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A STUDY ON CREDIT RATING AGENCIES AND ITS IMPACT ON INVESTMENT DECISIONS

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ABSTRACT

Credit rating agencies (CRAs) are essential in minimizing information asymmetry between participants for lenders, investors, and issuers in the financial markets. Credit rating informs us of a country's population's capacity for borrowing money. There would be more new businesses when all the investors are regarded favorably. The study's objective is to understand credit rating agencies, their rating procedure, how credit rating impacts investor decisions, and awareness of credit rating agencies among investors. By evaluating the borrowers' creditworthiness, credit rating organizations were established to help investors make investment decisions. The study considered investor opinions through primary data. Statistical analysis like correlation, chi-square, and regression has been computed with the help of Jamovi and SPSS software. Finally, the study concluded that credit rating agencies positively impact investment decisions and investors are aware of the credit rating agencies.

I. INTRODUCTION

Due to growing activity in the Indian fintech markets, new enterprises choose established and new enterprises choose capital market funding in the post-reform era. Corporations create new instruments to get investors to invest in their issues. In addition, investors no longer judge borrowers' creditworthiness based on their names or scale. By evaluating the creditworthiness of the debtors, credit rating organizations have established their presence to assist investors in their investment strategies. A borrower's credit quality is evaluated through their credit rating. Credit ratings are merely a current indicator of the perceived ability of a borrowing company to pay off its debt commitments over the course of a specific time period and specifically with reference to the document being assessed. A greater credit rating suggests that the firm or organization is more likely to pay back the acquired funds because a credit score is an appraisal of a borrower's ability to repay. The rating symbols would be AAA, BBB, BA, D, etc. The Competence and commitment of a government, a business, or an individual organization to meet its financial obligations in full and by the stated due dates is the subject of a credit rating from a specific institution known as a credit rating agency. An individual investor finds learning about a company's creditworthiness very challenging because he lacks the time and expertise to conduct a risk analysis. Every investor wants to make sure that their money is safe, therefore this might be challenging. Credit rating agencies examine the company's financial standing before determining the risk of investing in different types of instruments.

THE OBJECTIVE OF THE STUDY

To Study investors' knowledge of credit rating firms and how they operate.

To Study the impact of credit ratings on equities market investors.

II. REVIEW OF LITERATURE

B. charumathi and Mangaiyarkarasi Thiagarajan (2017) evaluate the competition of six credit rating agencies namely, CRISIL, CARE, India credit rating and research, Brickwork rating, SMERA Ratings Limited, and ICRA. The services they provide are rating services, advisory services, and research services. CRISIL, ICRA, and CARE have more market share in India with 41.10%, 18.69%, and 24.82% respectively. In the market share as per outstanding securities, CRISIL stands top with 32%. A study of competition and its impact on the credit rating industry is essential for a smooth functioning capital market.

Ramdas Lad (2019) reviews the character, structure, performance, and functions of CRAs in India mainly CRISIL, CARE, ICRA, AND fitch. The researcher states various processes adopted by the above four CRAs for rating the credibility of the company and also the grades given y each of them in Page 28 of 80 terms of safety to the investors. The researcher also states the various limitations of CRAs and states there should be internal guidelines and they should be answerable for the rating they give.

Rajesh Mamilla, Mehul Mehta, Abhijay Shukla, and Piyush Agarwal (2019) analyze the variables like inflation rates, GDP, and exchange rates, and their impact on the credit rating of the company. The data collected is through secondary sources from the balance sheet 2012-2016. The analysis was conducted through measures of central tendency and descriptive statistics. It examines the fluctuation in economic factors which would affect the credit rating and insights regarding how to avoid downgrading of rating due to economic factors.

Dr. V. Venu Madhav (2021) review the factors which are responsible for credit risk. The researcher focuses on the literature review by understanding the CRAs and how they help in the economic development of the country. Based on different literature they concluded that if the credit history of an individual is good, he would be having a good credit score which would have a positive impact on the credit rating.

Prof. Ramesh N. Kamble (2012) aims to study the financial performance of the Indian CRAs with respect to indicators such as revenue, profit after tax, market capitalization, workers, dividends, and net worth. The data used in the research is the company balance sheet and the statistical method ANOVA is used to know the relationship between them and revealed that it has a positive significance of indicators and concluded that it is the rating factor the investors would consider in order to make right decisions to invest which are rated by the rating agencies.

III. DATA AND METHODOLOGY

The present study is analytical and descriptive in nature with the objective of studying investor's knowledge about credit rating agencies and their impact on equity market investors. The data used for the study is primary data which was collected from the equity investors through a standardized questionnaire. A sample of 100 responses has been taken for the study. The statistical analysis performed is ci-square, correlation, and regression. The software used for the analysis is Jamovi and SPSS.

IV. DATA ANALYSIS AND FINDINGS

4.1 H01: There is no significant influence of credit rating agencies on investment decisions.

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4.1.1 Chi-square

	Value	df	p
x^2	92.7	12	< .001
N	103		

4.1.2 Correlation Matrix

		When deciding the investment product to make long-term and short term investments, I consider credit ratings
I believe credit rating agencies play an important role in my investing decisions.	Pearson's r	0.638
	p-value	< .001

4.1.3 Regression analysis

Predictor	Estimate	SE	t	P
Intercept	0.848	0.390	2.18	0.032
When deciding the investment product to make long-term and short-term investments, I consider credit ratings	0.858	0.103	8.32	< .001

Interpretation: Since, the P value in chi-square, correlation, and regression is less than 0.001 which is less than 0.05 (0.001<0.05) we reject H0 and accept H1 saying that credit rating agencies influence the investors in their investing decisions.

4.2 H02: There is no significant awareness of the credit agencies among the investors.

H02: There is significant awareness of the credit agencies among the investors

4.2.1 Chi-square

	Value	Df	p
x^2	51.6	16	< .001
N	103		

4.2.2 Correlation Analysis

		Which statement best describes your knowledge of Credit rating agencies
I use sources like newspapers, company websites, or credit rating agencies website for information on credit ratings towards changes in ratings.	Pearson's r	0.538
	p-value	< .001

4.2.3 Regression analysis

Predictor	Estimate	SE	t	P
Intercept	1.318	0.3315	3.98	< .001
I use sources like newspapers, company websites, or credit rating agencies' website for information on credit ratings towards changes in ratings.	0.571	0.0890	6.42	< .001

Interpretation: Since, the P value in chi-square, correlation, and regression is less than 0.001 which is less than 0.05 (0.001<0.05) we reject H0 and accept H1 saying that there is significant awareness of the credit agencies among the investors.

V. CONCLUSION

An approved competent authority's credit rating provides a birds-eye perspective of an organization's and its instruments' financial strength. The three major foreign rating agencies, S&P, Moody's, and Fitch, which have large stakes in ICRA, India Rating, and CRISIL, respectively, have an impact on the Indian rating sector. The results state that most of the equity investors in the study are aware of credit rating agencies and credit rating agencies have a positive influence among investors in investment decisions. Investors may take reasonable risks and make sound investing selections. Credit ratings assist market regulators in fostering market stability and efficiency. Ratings improve market efficiency and transparency.

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