CHAPTER – 6

FINDINGS, SUGGESTIONS AND CONCLUSION

6.1 INTRODUCTION

The Credit Rating has assumed an important place in modern and developed financial markets. It is a boon to the Companies as well as the Investors. The Investors are very much eager to understand the rating symbols assigned by the various Rating Agencies. The multiplicity of rating symbols are really confusing investors and hence they are not very keen to follow the rating and rating symbols assigned by the various Rating Agencies in India.

Based on the information and data collected and their analysis, some findings have been made. On the basis of the findings, some workable suggestions have also been developed. Having the findings and the suggestions, a conclusion has been arrived at. These three aspects form the contents of this chapter.

6.2 FINDINGS OF THE STUDY

The following are the major findings of the study;

6.2.1 Findings based on personal profile of the respondents

1. The highest number of respondents 32% is in the small investor category.
2. Majority of the respondents 29% educational qualification is higher secondary qualification.
3. Majority of the respondents 29% are in the age group of 30-40 years.
4. Majority of the respondents 74% of them are male investors.
6.2.2 Findings based on awareness of investors about credit rating

1. 56% of the respondents refer to credit rating for their investment decision.
2. 61% of the respondents stated that they search rating information by themselves.
3. About 31.8% of the respondents stated that credit rating is an indicator of credit risk.
4. 36% of the respondents consider company’s past five years performance record in addition to rating given by credit rating agencies.
5. 62.8% of the respondents opined that number of credit rating agencies in India is enough.
6. 37% of the respondents are dissatisfied with the ratings given by the agencies.
7. Majority of small investors 50.78% prefer risk free security as the source of investment, whereas only 9.38% of the small investors prefer moderate risk investment.
8. Majority of higher secondary qualified investors 44.83% prefer risk free security as the source of investment comparing to other qualified investors. Whereas, only 5.88% of Post graduate qualified investors prefer risk free investment.
9. Majority of investors 54.12% in the age group of 50-60 years prefer high risk investment. Whereas, only 6.52% of investors in the age group of 40-50 years prefer moderate risk investment.
10. Majority of female investors 53.33% prefer risk free investment. Whereas, only 11.43% of female investors prefer moderate risk investment.
11. Majority of small investors 50.78% prompt payment of interest and principal is the reason for considering credit rating. Whereas, only 10.28% of micro investors update information about the issuer is the reason for considering credit rating.
12. Majority of higher secondary qualified investors 50.86% credibility of issuers is the reason for considering the credit rating. Whereas, only 7.76% of higher secondary qualified investors update information about the issuer is the reason for considering credit rating.

13. Majority of investors 57.65% in the age group of 50-60 years stated that update information about the issuer is the reason for considering credit rating. Whereas, only 8.41% of investors in the age group of 20-30 years stated that credibility of issuers is the reason for considering the credit rating.

14. Majority of female investors 50.48% stated that prompt payment of interest and principal is the reason for considering credit rating. Whereas, only 8.57% of female investors stated that credibility of issuers is the reason for considering the credit rating.

15. Majority of micro investors 48.60% stated that concession in interest rate is the advantage to the issuers in getting credit rating. Whereas, only 6.74% of medium investors stated that reduced transaction cost is the advantage to the issuers in getting credit rating.

16. Majority of under graduate qualified investors 52.17% stated that concession in interest rate is the advantage to the issuers in getting credit rating. Whereas, only 8.70% of under graduate qualified investors stated that faster decision on the part of the investor is the advantage to the issuers in getting credit rating.

17. Majority of investors 63.53% in the age group of 50-60 years stated that getting adequate quantum of bank loan is the advantage to the issuers in getting credit rating. Whereas, only 5.88% of investors in the age group of 50-60 years stated that faster
decision on the part of the investor is the advantage to the issuers in getting credit rating.

18. Majority of female investors 50.48% stated that getting adequate quantum of bank loan is the advantage to the issuers in getting credit rating. Whereas, only 6.67% of female investors stated that faster decision on the part of the investor is the advantage to the issuers in getting credit rating.

19. Majority of large investors 61.84% prefer rating given by CRISIL. Whereas, only 6.25% of small investors prefer rating given by FITCH.

20. Majority of secondary qualified investors 61.68% prefer rating given by CRISIL. Whereas, only 6.54% of secondary qualified investors prefer rating given by FITCH.

