)

## 5. IMPACTS

### A. ON US AND WORLD

On July 19, 2007, the Dow Jones Industrial Average hit a record high, closing above 14,000 for the first time. By August 15, the Dow had dropped below 13,000 and the S&P 500 had crossed into negative territory year-to-date. Similar drops occurred in virtually every market in the world, with Brazil and Korea being hard-hit. Large daily drops became common, with, for example, the **Korea Composite Stock Price Index (KOSPI)** dropping about 7% in one day, although 2007's largest daily drop by the S&P 500 in the U.S. was in February, a result of the subprime crisis. Mortgage lenders and home builders fared terribly, but losses cut across sectors, with some of the worst-hit industries, such as metals & mining companies, having only the vaguest connection with lending or mortgages.

DOW JONES INDUSTRIAL AVERAGE CHART



Source: Wikipedia

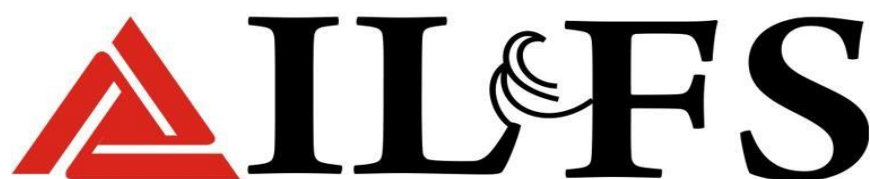
## B. ON INDIA

Even though the Indian markets are experiencing the echo, the Indian banking system had remained fairly insulated from any direct impact of the subprime crisis in the US. This is because the Indian banks did not have significant exposure to subprime loans in the US. However, there was a major impact on the equity Markets as many foreign institutional investors (FIIs) sold off their investments into Indian Companies to cover their huge losses. The FIIs had to withdraw from the equity Markets. Also, a subprime like scenario in India seems unlikely given the current state of affairs at that time. First and foremost, despite rapid growth in years, the mortgage market in India is nowhere near the levels of developed countries, such as the US or the UK. Mortgages as a percentage of GDP in India are still at a small percentage as compared with the US and the UK. Secondly, the approach of the Indian regulators has been balanced and forward-looking. Its continuous doses of monetary tightening aim to ensure that the money supply is kept within manageable limits. Admittedly housing prices in India are affected but this has got more to do with the demand-supply factors.



Source: Poundsterllinglive.com

## CASE STUDY ABOUT THE IL & FS CRISIS



Infrastructure Leasing & Financial Services Limited is one of India's leading infrastructure development and finance companies. IL&FS was formed in 1987 as an "RBI registered Core Investment Company" by three financial institutions, namely the Central Bank of India, Housing Development Finance Corporation (HDFC) and Unit Trust of India (UTI), to provide finance and loans for major infrastructure projects. Gradually, as the organization needed better financing, it additionally opened itself to two large international players, namely Mitsubishi (through Orix corporation Japan) and the Abu Dhabi Investment authority. Subsequently, Life Insurance Corporation India, Orix and ADIA became its largest shareholders, a pattern that continues till this date. Currently, institutional shareholders include Life Insurance Corporation of India (LIC), ORIX and Abu Dhabi Investment Authority, with small shareholdings by a few Indian banks. State Bank of India (SBI) was a shareholder till 2017, after which it sold stake in the company. A few foreign investors including Greenspring associates remain investors in its subsidiary companies, especially IL&FS transportation and IL&FS infrastructure services.

IL&FS has 256 group companies as of 2018, including subsidiaries, joint venture companies and associate entities. Though on the surface, the company appears to have 23 direct subsidiaries, 141 indirect subsidiaries (including special purpose vehicles for different projects), 6 joint ventures and 4 associate companies, each of them is further subdivided into additional legal entities, with much cross ownership as well as ownership by investment vehicles of various governments.

IL&FS has several projects in different sectors including Transportation, Area Development, e-Governance, Health Initiatives, Cluster Development,

Finance, Power, Ports, Water and Waste Water, Urban Infrastructure, Environment, Education, and Tourism. In 2009, it became the new promoter of the Maytas Infra Ltd. and in January 2011, Maytas Infra was taken over by IL&FS and renamed to IL&FS Engineering and Construction Company Limited. IL & FS was the principal lender behind the construction of the 9.28 km long Chenani-Nashri Tunnel, located on the route of NH 44 in Jammu and Kashmir. Its work was started on July 2011 and the tunnel was opened for traffic after its inauguration by the Indian Prime Minister Narendra Modi on 2 April 2017. Built on an estimated budget of ₹3,720 crore (US\$550 million), the main tunnel is 13 metres in diameter, while the parallel escape tunnel is 6 meters in diameter. IL&FS infrastructure development initiatives have been sectorally and geographically diverse. Strategic relations with governments in 22 states and various departments of the Central Government and Union Territories have helped widen the IL&FS Group's national footprint. Its international presence includes offices in Singapore, Spain, London and Dubai, as well as strong network partners in the USA, Tokyo, Philippines and Abu Dhabi.

