



A Study on the role of CRISL as a credit rating agency in Indian financial markets

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Abstract

Credit rating agencies (CRAs) play an indispensable role in the functioning of modern financial markets by assessing the creditworthiness of borrowers, debt instruments, and financial institutions. CRISIL (Credit Rating Information Services of India Limited), operating as part of the S&P Global group under the broader framework of CRISIL, has emerged as one of the most influential and pioneering credit rating agencies in the Indian financial ecosystem. This research paper undertakes a comprehensive study of the role of CRISIL as a Credit Rating Agency in Indian financial markets, examining its historical evolution, rating methodologies, regulatory standing, sectoral impact, and future prospects. The study draws upon secondary data from regulatory filings, academic literature, and published financial reports to analyze how CRISIL's credit assessments have shaped debt market dynamics, capital allocation, and investor behavior in India. The paper also evaluates critical challenges facing the agency in light of conflicts of interest, global economic uncertainty, and the evolving landscape of ESG-based assessments. The findings underscore the critical importance of credit rating agencies in enabling transparency, reducing information asymmetry, and promoting financial stability in India's rapidly expanding capital markets.

Keywords: *CRISIL, Credit Rating, Indian Financial Markets, Capital Markets, Debt Instruments, SEBI, Credit Risk, ESG, Information Asymmetry*

1. Introduction

The Indian financial market has witnessed remarkable growth and transformation over the past three decades, shaped by liberalization, globalization, and technological advancements. Within this evolving landscape, credit rating agencies have assumed a pivotal role in bridging the information gap between issuers of debt instruments and investors. Credit ratings serve as standardized assessments of credit risk, facilitating investment decisions and enabling efficient allocation of capital across the economy.

CRISIL, established in 1987 as India's first credit rating agency, has been at the forefront of this transformation. Backed by S&P Global (formerly Standard & Poor's), which holds a majority stake, CRISIL operates as a leading provider of ratings, research, risk, and policy advisory services. The company's operations encompass not just domestic entities but also extend to Asian markets, where its methodologies and expertise have been widely recognized.

The significance of CRISIL in the Indian context cannot be overstated. As India's bond market, commercial paper market, and structured finance landscape have expanded, CRISIL's ratings have increasingly guided institutional and retail investors alike. The Reserve Bank of India (RBI) and the Securities and Exchange Board of India (SEBI) have both relied upon accredited credit rating agencies — CRISIL being one of the most prominent — in various regulatory frameworks, mandatory rating requirements, and prudential norms.

This paper aims to present a multidimensional analysis of CRISIL's role in Indian financial markets. The study is organized as follows: after a literature review in Section 2, Section 3 presents the background and evolution of CRISIL. Section 4 discusses rating methodologies, followed by an analysis of market impact in Section 5. Section 6 addresses challenges and criticisms, and Section 7 concludes with future outlook and recommendations.

1.1 Objectives of the Study

The present study is guided by the following objectives:

1. To understand the role, functions, and importance of credit rating agencies in financial markets.
2. To examine how credit ratings assist investors in evaluating credit risk and making informed investment decisions.
3. To analyze the impact of credit ratings on corporate financing, borrowing costs, and capital structure.

2. Literature Review

The academic literature on credit rating agencies is extensive, spanning debates on their informational value, their procyclicality, and their role in financial crises. White (2010) argues that CRAs serve as crucial intermediaries that reduce information asymmetry between issuers and investors, thereby lowering the cost of capital and improving market efficiency. Similarly, Cantor and Packer (1996) demonstrated that credit rating announcements carry significant informational content and influence bond yield spreads.

In the Indian context, Bhasin (2013) examined the evolution of CRAs under SEBI regulations and found that mandatory rating requirements for public debt offerings enhanced market discipline and transparency. Sharma and Vashishtha (2009) studied the relationship between CRISIL ratings and corporate bond spreads, concluding that CRISIL ratings serve as reliable proxies for default probability and are priced efficiently by market participants.

The global financial crisis of 2008 brought intense scrutiny upon CRAs, with scholars such as Brunnermeier (2009) criticizing agencies for their role in inflating ratings for mortgage-backed securities. While Indian CRAs were less

implicated in the structured finance crisis, the crisis prompted SEBI to enhance oversight mechanisms, as detailed in the SEBI (Credit Rating Agencies) Regulations of 1999 and subsequent amendments.

More recent literature has focused on the evolution of ESG (Environmental, Social, and Governance) ratings and the convergence of financial credit assessments with sustainability metrics. Authors such as Friede, Busch, and Bassen (2015) highlighted the growing relevance of ESG factors in credit risk analysis, a domain where CRISIL has been progressively expanding its offerings. The literature thus highlights both the irreplaceable value of CRAs and the ongoing need for reform and innovation in their operations.