21. Majority of investors 53.26% in the age group of 41-50 years prefer rating given by CRISIL. Whereas, only 7.06% of investors in the age group of 50-60 years prefer rating given by FITCH.

22. Majority of female investors 50.48% prefer rating given by CRISIL. Whereas, only 7.62% of female investors prefer rating given by FITCH.

23. Majority of medium investors 52.81% stated that getting advice on enterprise development and identification of risk is the purpose of credit rating. Whereas, only 6.58% of large investors stated that assurance about safety is the purpose of credit rating.

24. Majority of post graduate qualified investors 56.47% stated that getting advice on enterprise development and identification of risk is the purpose of credit rating. Whereas, only 7.61% of under graduate qualified investors stated that assurance about safety is the purpose of credit rating.
25. Majority of investors 67.39% in the age group of 41-50 years stated that getting advice on enterprise development and identification of risk is the purpose of credit rating. Whereas, only 5.43% of investors in the age group of 41-50 years stated that assurance about safety is the purpose of credit rating.

26. Majority of female investors 50.48% stated that getting advice on enterprise development and identification of risk is the purpose of credit rating. Whereas, only 10.48% of female investors stated that measure of credit risk is the purpose of credit rating.

27. Majority of micro investors 50.47% prefer bank term deposits and bonds for investment. Whereas, only 4.67% of micro investors prefer company fixed deposits and commercial paper for investment.

28. Majority of post graduate qualified investors 46.05% prefer bank term deposits and government securities for investment. Whereas, only 6.58% of post graduate qualified investors prefer company fixed deposits and commercial papers.

29. Majority of investors 52.94% in the age group of 51-60 years prefer company fixed deposits and debentures for investment. Whereas, only 5.61% of investors in the age group of 21-30 years prefer bank term deposits and government securities for investment.

30. Majority of female investors 50.48% prefer bank term deposits and government securities for investment. Whereas, only 9.49% of male investors prefer debentures, bank term deposits and government securities for investment.
31. Majority of small investors 50.78% got credit rating information through TV, friends and fellow companions. Whereas, only 7.48% of micro investors got credit rating information through prospectus and magazines.

32. Majority of post graduate qualified investors 54.12% got credit rating information through credit rating agency guides. Whereas, only 9.35% of secondary qualified investors got information through TV, friends and fellow companions.

33. Majority of investors 45.88% in the age group of 51 & above years got credit rating information through Newspaper and market source. Whereas, only 9.41% of investors in the age group of 51 & above years got credit rating information through credit rating agency guides.

34. Majority of female investors 53.33% got credit rating information through credit rating agency guides. Whereas, only 7.62% of female investors got credit rating information through prospectus and magazines.

35. There is a significant difference between the category of investors, education status, age and gender of investors and their risk preference. This means that risk preference of investors differs among the respondents of various groups.

36. There is a significant difference between the category of investors, education status, age and gender of investors and their reason for considering credit rating. This means that reason for considering credit rating of investors differs among the respondents of various groups.

37. There is a significant difference between the category of investors, education status, age and gender of investors and their perception towards the advantage of credit
rating to the issuers. This means that perception of investors towards the advantage of credit rating to the issuers differs among the respondents of various groups.

38. There is a significant difference between the category of investors, education status, age and gender of investors and their preference with respect to credit rating agency. This means that preference of credit rating agency of investors differs among the respondents of various groups.

39. There is a significant difference between the category of investors, education status, age and gender of investors and the purpose of credit rating. This means that perception of purpose of credit rating of investors differs among the respondents of various groups.

40. There is a significant difference between the category of investors, education status, age and gender of investors and their choice of investment. This means that choice of investment of investors differs among the respondents of various groups.

41. There is a significant difference between the category of investors, education status, age and gender of investors and their source of information about credit rating. This means that source of information of investors differs among the respondents of various groups.

### 6.2.3 Findings based on the credit rating and satisfaction level of investors

1. Micro investors rank first order satisfaction to practical utility of credit rating as per their secured mean score of 4.26. Whereas, large investors rank last order satisfaction to usefulness of research as per their secured mean score of 2.4.

2. Post graduate qualified investors rank first order satisfaction to surveillance of credit rating as per their secured mean score of 4.22. Whereas, secondary qualified investors
rank last order satisfaction to usefulness of research as per their secured mean score of 2.33.