As the world witnessed the 10<sup>th</sup> Anniversary of the collapse of Lehman Brothers which triggered the global financial crisis in the year of September 2008, IL and FS, India's leading financial company defaulted on payments to its creditors which triggered a huge financial panic in the markets. From July to September 2018, two out of IL & FS's 256 subsidiaries reported having trouble paying back loans and inter corporate deposits to other banks and lenders, resulting in the RBI requesting its major shareholders to rescue it. In July 2018, Hindu Business line reported that the road arm of IL & FS was having difficulty making payments due on its bonds. In the same month, Business Standard reported that its founder Ravi Parthasarathy would be resigning from the firm citing medical reasons, after having headed the firm for 30 years. In early September 2018, Moneylife India reported that one of IL & FS's subsidiaries had been unable to repay a Rs. 1000 crore short term loan taken from SIDBI, resulting in SIDBI asking one of its officers to resign.

Subsequently, Bloomberg Quint, Business standard and Economic times reported that one of the IL & FS group of companies called IL & FS Financial services limited had defaulted on its commercial paper payments. This led to news of a possible audit by the Reserve Bank of India. IL&FS Financial Services Ltd., one of the group's many financial subsidiaries had defaulted on repaying about Rs. 450 crore worth of intercorporate deposits to Small Industries Development Bank of India (SIDBI). On 27 September 2018, IL & FS Financial services informed the BSE that it had defaulted on a Rs 52.4-crore repayment of short-term deposits and Rs 104-crore term deposit. On 1st Oct 2018, the Government of India took steps to take control of the company and arrest spread of the contagion to the financial markets. A new board was constituted as the earlier board was deemed to have failed to discharge its duties. The new board consists of Kotak Mahindra Bank managing director Uday Kotak, former IAS officer & Tech Mahindra boss Vineet Nayyar, former

SEBI chief G N Bajpai, former ICICI Bank chairman G C Chaturvedi, former IAS officers Malini Shankar and Nand Kishore. Until July, India's credit rating companies had investment grade ratings on billions of dollars of corporate debt raised by the IL&FS Group and its subsidiaries. The first signs of trouble came in June, when the special purpose vehicles tied to IL&FS Transportation Networks Ltd., a group subsidiary, defaulted on its debt obligations. More defaults in other parts of the empire followed in August and September. However, the Il and Fs had dropped early signals of Liquidity Crunch to its promoters and the rating agencies, it was only after the outburst that the agencies saw it wither willing or knew problems do exist in the company. In August, major credit rating companies such as ICRA, a unit of Moody's, Fitch-owned India Ratings & Research and CARE began to cut their rating for the group's parent company, Infrastructure Leasing & Financial Services. More rating downgrades to default status came in September. After this fiasco the supreme regulators of Financial Markets in India, SEBI took on the Credit Rating Agencies with a storm and made it mandatory for all the Rating Agencies too disclose all the facts and matters regarding the company's liquid worth and position in its reports to the investors. As Rating Agencies were aware about the fact of problems persisting in the company, they could have downgraded the ratings well before time and could have averted the chaos. This somewhere indicates that agencies have always found ways to bend rules and have a money minded terms of operations which led to risking money of all invest out there looking to invest in IL and FS.

