JETIR.ORG ISSN: 2349-5162 | ESTD Year : 2014 | Monthly Issue
JOURNAL OF EMERGING TECHNOLOGIES AND INNOVATIVE RESEARCH (JETIR)
An International Scholarly Open Access, Peer-reviewed, Refereed Journal

AWARENESS OF CREDIT RATING WITH RESPECT TO INVESTORS & STOCK BROKERS

Shainaz Begum (Research Scholar), Assistant Professor
Department of Management Studies, GCET, Hyderabad.

Abstract: Knowledge of credit rating has become crucial for both investors and stock brokers in today's changing financial environment. This abstract examines the importance of credit ratings and how they affect how investors make decisions. Credit rating, a gauge of a person, business, or financial instrument's creditworthiness, has grown significantly in popularity in the investment world. Credit ratings are very important to investors, from individual retail investors to institutional players, who use them to evaluate the risk involved with their investment selections. In a similar vein, stock brokers who serve as the go-between for investors and the stock market must be knowledgeable about credit ratings in order to give proper advise and promote investments with knowledge. It emphasizes the significance of credit ratings as an indicator of the financial stability and risk profile of entities. Investors rely on credit ratings to gauge the likelihood of default and make informed decisions when allocating their investment portfolios. Credit ratings help investors identify suitable investment options, balance risk and return, and align their investment strategies with their risk tolerance.

Key words: stock brokers, investors,risk assessment, investment decisions, financial stability, creditworthiness, rating agencies.

1.Introduction:

Credit rating, a gauge of a person, business, or financial instrument's creditworthiness, has grown significantly in popularity in the investment world. Credit ratings are very important to investors, from individual retail investors to institutional players, who use them to evaluate the risk involved with their investment selections. In a similar vein, stock brokers who serve as the go-between for investors and the stock market must be knowledgeable about credit ratings in order to give proper advise and promote investments with knowledge. For both investors and stock brokers, understanding credit rating has become crucial in today's dynamic financial environment.

The concept of credit rating, which evaluates a person, business, or financial instrument's creditworthiness, has grown significantly in popularity. Credit ratings are very important to investors, from individual retail investors to institutional participants, who use them to determine the risk of their investment choices. Equivalently, stock brokers who function as a middleman between investors and the stock market must be knowledgeable about credit ratings in order to give appropriate advice and promote investments that they are fully aware of.

Need for the study:

We need the credit rating assessment because Bankruptcy is now a rising issue for many businesses. There are both small and major enterprises in India. Credit ratings are used by large industries to determine their performance and continuous profit or loss. Small businesses and industries will utilize credit ratings to gauge their current performance, just as large industries do.

Objectives of the study:

1. To Increase awareness of credit ratings among investors and stock brokers.
2. To Enhance understanding of the factors influencing credit ratings.

Scope of the study:
This study is only for a period of 1 years (2022-2023). The study is limited to HDFC and Prime Ispat Limited. This provides information to the investors and stock brokers to invest in the selected companies.

Research Methodology

Primary data/ secondary data: The Methodology adopted or Employed in this study was mostly on secondary data collection through various websites, journals and articles

2. LITERATURE REVIEW:

- **Ray Barrell and Omiama G. Hassan (2021)** In order to identify the issue, the author analyses the research and considers how much banks' ratings represent their qualities and how the accounting data explains those traits. By employing samples from the US and UK, the author used descriptive research to describe the study. The research is assessed using statistical methods like correlation matrices and regression outcomes. The results demonstrated the model's effectiveness, which assisted 74–78% of institutions in giving accurate credit ratings. The banks were given different ratings, with the top-rated banks receiving higher ratings than the lowest-rated institutions.
- In his study, Awareness of Credit Score Mechanism in India, **researcher S. Sankaramuthukumar** claims that this study aids in determining the extent to which people are aware of their credit scores, which is further useful to gauge the significant relationship between respondents' income and their responses. This type of awareness might provide the respondents with a wealth of information and strategies to improve their credit scores.

- **Stephen E. Lynch (2020)** The author outlined the foundations of credit rating organizations and the significant role they play in the information flow for investments. The author analyzed how credit rating agencies impact the capital market and investment strategy. He gave an explanation of how private contractual parties use credit rating information.Finally, the author has emphasized the importance of the credit rating sector in the capital market as well as the challenges the sector faces under the existing regulatory framework.