3. Investors in the age group of 31–40 years rank first order satisfaction to quality analysis of credit rating as per their secured mean score of 4.21. Whereas, investors in the age group of 51 & above years rank last order satisfaction to usefulness of research as per their secured mean score of 2.25.

4. Female investors rank first order satisfaction to surveillance and practical utility of credit rating as per their secured mean score of 4.11. Whereas, female investors rank last order satisfaction to transparency of methodology as per their secured mean score of 2.46.

5. There is a significant variation among the category of investors with respect to the satisfaction level on credit rating attributes. This means that satisfaction level towards credit rating attributes differs among the respondents with various categories of investors.

6. There is a significant variation among the different levels of educational status of investors with respect to the satisfaction level on credit rating attributes. This means that satisfaction level towards credit rating attributes differs among the respondents with various categories of educational status.

7. There is a significant variation among the different age groups of investors with respect to the satisfaction level on credit rating attributes. This means that satisfaction level towards credit rating attributes differs among the respondents with various age groups.
8. There is a significant variation among the different gender groups of investors with respect to the satisfaction level on credit rating attributes. This means that satisfaction level towards credit rating attributes differs among the respondents with various gender groups.

6.2.4 Findings based on credit rating and its downgrade

1. Majority of medium investors 35.96% opined that 30-40% is the acceptable level of downgrade in rating. Whereas, only 6.58% of large investors opined that below 10% is the acceptable level of downgrade in rating.

2. Majority of under graduate qualified investors 28.26% opined that 20-30% is the acceptable level of downgrade in rating. Whereas, only 6.90% of higher secondary qualified investors opined that 40-50% is the acceptable level of downgrade in rating.

3. Majority of investors 45.88% in the age group of 51 & above years opined that 20-30% is the acceptable level of downgrade in rating. Whereas, only 5.88% of investors in the age group of 51 & above years opined that above 50% is the acceptable level of downgrade in rating.

4. Majority of female investors 49.52% opined that 20-30% is the acceptable level of downgrade in rating. Whereas, only 5.71% of female investors opined that 10-20% is the acceptable level of downgrade in rating.

5. Majority of micro investors 48.60% opined that economic sluggishness is the reason for downgrade in rating. Whereas, only 8.59% of small investors opined that economic sluggishness is the reason for downgrade in rating.

6. Majority of post graduate qualified investors 52.94% opined that economic sluggishness is the reason for downgrade in rating. Whereas, only 8.24% of post
graduate qualified investors opined that corporate mismanagement is the reason for down grade in rating.

7. Majority of investors 54.12% in the age group of 51 & above years opined that poor industry scenario is the reason for down grade in rating. Whereas, only 9.41% of investors in the age group of 51 & above years opined that rating agency’s inefficiency is the reason for down grade in rating.

8. Majority of female investors 54.29% opined that poor industry scenario is the reason for down grade in rating. Whereas, only 16.19% of female investors opined that rating agency’s inefficiency is the reason for down grade in rating.

9. There is a significant difference between the category of investors, education status, age and gender of investors and their acceptable level of down grade in rating. This means that acceptable level of down grade in rating differs among the respondents of various groups.

10. There is a significant difference between the category of investors, education status, age and gender of investors and their perception towards reasons for credit rating down grade. This means that perception of investors towards reasons for rating down grade differs among the respondents of various groups.

6.2.5 Findings based on Perception Score of the Respondents

1. Period of investment, satisfaction with ratings given by the agencies, education, percentage of investment in Fixed Deposits have positive effect on Perception Score. Whereas, income, age, savings and expected rate of return on investment have negative effect on perception score on Credit Rating and Credit Rating Agencies.
2. The respondents with more percentage of their savings invested in Fixed Deposits have higher perception score on Credit Rating and Credit Rating Agencies. Similarly respondents in the lower age group have higher perception Score on Credit Rating and Credit Rating Agencies than the respondents in the older age group.

3. 42% of the respondents of the Distributors group, think that ratings given by agencies really help investors, and their investment percentage in Fixed Deposits are lesser than other avenues of investment.

4. The cluster 2 respondents (Risk Takers Group) are almost in the same income and savings but predominantly invests in shares (more than 70% of their savings), but have moderate opinion on Credit Rating Agencies and also moderate percentage of the investors in this category think that ratings given by Credit Rating Agencies really help investors. But surprisingly, their investments in rated instruments are very low.