## **PROCESS OF ASSIGNING CREDIT SCORE IN INDIA**

### **1. Personal Credit Rating (For Individuals)**

The process of Assigning a credit score to any individual is based on a very complexed mathematical as well as statistical calculations model In India the records and data related to person or individuals credit history is collected maintained and recorded by three major firms known as Experian, Equifax and Central Information Bureau of India Limited - TransUnion CIBIL. In terms of the numbers and ratings or credit score card provided CIBIL is India's top firm and while asserting and referring to credit score people general refer to CIBIL. The creditworthiness of an individual is rated between a scale of 300-900 points while 300 being the worst and not suitable for any credit; 900 is the best and can avail all sorts of credit, however banks and Financial Institutions generally look for score anything above 700 which is an ideal benchmark for them. The Credit Score allocation for an Individual can be divided into major factors like:

#### **A. Past Performance**

While assessing an individual's credit line the past performance of the credit assigned to them is a very important factor for evaluation as this tells a Bank or Financial Institution lot about the behavioural pattern of the applicant and in what manner have the pattern of repayment as well as his/her income has changed over the years. Hence an individual must always clear their bills, instalment, government dues for taxation etc. on time as this accounts for 35% of the weightage while assigning a Credit Score. A single default or delayed payment is also well reflected in a Credit Score and will deteriorate the same in due course of time.

#### **B. Credit Exposure**

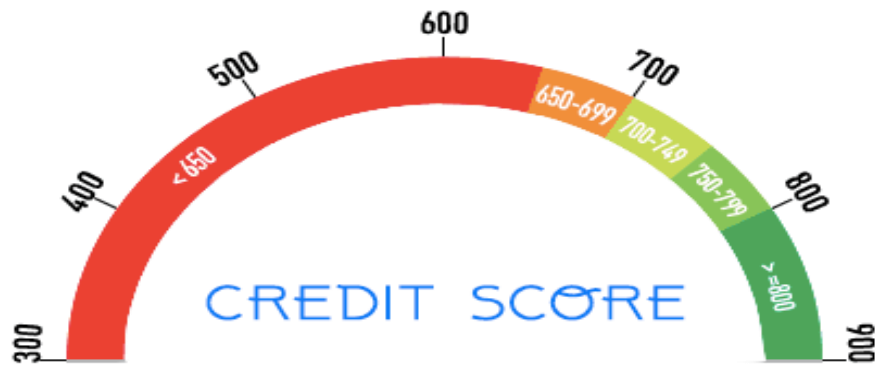
Credit Balance in an individual's account is also checked while assigning a score, to be certain that the individual's current obligations are well accounted for and their income is stable enough to acquire a new loan. This also helps the banks and Financial Institution to ascertain and be sure the applicant is not in lieu of acquiring a new debt to pay off the older debts as this debt trap is a never-ending circle. A utilization ratio is calculated based on the Income and the Loan Outstanding factor which sets the limit to what extend a new credit can be acquired. This factor accounts for 25% of the weightage to the total score assigned.

#### **C. Credit Type and Duration**

The type and duration of the previous credit always play vital role as this helps to ascertain what is the type of credit line extended and for what duration, as longer duration credit line is always considered to be as risky in terms of repayment. This also helps in analysing the servicing of a credit over the due course of time. Credit Type and Duration also accounts for 25% of the total weightage assigned to the Credit Score.

#### D. Other Factors

Other factors consist of things such as the current application of the credit line, the utilization of previous credit mix, the recent credit behaviour and various other parameters set individually by each credit information bureau. These contributes for a total of 20% weightage to the assigned Credit Score.



#### 2. Company Credit Rating (For Companies)

Company Credit Report is a factual record of a credit payment history compiled from information received from different credit institutions. The purpose of CCR is to help lenders make informed credit decisions - quickly and objectively. The CCR is way different from the CIBIL SCORE as this defines a rating and credit worthiness for an individual and not for a company. The company credit report depends on two main factors i.e. Past Performance and Credit Utilization of the funds granted.

- The CIBIL RANK is applicable for companies.



- It summarizes your company's CCR in the form of one number.



- CIBIL RANK ranges between a scale of 10 and 1. The closer the rank is to 1 the better the chances of your company being able to secure a loan.



- The rank is only provided to businesses that have outstanding loans of Rs. 10 lakh to Rs. 50 crore.



- The CIBIL Score is applicable to individual consumers.



- It is a 3 digit numeric summary of your credit history



- The Score is derived by using the details found in the "Accounts" and "Enquiries" sections on your Credit Information Report (CIR) and ranges from 300 to 900. The closer your Score is to 900, the more favourably your loan application will be viewed by a credit institution.