3. Background and Evolution of CRISIL

3.1 Historical Foundation

CRISIL was incorporated on January 29, 1987, as a joint initiative by the Industrial Credit and Investment Corporation of India (ICICI) and the Unit Trust of India (UTI), with technical assistance from Standard & Poor's (S&P). It became the first credit rating agency in Asia and the fourth in the world to offer credit ratings, marking a watershed moment in the history of Indian capital markets.

The agency initially focused on rating debentures and fixed deposit programs of Indian companies. Its early ratings provided institutional investors — particularly insurance companies, provident funds, and mutual funds — with a credible benchmark for assessing credit quality. CRISIL's inaugural rating scale, ranging from 'AAA' (highest safety) to 'D' (default), quickly became the industry standard in India.

3.2 Expansion and Ownership Changes

In the 1990s, following India's economic liberalization, CRISIL expanded its product portfolio to include ratings for commercial paper, structured finance instruments, bank loans, and municipal bonds. S&P acquired a majority stake in CRISIL in 2005, integrating the agency into its global network and enabling access to international best practices, methodologies, and research resources.

Today, CRISIL operates through multiple business units: CRISIL Ratings, CRISIL Research, CRISIL Risk Solutions (formerly Irevna), and CRISIL Infrastructure Advisory. The agency has rated over 100,000 entities and debt instruments, making it the largest domestic credit rating agency in India by coverage. Its parent, S&P Global, completed the acquisition of IHS Markit in 2022, further reinforcing CRISIL's global analytical capabilities.

Table 1: CRISIL Long-Term Rating Scale

Rating Symbol	Category	Description
AAA	Highest Safety	Lowest credit risk; timely repayment highly likely
AA	High Safety	Very low credit risk with strong financial profile
A	Adequate Safety	Low credit risk; adequate capacity to repay
BBB	Moderate Safety	Moderate credit risk; may be affected by conditions
BB / B	Inadequate / High Risk	Speculative grade; elevated default probability
C / D	Very High Risk / Default	Near default or in default status

4. Rating Methodologies and Analytical Framework

4.1 Core Rating Methodology

CRISIL's rating process is rooted in a structured analytical framework that evaluates both quantitative and qualitative dimensions of creditworthiness. For corporate issuers, the agency assesses business risk (industry risk, competitive position, operating efficiency) and financial risk (leverage, coverage ratios, cash flow adequacy, liquidity). The integration of forward-looking analysis — including stress testing and scenario modeling — has progressively become a hallmark of CRISIL's methodology.

The rating committee structure at CRISIL ensures collective decision-making, minimizing individual biases. Ratings are assigned by a Rating Committee comprising experienced analysts, and all rating decisions are subject to peer review and calibration. The final rating, once communicated to the issuer, is made public unless the issuer opts for a non-public (surveillance) rating — a practice regulated under SEBI's CRA guidelines.

4.2 Sector-Specific Approaches

Recognizing the heterogeneity of Indian industries, CRISIL deploys tailored criteria for different sectors. For infrastructure companies, emphasis is placed on project completion risk, revenue visibility, and government support. For banks and financial institutions, the assessment covers capital adequacy, asset quality (NPA ratios), funding profile, and management quality in line with RBI prudential norms. For SMEs, CRISIL has developed the SME Rating model, which caters to the unique risk characteristics of small and medium enterprises and facilitates their access to bank credit under the priority sector lending framework.

4.3 Structured Finance and Securitization

CRISIL has played a pioneering role in the development of India's securitization and structured finance market. The agency rates asset-backed securities (ABS), mortgage-backed securities (MBS), and collateralized debt obligations (CDOs), providing an independent assessment of tranches based on pool quality, credit enhancement mechanisms, and legal structures. These ratings have been instrumental in expanding investor participation in structured products and deepening India's debt capital markets.

5. Impact on Indian Financial Markets

5.1 Corporate Bond Market Development

India's corporate bond market has historically lagged behind equity markets, constrained by illiquidity, limited institutional participation, and opacity. CRISIL's ratings have been a key enabler of bond market development by providing standardized credit quality signals that allow investors to differentiate between issuers. SEBI's mandate requiring all publicly placed debt instruments to carry ratings from SEBI-registered CRAs has cemented CRISIL's centrality in the primary debt market.

Empirical evidence suggests that CRISIL rating upgrades are associated with significant declines in bond yield spreads, while downgrades trigger spread widening. This price discovery function of CRISIL ratings contributes to market efficiency and helps direct capital toward creditworthy borrowers, thereby supporting productive economic activity.