- **White (2020).** However, during the time of recovery from any financial crisis, such as the crises reported in 2008 and 2016, or non-financial crises, such as pandemics, independent agencies (CRAs) review borrowers for their creditworthiness saw increased attention. Following such a catastrophe, there is increased global scrutiny of all financial transactions. During this time, the financial sectors saw the introduction and intrusion of third-party assessors. Financial institutions take on a significant amount of responsibility for economic growth during the recovery from the collapse brought on by the COVID-19 epidemic by offering financial support, inclusion, and help. The phrase of the moment is "client creditworthiness," and it will play a key role in determining the degree of credit risk in successful financial transactions.

- **Marwan Elkhoury (2020);** The knowledge gap in the global financial system was explored by the author. using both qualitative and quantitative methodologies as assessment processes and techniques. Author detailed Standard & Poor's methodology profile. Both the developed and developing markets are explained by the factors that affect credit ratings. The author individually addressed the two other varying topics. Both the structure of exports and international interest rates have grown.

- **Ash-Sharee Al-khawaldeh 2.1.5 (2021)** Regression analysis and other statistical methods were used by the authors to assess the hypothesis after reviewing several studies. According to the research, there is no empirical proof that the link between the capital intensity and credit rating of the Jordanian listed firm is based on bivariate or multivariate analysis. According to the study's findings, even size and future development potential are linked to favorable, high credit ratings.

- **the Iyengar (2021).** In today's digitally transformed world, technology has emerged as the most powerful force. With the advent of digitalization, CRAs can now evaluate credit more quickly and determine a client's or instrument's creditworthiness. These submissions demonstrate the relevance of researching the operation and contributions of CRAs. Instead of creating a completely new system, we advise using a hybrid model that is based on current models. To generate credit rates and scores for its consumers, CRAs might concentrate on creating a composite credit-rating model that takes into account the most possible elements.

3. DATA ANLAYSIS AND INTERPRETATION:

Following are the data analysis of 2 companies of India given by credit rating agency CRISIL for the year 2021-2022.

1.Prime Ispat Limited

Rating Action

Total Bank Loan Facilities Rated	Rs.60 Crore
Long Term Rating	CRISIL BBB-/Stable (Reaffirmed)
Short Term Rating	CRISIL A3 (Reaffirmed)

Detailed Rationale

CRISIL Ratings has reaffirmed its 'CRISIL BBB-/Stable/CRISIL A3' ratings on the bank facilities of Prime Ispat Limited (PIL).

The ratings continue to reflect extensive experience of promoters in the steel industry, established relationship with customers, healthy financial risk profile and efficient working capital management. These strengths are partially offset by exposure to intense competition, low profitability and susceptibility to cyclicality and price volatility in the steel industry.

Analytical Approach

Unsecured loans from promoters (Rs 10 crore as on March 31, 2021) have been treated as neither debt nor equity (NDNE) as these are expected to remain in the business for the medium term.

Liquidity Adequate

Liquidity is adequate with cash accruals expected of Rs 7.5-10 crore in fiscal 2022 and fiscal 2021, against repayment obligation of around Rs 4.4 crore and Rs 5 crore, respectively. PIL's fund-based bank limits of Rs 38 crore were 73% utilized on average over the past 12 months through September 2021. Cash and cash equivalents were of Rs 3.2 crore as on March 31, 2021. Support from promoters in the form of unsecured loans provides further liquidity support. CRISIL Ratings expects cash accrual, cushion in bank lines and cash and cash equivalents to be sufficient to meet its repayment obligations and incremental working capital requirements.

Outlook Stable

CRISIL Ratings believes that PIL shall continue to benefit from the extensive experience of its promoters, established relationship with customers and healthy financial risk profile.

Rating Sensitivity factors

Upward factor

Improvement in scale of operations and profitability leading to cash accruals of more than Rs 12 crore thereby resulting in additional liquidity cushion

Sustenance of financial profile with gearing below 1 time

Downward factor

Significant decline in revenue or profitability because of lower volumes or realizations or high input costs leading to cash accrual of less than Rs 5 crore

Stretch in working capital cycle or large debt funded capex impacting the financial risk profile

Key Financial Indicators

As on/for the period ended March 31	Unit	2021*	2020
Operating income	Rs.Crore	339.5	394.6
Reported profit after tax	Rs.Crore	0.84	1.89
PAT margins	%	0.25	0.48
Adjusted Debt/Adjusted Networth	Times	0.54	0.55
Interest coverage	Times	2.53	2.28

2.HDFC ltd

Rating Action

Rs.75000 Crore Non Convertible Debentures	**CRISIL AAA/Stable (Assigned)**
Fixed Deposits	**CRISIL AAA/Stable (Reaffirmed)**
Rs.4.2 Crore Bond	**CRISIL AAA/Stable (Withdrawn)**
Rs.75000 Crore Non Convertible Debentures	**CRISIL AAA/Stable (Reaffirmed)**
Non Convertible Debentures Aggregating Rs.144463 Crore (Reduced from Rs. 161848 Crore)	**CRISIL AAA/Stable (Reaffirmed)**
Rs.3693 Crore Non Convertible Debentures[&]	**CRISIL AAA/Stable (Reaffirmed)**
Rs.75000 Crore Commercial Paper	**CRISIL A1+ (Reaffirmed)**
Subordinated Debt Aggregating Rs.3000 Crore	**CRISIL AAA/Stable (Reaffirmed)**