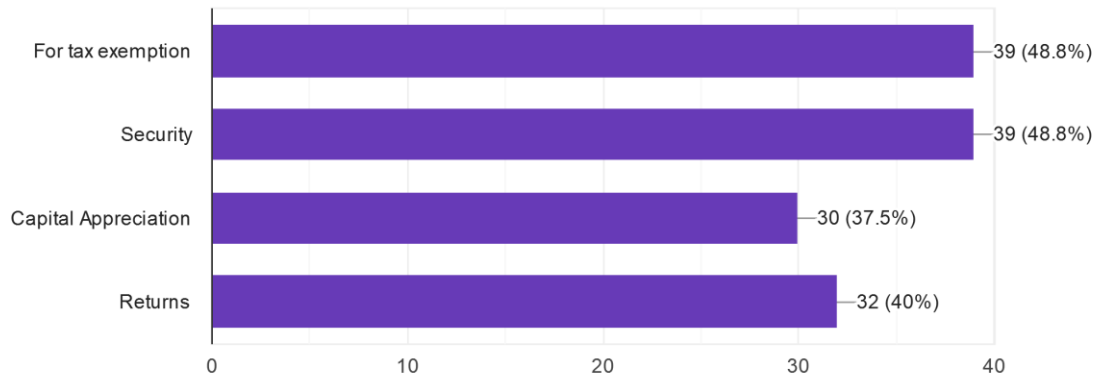


- The score is provided to an individual based on the credit history.



**CHAPTER 6: DATA ANALYSIS**

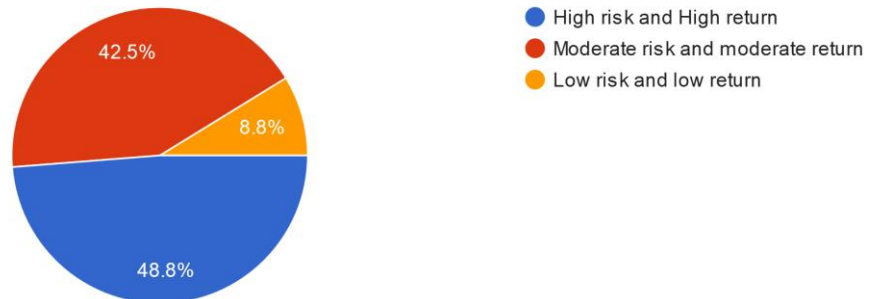
Purpose of investment  
80 responses



In the following questions, the respondents were asked the purpose of investment, to which 48.8% responded that for tax exemption is the purpose of investment, 48.8% responded that for security purpose is the purpose of investment, 37.5% responded that for capital appreciation is the purpose of investment and 40% responded that for returns on investment is the purpose of investment.

Which factor do you consider before investment?

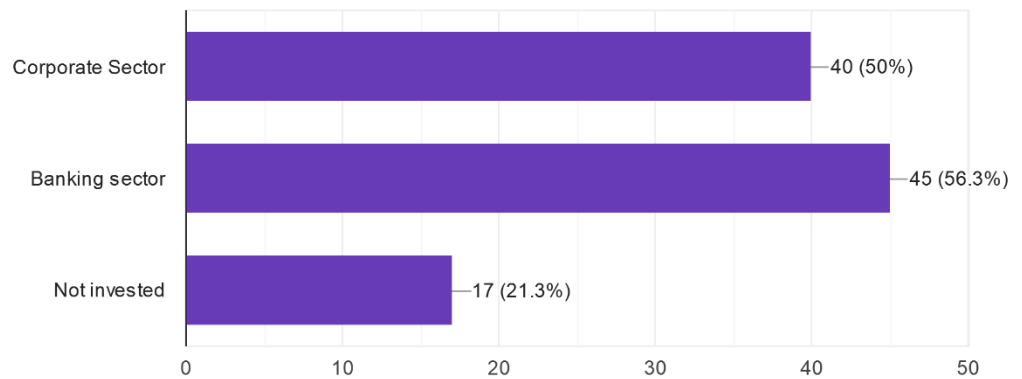
80 responses



In the following questions the respondents were asked which factor do you consider before investment, to which 48.8% responded that they are ready to bear high risk to get higher returns, where as 42.5% responded that they are ready to bear moderate risk to get moderate returns back and 8.8% responded that they are ready to bear low risk to get lower returns back.

### Invested in the instruments of

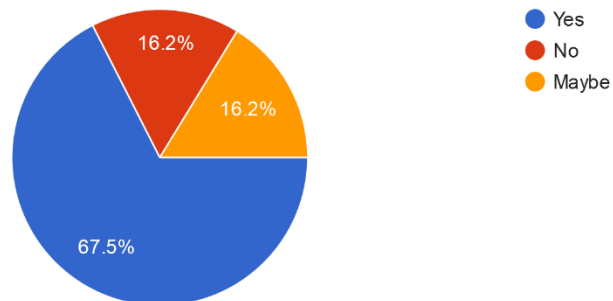
80 responses



In the following questions the respondents were asked in which sector you have invested in the instruments of banking sector or corporate sector, to which 50 % people responded that they have invested in corporate sector where as 56.3% people responded that they have invested in the instruments of banking sector. From this we can conclude that a greater number of people are interested to invested in banking sector as compared to corporate sector.