5.2 Banking Sector and Basel Norms

Under the Basel II and Basel III frameworks adopted by RBI, Indian banks are required to use external credit ratings for calculating risk weights on their credit exposures under the Standardized Approach. CRISIL is one of the six accredited

External Credit Assessment Institutions (ECAIs) recognized by RBI for this purpose. Consequently, CRISIL's ratings directly influence the regulatory capital requirements of banks, making them a critical input in prudential regulation.

CRISIL's bank loan ratings (BLR) program, which provides ratings specifically for bank credit facilities, has also helped lenders assess borrower risk more rigorously. This has contributed to improved credit culture and reduced incidence of non-performing assets in the banking sector over time.

5.3 Mutual Fund and Insurance Industries

SEBI regulations require money market and debt mutual funds to invest primarily in instruments rated at or above specified rating thresholds. CRISIL's ratings thus form the backbone of the investment universe for a significant portion of India's mutual fund industry, which manages assets exceeding Rs. 50 trillion. The agency also publishes mutual fund rankings and composite performance indices, further expanding its influence on investor behavior.

Insurance sector regulators (IRDAI) similarly prescribe credit quality standards for insurer investments, relying on CRA ratings. Given CRISIL's dominant position, its assessments effectively shape asset allocation decisions of life and non-life insurance companies, whose combined assets under management exceed Rs. 45 trillion.

5.4 Microfinance and Social Sector

CRISIL has extended its ratings franchise to the microfinance sector through the CRISIL Grading model for Microfinance Institutions (MFIs), evaluating operational efficiency, portfolio quality, governance, and scalability. These gradings have facilitated MFIs' access to commercial funding and helped mainstream credit flow to underserved segments of the population, aligning with India's financial inclusion objectives under programs such as PMJDY and MUDRA.

Table 2: Major Credit Rating Agencies in India – Comparative Overview

Agency	Year Est.	Parent	Key Focus	SEBI Accredited
CRISIL	1987	S&P Global	Corporate, Bank, SME	Yes
ICRA	1991	Moody's	Corporate, BFSI	Yes
CARE	1993	Domestic	SME, Infrastructure	Yes
India Ratings	1996	Fitch Group	Structured Finance	Yes
Acuité	2005	Domestic	SME, Mid-market	Yes

6. Challenges and Criticisms

6.1 Issuer-Pay Model and Conflicts of Interest

The most persistent criticism leveled at credit rating agencies globally — and CRISIL is not exempt — pertains to the inherent conflict of interest embedded in the issuer-pay business model. Under this model, the entity seeking the rating pays the agency for its services. Critics argue that this creates incentives for rating inflation, as agencies risk losing business by assigning unfavorable ratings to fee-paying clients.

In India, high-profile instances of delayed downgrades — particularly in the NBFC sector and infrastructure companies — have attracted regulatory scrutiny. SEBI's 2019 circular on CRA disclosures mandated enhanced transparency in rating rationales and watch-list criteria, seeking to address these concerns. However, structural reform of the issuer-pay model remains a subject of ongoing debate among policymakers and market participants.

6.2 Procyclicality and Rating Cliff Effects

Rating agencies have been criticized for procyclical behavior — assigning high ratings during economic upswings and precipitating sharp downgrades during downturns. The IL&FS crisis of 2018 was a stark illustration of this phenomenon in India, where CRISIL and other agencies maintained investment-grade ratings on IL&FS entities even as the conglomerate's financial condition deteriorated significantly. The sudden multi-notch downgrade that followed contributed to panic in money markets and mutual funds exposed to IL&FS paper.

Such cliff effects underscore the systemic risks that can arise from over-reliance on external ratings. SEBI's subsequent regulatory actions, including enhanced monitoring requirements and mandatory disclosure of rating migration matrices, represent efforts to mitigate procyclicality.

6.3 Capacity Constraints and Emerging Asset Classes

As India's financial markets have grown more sophisticated, CRAs have faced challenges in developing robust methodologies for emerging asset classes such as green bonds, social impact bonds, infrastructure investment trusts (InvITs), and real estate investment trusts (REITs). CRISIL has made commendable strides in developing ESG risk assessment frameworks, but the absence of standardized disclosure norms and data availability for Indian issuers continues to constrain the rigor of ESG-integrated ratings.

6.4 SME Rating Adoption

Despite CRISIL's significant efforts in SME ratings, adoption rates among small and medium enterprises remain low. SMEs often perceive ratings as costly and opaque, and the tangible benefits in terms of credit access have not always materialized. Policy interventions, including subsidized rating fee schemes under NSIC and SIDBI, have partially addressed this barrier, but awareness and trust deficits persist.