5. Most of the savings of the cluster 3 respondents are in no risk instruments like Post Office and Fixed Deposits (probably in Banks) which give fixed interest or constant returns. But only lesser percentage of them take decisions based on credit rating, and generally consider number of Credit Rating Agencies are enough for India, and satisfied with ratings given by the agencies, and divided in their opinion regarding Credit Rating Agencies helping investors in taking investment decisions (Secured group).

6.3 SUGGESTIONS OF THE STUDY

The following are the major suggestions of the study;
6.3.1 Suggestions to investors

1. Investors may rely on the ratings given by the agencies and they can even prefer moderate risk investment by which they can diversify their portfolio to certain extent.

2. Investors should ensure that the rating agencies are giving weight age to all four factors namely, credibility of the issuers, prompt payment schedule of interest and principal, reputation of the issuer and update information about the issuer while rating the issues.

3. Investors should understand the rating policy/methodology followed by the rating agency in rating a security. They should verify that whether the rating agency is getting undue advantage while rating a particular issue.

4. Investors before relying on the rating given by the rating agency, they should compare the rating with other rating agencies rating for the same issue to ensure that rating is similar at least to a certain extent.

5. Investors should understand that Credit Rating Agencies are intended to represent an assessment of relative quality, not an assessment of absolute default risk for any particular issuer.

6. Credit Rating Agencies publish their ratings only based on the information that are provided by the issuer and the information available about the issuer.

7. Downgrades are typically associated with further downgrades but upgrades are not necessarily associated with further upgrades.

8. Don't react only on the basis of appearances of the rating symbols. There are now dozens of rating agencies to choose from in various markets around the world. And most of them publish their long-term risk opinions using the same triple-A-through-C rating symbols that have been the market standard since John Moody introduced them in 1909. But
ratings are opinions about risk, not formulas. Accurate, forward-looking credit analysis cannot be mechanized. As an investor, you cannot assume that a given letter rating from different agencies indicates the same degree of credit risk.

9. Investors should treat rating opinions as anything but what they are, an independent opinion on the relative creditworthiness of a borrower or a debt issuance. Ratings should not be construed as implying a buy, sell or hold recommendation.

6.3.2 Suggestions to the credit rating agencies

1. As the investors’ satisfaction level is low towards usefulness of research and transparency of methodology of rating, the rating agency should give importance to the two factors at the time of rating an issue.

2. The agencies may continue in giving importance to practical utility, surveillance and quality of analysis of credit rating as these factors satisfies the investors at a good level.

3. As the investors’ state that the acceptable level of down grade is 20-30%, if an issue is down graded by above 30%, the agency should give the clear picture about the situation to the investors.

4. The investors are of in the opinion that economic sluggishness and poor industrial scenario are the two major factor leads to down grade of securities, the rating agencies should carefully analysis the two environment to rate the security properly.

5. Credit Rating Agencies are required to verify that the methodology for assigning credit assessments is rigorous, systematic, and continuous and subject to validation based on historical experience.

6. Rating agencies should make regular revision of borrowers’ creditworthiness at par with investors’ expectation.
7. Rating agencies should disclose their rating in time and they should be transparent in disclosing the rating.

8. Credit rating agencies must not only operate independently, objectively and qualitatively, it must also be perceived to issue independent, objective and high quality credit ratings, so that investors could really benefit by rating.

9. Credit Rating Agencies should react quickly to any changes in the environment with respect to the issuers.

10. Credit rating agencies should educate the investors’ on credit rating, so that the investors could understand the pros and cons of the rating.

11. Some of the rating agencies heavily depend on the audited financial statements and do very little to cross check from formal and informal sources. This is a lacuna on the part of the rating agencies. So, rating agencies apart from the financial statements they should collect other information through other sources also.

6.3.3 Suggestions to the issuers

1. Investors consider past five years performance of the issuer apart from the rating given by the agencies. So, the issuer should show consistent performance for a long period of time.

2. As majority of the investors expect higher safety than higher returns, the issuer should make prompt payment of interest and principal of the investors.

3. The issuer should provide up to date information to the rating agency for rating the instrument which is one the important expectation of the investors.

4. Economic sluggishness, poor industry scenario and corporate mismanagement are the leading factors that lead to down grade of the security as per the opinion of the investors. So, the issuer should take precautionary steps in forecasting the future economic
condition and industrial environment and should avoid the corporate mismanagement to build the reputation of the company. These precautionary steps will keep the down grade in rating at par with the acceptable level of the investors.