Do you have any knowledge about credit rating agency?

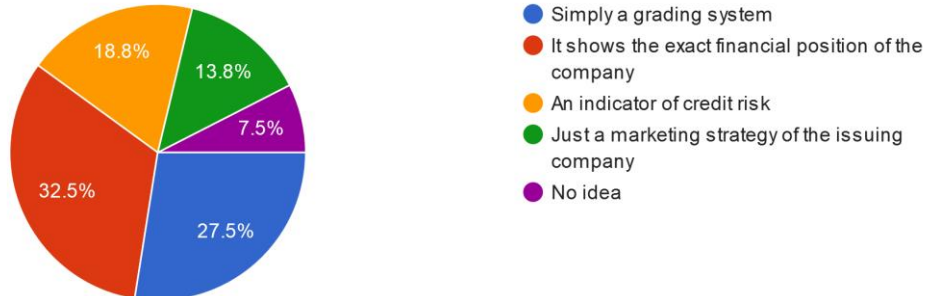
80 responses



In the following question the respondents were asked that do they have knowledge about credit rating agencies out of which 67.5% people responded that “YES” they have knowledge about credit rating agencies where as 16.2% do not have any knowledge about credit rating agencies.

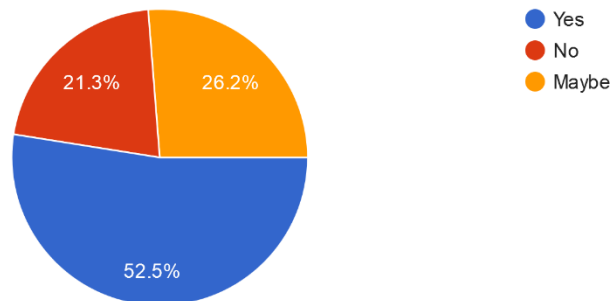
### What are your opinions about Credit Rating?

80 responses



In the following questions respondents were asked about their opinions about credit rating agencies to which 27.5% responded that its simply a grading system where as 32.5% responded that it shows the exact final position of the company, 18.8% responded that its an indicator of credit risk where as 13.8% responded that its just a marketing strategy of the issuing company.

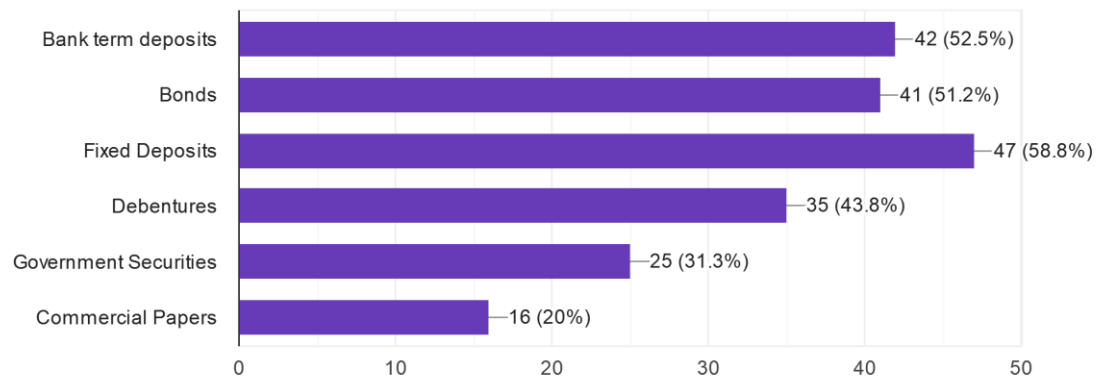
Do you think that the number of Credit Rating Agencies established in India is enough  
80 responses



In the following question respondents were asked that whether they think that number of credit rating agencies in India are enough or not to which 52.5% of the respondents responded “yes” that credit rating agencies in India are enough where as 21.3% responded that number of credit rating agencies in India should be increased.