Detailed Rationale

CRISIL Ratings has assigned its 'CRISIL AAA/Stable' rating to the Rs 75,000 crore non-convertible debentures (NCDs) of Housing Development Finance Corporation Limited (HDFC). The ratings on the other debt instruments and fixed deposits have been reaffirmed at 'CRISIL AAA/Stable/CRISIL A1+. CRISIL Ratings has also withdrawn its rating on Rs 17,385 crore NCDs and Rs 4.2 crore (refer annexure detail of rating withdrawn table) bonds given redemption of the same. CRISIL Ratings has received confirmation of redemption from the trustee. The same is in line with the withdrawal policy of CRISIL Ratings.

CRISIL Ratings has taken note of the composite scheme of amalgamation of HDFC into HDFC Bank Ltd (HDFC Bank), as announced by both the companies on April 4, 2022. The scheme has received, so far, ‘no objection’ from stock exchanges (BSE & NSE), Pension Fund Regulatory and Development Authority (PFRDA), Reserve Bank of India (RBI) and approval from the Competition Commission of India (CCI) and now awaits various other regulatory, creditors and shareholders’ approval. CRISIL Ratings will continue to monitor the progress on the announced amalgamation.

The ratings continue to factor in the leading market position and sound track record of HDFC in the housing finance business, its healthy asset quality, diversified and stable resource profile and a strong financial risk profile. These strengths are partially offset by exposure to intense competition in the housing finance segment.

Analytical Approach

CRISIL Ratings has consolidated the business and financial risk profiles of HDFC and its subsidiaries and associates. CRISIL Ratings expects that managerial and financial support will be extended to these subsidiaries, given their strategic importance, majority shareholding and shared brand.

Liquidity: Superior

Given the longer tenure on the asset side, the asset-liability maturity profile as on March 31, 2022 had mismatches in a few buckets. As on September 30, 2022, debt repayments (assuming no CP rollovers) for the next three months were Rs 51,187 crore (of which Rs 19,415 crore is towards CPs). Against this, liquidity of around Rs 42,832 crore was available via bank balances, liquid fund schemes of mutual funds, deposits with banks, and investments in government securities. Further cushion is provided by refinancing available from National Housing Bank (NHB), flexibility to securitise loan assets and the adequate flow of monthly collections. Unaccounted gains of listed equity, including the Corporation's subsidiary and associate companies, stood at Rs 2.46 lakh crore as on September 30, 2022.

Outlook: Stable

HDFC should maintain its robust credit risk profile over the medium term, backed by healthy asset quality and a strong financial risk profile. Strong franchise and fundamentals should enable the company to maintain its competitive position, thereby supporting current ratings.

Rating Sensitivity factors

Downward factors

- Deterioration in asset quality with GS3 ratio of over 3% on a steady-state basis, thereby impacting profitability

- Weakening of capital structure with a significant increase in gearing.

Key Financial Indicators

As on/For the nine months ended December 31,	Unit	2022	2021	2022	2021
		Standalone		Consolidated	
Total assets	Rs.Crore	**6,40,862**	**5,69,599**	**9,66,349**	**8,29,355**
Total income (net of interest expense)	Rs.Crore	21,251	21,251	21,251	21,251
PAT	Rs.Crore	**13,742**	**12,027**	**24,042**	**20,488**
Gross stage 3 assets	%	**2.3**	**2.3**	**NA**	**NA**
Adjusted gearing	**Times**	**4.9**	**4.7**	**NA**	**NA**
RoA	%	**2.3**	**2.2**	**2.7**	**2.6**

4.FINDINGS, SUGGESTIONS AND CONCLUSION:

Findings

- CRISIL Ratings believes that PIL shall continue to benefit from the extensive experience of its promoters, established relationship with customers and healthy financial risk profile.
- HDFC should maintain its robust credit risk profile over the medium term, backed by healthy asset quality and a strong financial risk profile. Strong franchise and fundamentals should enable the company to maintain its competitive position, thereby supporting current ratings.
- The initiative makes it very evident that the investor is ignorant of and unconcerned with credit rating agencies.
- They are unaware of the services provided by credit rating organizations and their part in determining debt and equity ratings.
- The majority of investors don't base their decisions on the instrument's rating from credit rating agencies.
- Only a small number of Brokers take into account the rating assigned to the instrument by the various rating agencies when rating any investment choice in any financial instrument.
- Brokers who are familiar with credit rating agencies are also familiar with "Multiply Credit Rating" and "Sovereign Rating."
- Most brokers only understand sovereign ratings and multiple credit ratings; they are unaware of whether or not these factors contribute to the expansion of the capital market.
- The majority of Brokers believe that a country's rating has a significant influence on its economy and stock market, whether it moves up or down.