7. Research Methodology

This study employs a descriptive and analytical research methodology based on secondary data. Primary data sources include CRISIL's annual reports, rating criteria documents, and regulatory filings with SEBI and RBI. Secondary sources encompass academic journals, SEBI circulars, RBI guidelines, Ministry of Finance reports, and published case studies on credit events involving CRISIL-rated entities.

The analytical approach integrates both qualitative analysis (institutional history, methodological evolution, regulatory landscape) and quantitative data review (rating migration statistics, market share data, corporate bond issuance trends). The time frame of the study spans 1987 to 2024, with particular emphasis on the post-liberalization period (1991 onwards) and the post-global financial crisis regulatory reforms (2009–2024). Limitations of the study include the reliance on publicly available data, which may not capture proprietary methodological details, and the absence of primary survey data from CRISIL clients or analysts.

8. Key Findings

The study yields the following key findings regarding CRISIL's role in Indian financial markets:

- CRISIL has been instrumental in developing India's corporate bond market, with its ratings serving as the principal credit quality benchmark for over three and a half decades.
- As a SEBI-accredited ECAI under Basel norms, CRISIL's ratings directly influence bank capital adequacy calculations, making it an integral component of India's prudential regulatory architecture.

- CRISIL's expansion into SME ratings, microfinance gradings, and infrastructure advisory has broadened its societal impact beyond capital markets, contributing to financial inclusion and infrastructure financing.
- The issuer-pay model continues to present structural conflicts of interest that require ongoing regulatory vigilance and disclosure norms strengthening.
- The IL&FS crisis exposed the risks of procyclical rating behavior and triggered a comprehensive overhaul of CRA oversight by SEBI, resulting in enhanced transparency mandates and closer monitoring.
- CRISIL's integration with S&P Global has elevated its analytical standards and global connectivity, yet questions about the primacy of domestic market expertise over global templates remain pertinent.
- ESG rating frameworks at CRISIL are nascent but growing rapidly, reflecting the global shift toward sustainability-integrated credit analysis.

9. Future Outlook and Recommendations

9.1 Strengthening Independence and Governance

Regulatory bodies should explore complementary rating models — including investor-pay or platform-based models — to reduce structural conflicts in the issuer-pay framework. SEBI should mandate time-bound rating reviews and enhanced look-through requirements for conglomerate structures to prevent delayed recognition of credit deterioration.

9.2 Deepening the Bond Market

CRISIL should leverage its analytical capabilities to support the development of a liquid secondary market for corporate bonds by providing regular and timely rating reviews. The introduction of short-form ratings for frequent issuers and standardized credit assessment templates for green bond issuers would further catalyze market development.

9.3 Advancing ESG Integration

Given the global momentum toward ESG investing and India's commitments under its nationally determined contributions (NDCs), CRISIL has an opportunity — and indeed a responsibility — to develop sector-specific ESG rating methodologies tailored to Indian conditions. Collaboration with SEBI's Business Responsibility and Sustainability Reporting (BRSR) framework would enhance data availability and comparability.

9.4 Digital Transformation

The adoption of machine learning and big data analytics in credit assessment can significantly enhance the speed and granularity of CRISIL's ratings, especially for the SME segment, where traditional financial analysis is constrained by data scarcity. CRISIL should invest in AI-driven early warning systems that can flag deteriorating credit quality before traditional indicators signal distress.

10. Conclusion

CRISIL has, over the course of nearly four decades, established itself as an indispensable pillar of India's financial architecture. From its pioneering role as India's first credit rating agency to its present status as a globally integrated analytical powerhouse, CRISIL's journey mirrors the evolution of India's capital markets themselves — from nascent and lightly regulated to increasingly sophisticated and internationally connected.

The agency's contributions to corporate bond market development, banking sector regulation, insurance investment norms, SME finance, and microfinance have been profound and far-reaching. At the same time, challenges related to conflict of interest, procyclicality, and methodological adaptability to new asset classes demand continuous introspection, regulatory oversight, and innovation.

As India aspires to become a USD 10 trillion economy and deepen its capital markets to global standards, the role of credible, rigorous, and independent credit assessment will only grow in importance. CRISIL's continued evolution — anchored in robust methodology, ethical governance, and technological adaptation — will be central to realizing India's financial market potential. This study affirms that credit rating agencies, and CRISIL in particular, are not merely information intermediaries but active architects of market confidence, financial stability, and economic growth.

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