### Choice of investment

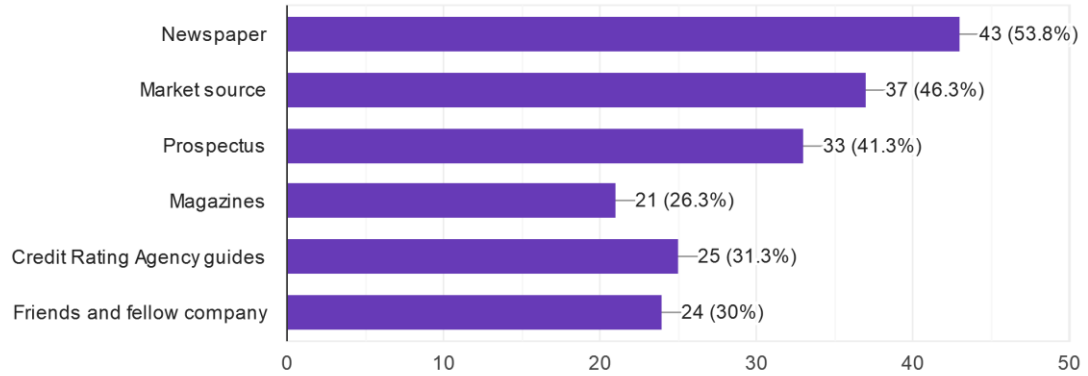
80 responses



In the following question the respondents were asked their choice of investment to which 52.5% responded that they would like to invest in bank term deposits where as 51.2% responded that they would like to invest in bonds, 58.8% responded that they would like to invest in fixed deposits, 43.8% responded that they would like to buy debentures, 31.3% responded that they would like to invest in Government Securities and 20% responded that they would like to invest in commercial papers.

### What are the sources of your knowledge about Credit Rating Agency?

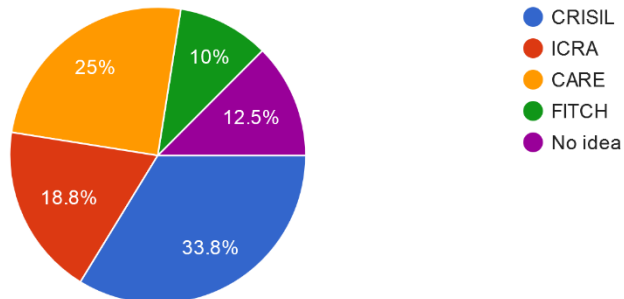
80 responses



In the following question respondents were asked that what are the sources of your knowledge about credit rating agencies to which 53.8% respondents responded that they come to know through newspapers, 46.3% respondents responded that they came to know from market source, 41.3% respondents responded that they came to know about credit rating agencies through Prospectus, 26.3% respondents responded that they got the knowledge from magazines, 31.3% responded that they came to know from Credit Rating Agency Guides and 30% respondents responded that they came to know from Friends and fellow company.

### Preference of Credit Rating Agency

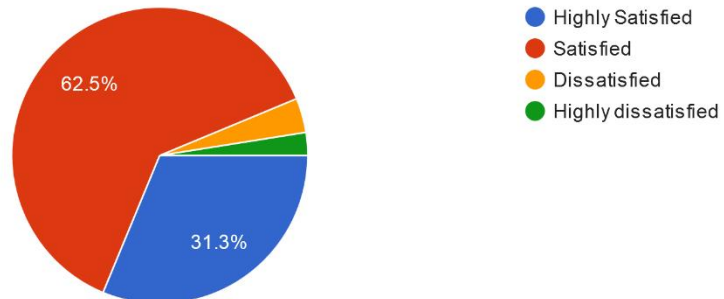
80 responses



In the following question the respondents were asked which credit rating agency will they prefer to which 33.8% responded that they will prefer CRISIL, 18.8% responded that they will prefer ICRA, 25% responded that they will prefer CARE and 10% respondents responded that they will prefer FITCH.

Are you satisfied with the ratings given by the agencies?

80 responses



In the following question the respondents were asked that they are satisfied with the ratings given by the agencies to which 31.3% responded that they are highly satisfied with ratings given by the agencies, 62.5% respondents responded that they are satisfied with the ratings given by the agencies where as 3.7% are dissatisfied with the ratings given by the agency and 2.5% respondents responded that they are highly dissatisfied with the ratings given by the agencies.

## **CHAPTER 7: FINDINGS**

## **Findings:**

The data was collected from primary sources as well as secondary sources. For the only primary a survey was done online and **80** responses were collected by the researchers whereas secondary data was collected from multiple websites and journals.