5. The issuer company senior management active participation is a prerequisite as that will create good image of the issuer among the investors.

6. The issuers in the same industry have to compete among themselves to get higher rating from the rating agencies.

6.3.4 Suggestions to the regulators

1. There must be standard definition of default, because, practices vary from agency to agency. So, there must e standardized and operational definition of default.

2. Comparability of ratings should be enabled, so that the investors can compare the ratings given by the different agencies. And the rating scales must be uploaded in the regulatory websites like SEBI, RBI, and IRDA.

3. The regulators should ensure that the registered rating agencies not engage in any other services other than ratings, whereby the agencies could concentrate only on rating the issues.

4. It is need of the hour to constitute an appeal committee to e involved in pre and post rating issues.

5. Public education on usage of rating is needed because there is a danger that ratings may e accepted blindly without a self check by the investors. So, the investors must be made fully aware of rating issues.

6. Most appropriate code of conduct for the credit rating agencies should be framed by the regulators to streamline the rating agencies.
7. All the registered rating agencies should be required to disclose publicly on their websites about their shareholding pattern and the names of the owners.

8. The credit rating agencies should be insisted to publish sufficient information about the assumptions underlying their rating methodologies.

6.4 CONCLUSION

The present research work has led to new insights in the field of credit rating with respect to various facts as mentioned below;

A credit rating is defined as an opinion of a credit rating agency as to the issuer’s i.e., borrower of money capacity to meet its financial obligations to the depositor i.e., lender of money on a particular issue in a timely manner through a simple symbol system like AAA to D. Broadly, ratings are divided by the Credit rating agencies into three levels, viz., investment grade, non investment and default grade. The investment grade is considered by credit rating agencies to be a significantly safer grade than the rest.

Firstly, a rating is specific to the issue that is rated. A rating is neither a general purpose evaluation nor overall assessment of credit risk associated in all debts contracted by an issuer. Secondly, it is not a recommendation to buy, hold or sell. It is an opinion, perhaps well informed opinion. Thirdly, they are not predictors of default but opinions about the relative probability of default and loss. Fourthly, ratings are not guarantees against losses. Finally, rating has no relationship to risk preferences of investors.

There are three main stakeholders in the credit rating, viz., issuer, investor and regulator. Each stakeholder expects some benefit. The issuer expects enhanced access to borrowed funds, by diversifying funding base across the globe. Investors utilize the rating to supplement their
own credit evaluation process. Investors without rating may find it difficult to access information and thus have made the regulators’ task less onerous.

There are number of criticisms have been leveled against credit ratings. It is necessary to recognize them and assess the validity of such criticisms. First, the issuers are the payers of issue, the independence of ratings becomes questionable. Second, credit rating agencies are not accountable for the ratings given by them. Third, it has been argued that credit ratings change infrequently since the rating agencies are unable to constantly monitor developments.

The primary objective of the Credit Rating Agencies should be protecting investors by providing them with objective, complete and timely information pertaining to borrowers and issuers in the capital market while ensuring the integrity of the rating procedure. To achieve this objective it is vital to maintain Credit Rating Agencies independence from issuers they serve. The Code provisions for Credit-Rating Agencies’ obligations before issuers have been developed to improve credit ratings and enhance their value for investors. These provisions should not be deemed as undermining Credit-Rating Agencies’ independence or its capability to give timely rating evaluations.

As far as the rating of Credit Rating Agencies is concerned, informed public opinion will be the touchstone on which the rating companies have to be assessed and the success of a rating agency should be measured by the quality of the services offered, consistency and integrity. So, the investors, issuers, rating agencies and the regulators may follow the suggestions made in this report to make the credit rating more meaningful and purposeful.
6.5 SCOPE FOR FUTURE RESEARCH

The present study is an attempt to examine the awareness and perception on individual
investors about Credit Rating and Credit Rating Agencies. The study also identified the most
popular Credit Rating Agency in India and the expectations of investors about Credit Rating. It
also stressed the investors’ education and the transparency as an important requirement for
Credit Rating. The area of study gives scope for further research which is outlined as follows:

- Credit Rating – A study from the point of view of issuer of debt instruments.
- Credit Rating – A study on instruments of Financial, Banking and Non-Banking Finance
  Companies.
- A comparative study on awareness of Credit Rating by Indian and Foreign investors.
- Equity Rating in India.
- Quantitative techniques in Credit Rating.
- A study on Sovereign Rating.