Suggestions

- The CRA should use confidential information only for purposes related to its rating activities or otherwise in accordance with any confidentiality agreements with the issuer.
- CRA employees should take all reasonable measures to protect all property and records belonging to or in possession of the CRA from fraud, theft or misuse.
- CRA employees should be prohibited from engaging in transactions in securities when they possess confidential information concerning the issuer of such security.

conclusion

To provide fair recommendations, ICRA maintains complete independence from market players. The Earnings Prospects and Risk Analysis (EPRA) suite of services, which include Stock Grading and Equity Assessment, was launched by ICRA for the benefit of equity investors and brokers. The services offer accurate data on the relative value of equity in various corporations about their earnings prospects and the risks associated with those earnings prospects. The CRA should adopt policies and safeguards to protect the confidentiality of information shared with them by issuers under a confidentiality agreement or in any other situation where there is a shared understanding that the information is shared confidentially. The CRA and its employees should refrain from disclosing confidential information in press releases, through research conferences, to potential employers, in conversations with investors, other issuers, other people, or in any other manner, unless expressly permitted by the confidentiality agreement and under applicable laws or regulations. In compliance with any confidentiality agreements with the issuer, the CRA shall only utilize confidential material in connection with its rating operations.

References:

1. Vasant Desai CREDIT RATING: AN INTRODUCTION Ch. Credit Rating Institution quoted from the book The Indian Financial System Himalya Publication House Delhi second edition 1997.p375-378
2. V.K. Bhalla Definition and Evolution of CRA Ch. Credit Rating quoted from the book Investment Management S. Chand and Co. Ltd. New Delhi Eighth edition 2001.p 132-133
3. Editor's views SEBI proposes `corporate governance rating' soon — In touch with CRISIL, ICRA BUSINESS LINE Friday, Aug 30, 2002
4. V.K. Bhalla Type of credit rating Ch. Credit Rating quoted from the book Investment Management S. Chand and Co. Ltd. New Delhi Eighth edition 2001.p137
5. Sumitra chaudhary Sovereign Rating Titled Fiscal Stress And Rating Views The fallacy that debt does not matter edit and column financial express Monday feb.2003
6. Editor's views Compulsory Rating Titled outlook a notch up The economic times India Mumbai bureau 24Tuesday 2004.p1
7. Muthukumar India Inc moves towards better governance The economic times chandigarh. Thursday 19 august 2004p4.
8. V.K. Bhalla Credit Rating agency in India Ch. Security Credit Rating quoted from the book Investment Management S. Chand and Co. Ltd. New Delhi Eighth edition 2001.p 133-134
9. M Y Khan CRISIL Ch. rating quoted from the book Financial service Tata McGraw Hill Publishing Company Limited New Delhi sixth edition 2003.p16.7-16.16.
10. Editor's views Crisil composite performance rankings Crisil / business standard Mumbai May 5, 2004.
11. Websites, Companies annual reports
12. Websites of ministry of corporate app (mca.gov.in), RBI (rbi.org.in) etc.,
13. https://www.crisilratings.com/mnt/winshare/Ratings/RatingList/RatingDocs/HDFCCredilaFinancialServicesLimited_April%2028,%202023_RR_318191.html
14. https://www.crisil.com/mnt/winshare/Ratings/RatingList/RatingDocs/PrimeIspatLimited_October%2027,%202021_RR_279990.html
15. Criteria Details of HDFC ltd

    Links to related criteria

    a. Rating Criteria for Finance Companies
    b. CRISILs criteria for rating fixed deposit programmes
    c. CRISILs Criteria for rating short term debt
    d. CRISILs Criteria for Consolidation

16. Criteria Details of Prime Ispat Limited

    Links to related criteria

    a. CRISILs Approach to Financial Ratios
    b. Rating criteria for manufaturing and service sector companies
    c. CRISILs Bank Loan Ratings - process, scale and default recognition
    d. CRISILs Approach to Recognising Default
    e. CRISILs Criteria for rating short term debt
    f. Understanding CRISILs Ratings and Rating Scales

Books:

Mamta Aurora (2003), Credit Rating in India – institutions, Methods and evaluation, New century publications, Delh