- Majority of the respondents i.e. 48.8% like to invest to exempt tax and for security purpose
- Majority of the respondents i.e. 48.8% are ready to bear high risk to get higher returns back.
- It is observed that the majority of the respondents i.e. 56.3% invest in banking sectors as compared in corporate sector only 50% of respondents invest
- From the following research we can see that majority of the respondents have knowledge about credit rating agencies.
- Majority of the respondents i.e. 32.5% tells that credit rating shows the exact financial position of the company.
- Majority of the respondents i.e. 52.5% says that there are enough number of Credit rating Agencies in India.
- Majority of the respondents i.e. 52.5% would like to invest in bank term deposits.
- Majority of the respondents i.e. 53.8% came to know about credit rating agencies from the newspapers.
- From the following survey it is observed that respondents prefer CRISIL as a Credit Rating Agency.
- Majority of the respondents i.e. 62.5% are satisfied with the ratings given by the agencies.

## **SEBI: REGULATIONS AND GENERAL OBLIGATIONS**

### **SECURITIES AND EXCHANGE BOARD OF INDIA (CREDIT RATING AGENCIES) REGULATIONS, 1999**

#### **1. Agreement with the Client**

Every Credit Rating Agency shall enter into Written Agreement which contains

- i. The rights and liabilities of each party
- ii. The fee to be charged by the credit rating agency
- iii. Agreement to a periodic review of the rating by the credit rating agency
- iv. Agreement of co-operation with the credit rating agency
- v. Credit rating agency shall disclose to the client the rating assigned to the securities
- vi. Client shall agree to disclose the following documents
  - a. The rating assigned to the client's listed securities by any credit rating agency during the last three years
  - b. Any rating given by any other credit rating agency, which has not been accepted by the client.

#### **2. Monitoring of Rating**

1. Every credit rating agency shall carry out periodic reviews of all published ratings during the lifetime of the securities.
2. If the client does not co - operate with the Credit Rating Agency so Credit Rating Agency shall carry out the review on the basis of the best information available.
3. A credit rating agency shall not withdraw a rating so long as the obligations under the security rated by it are outstanding

#### **3. Internal Procedures.**

Every Credit Rating Agency shall frame appropriate procedures and systems in order to prevent contravention of –

- (a) The Securities and Exchange Board of India (Insider Trading) Regulations, 1992;
- (b) The Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices relating to the Securities Market) Regulations, 1995; and
- (c) Other laws relevant to trading of securities.

#### **4. Disclosure of Rating Definitions and Rationale**

Every Credit Rating Agency:

1. Shall make public the definitions of the concerned rating, along with the symbol
2. Ratings do not constitute recommendations to buy, hold or sell any securities
3. Every credit rating agency shall make available to the general public information relating to the rationale of the ratings, which shall cover an analysis of the various factors justifying a favourable assessment, as well as factors constituting a risk.

#### **5. Submission of Information to the Board**

Information called by Board from a Credit Rating Agency for the purpose of regulations,

Credit Rating Agency shall furnish such information to the Board –

- a. Within a period, specific by the Board or,
- b. If no such period specified by the Board,
- c. If no such period is specified then within a reasonable time.

Every Credit Rating Agency shall, at the close of each accounting period, furnish to the Board copies of its Balance Sheet and Profit and Loss account.

#### **6. Compliance with circulars etc., issued by the Board**

Every credit rating agency shall comply with such guidelines, directives, circulars and

Instructions as may be issued by the Board from time to time, on the subject of credit rating.

#### **7. Appointment of Compliance Officer**

1. Every Credit Rating Agency shall appoint Compliance Officer who shall be responsible for monitoring rules and regulations and circulars issued by Board or the Central Government.
2. The compliance officer shall immediately and independently report to the Board any noncompliance observed by him.

#### **8. Maintenance of Books of Accounts, records, etc.**

Every credit rating agency shall keep and maintain, for a minimum period of five years the following books of accounts, records and documents, namely:

- (a) Copy of its balance sheet, as on the end of each accounting period;
- (b) A copy of its profit and loss account for each accounting period;
- (c) A copy of the auditor's report on its accounts for each accounting period.
- (d) A copy of the agreement entered into, with each client;
- (e) Information supplied by each of the clients;
- (f) Correspondence with each client;

(g) Ratings assigned to various securities including up gradation and down gradation (if any) of the ratings so assigned

**9. Steps on Auditor’s Report**

Every credit rating agency shall, within two months from the date of the auditor’s report, take steps to rectify the deficiencies if any, made out in the auditor’s report, in so far as they relate to the activity of rating of securities

**10. Confidentiality**

Every credit rating agency shall treat, as confidential, information supplied to it by the client and no credit rating agency shall disclose the same to any other person.

## **CHAPTER 8: CONCLUSION**

## **CONCLUSION**

Credit Rating is as very important since investors should be equipped with easy methods to make their investment decisions. If ratings are assigned in a proper, systematic, transparent way, then it will be a boon for investors and will go a long way in making the investment world a safe place.

It is an undisputed fact that Credit Rating Agencies play a vital role in financial markets by to reduce the informative gap between lenders and investors, on one side, and issuers on the other side, about the creditworthiness of companies or countries an investment grade rating can put a security, company or country on the global radar, attracting foreign money and boosting a nation's economy. Indeed, for emerging market economies, the credit rating is the key to showing their worthiness of money from foreign investors. Credit rating helps the market regulators in promoting stability and efficiency in the securities market. Ratings make markets more efficient and transparent.

But at the same time the Credit Rating Scenario took to turmoil in the early Summer of 2007 where the investor first started to lose their faith on such companies at a massive scale. Ratings being as opinionated, and objective should not be granted with a business purpose in a mind. Which indeed was the real cause behind the Crash of 2007, that could have been averted with a simple downgrade of instruments held and issued by Lehman as well as other Companies and which would have saved the US Federal Reserve to infuse an extra 4.1 Trillion Dollars in the US Economy and bail out everyone. But it always stays as an undisputed fact that Credit Rating Agencies still have a huge role to play in the financial markets and one cannot just do away with the. Rating agencies play an important role in the world markets, they can best serve markets when they operate ethically, independently, adopt and enforce internal guidelines to avoid conflict of interest, and provide confidential information from issuers.

## **CHAPTER 9: SUGGESTIONS**

## **A. FOR INVESTORS**

1. An investor should always keep in mind that nothing comes along guarantee or without risk not even promised returns on Life Insurance Policies and hence should always keep in mind the principle of “Caveat Emptor” which means let the buyer beware.
2. Investor themselves are to responsible for their money. Hence one should always be cautious and thoroughly examine the facts, creditworthiness before zeroing down on any investment decision and most importantly compare it with other options as well.
3. It is also very important for an investor or any other person for the matter concerned to always maintain a goo as well as healthy credit track record and have a good credit score along with timely payment of taxes and any other obligations to ensure safe and smooth future borrowings in times of need.
4. Investors must always invest on one’s guts rather just following someone and should always align their investments with the way markets are going as at the end of the day markets are the one providing them returns on their investment and not others.

## **B. FOR CREDIT RATING AGENCIES**

1. CRISIL, ICRA & CARE, the three major rating agencies are handling 90% - 95% of the business of credit rating promoted by financial institutions who while advancing loans take the help of credit rating agencies to get the company rated. All these agencies have continued to expand their activities in recent years. They must also be updated about the reforms in the financial sector which can have an impact on the businesses of these agencies as the market is volatile in nature especially in case of debt instrument like bonds and Commercial Papers as well.
2. Nevertheless, Credit Rating Agencies have always found out ways and methods to evade regulations and are far from sight of control under the government authorities as they escape with a simple subject matter of line that these are our opinions and are no way intended to be an assurance. Hence there shall be stringent laws and each rating should be fair enough and truly based on the facts and figures of the company rather than how big billables they are to the agency. This has become very important after the recent IL and FS case in India. Also, at the end of the day it is their responsibility to be ethical and true to the outside people because there are many investors who invest just on their reports based on faith.
3. Another aspect is regarding the procedure or the methodology that these rating agencies follow for rating. Sometimes companies not satisfied with rating of one agency approach use another rating agency for better rating. For this purpose, the rating process or procedure followed for rating must be relevant, accurate and regulated. Rating agencies should not only take into consideration past & present performance; the projected future performance must not be ignored.

## **CHAPTER 10: BIBLIOGRAPHY**

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**APPENDIX-1**  
**Questionnaire**

1. Purpose of investment.
2. Which factor do you consider before investment?
3. Invested in the instrument of.
4. Do you have any knowledge about credit rating agencies?
5. What are your opinions about credit rating agencies?
6. Do you think the number of Credit Rating Agencies established in India is enough?
7. Choice of investment.
8. What are the sources of your knowledge about Credit Rating Agency?
9. Preference of Credit Rating Agency.
10. Are you satisfied with the ratings given by the agencies?