



A STUDY ON INDIVIDUAL INVESTORS' PERCEPTIONS OF CREDIT RATING AGENCIES IN INDIA, PARTICULARLY IN NAVI MUMBAI

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Abstract

The current study was done in the Navi Mumbai to examine individual investors' perceptions of credit rating agencies and their impact on credit ratings for instruments in particular. Only a few studies on the impact of credit ratings are known in India. The study's main goals are to learn about individual investors' perceptions of credit rating instruments offered by Indian credit rating agencies, and (ii) learn about investors' evaluations of Indian credit rating agencies' performance for Investment Purpose. The information needed for this study came from both primary (questionnaires) and secondary sources. For this study, 100 people respondents were chosen using the convenience sample approach. The impact of rating instruments, according to the respondents, has a significant impact on an investor's investment decision. To sum up, more research into the SEBI standards and the technique used by rating institutions could assist investors better understand the pattern of investing and how to mitigate risk through a better investment portfolio.

Keywords: Credit Rating Agencies, Investments & Investors' Perceptions

Introduction

Investment is defined as a financial commitment undertaken with the intention of a favourable return. If the investment is done correctly, the return will be proportional to the risk taken on by the investor. - Fisher & Jordon. Instead of keeping savings idle, an investor may choose to invest them in order to receive a return on their investment in the future. Investor protection is frequently based on credit ratings. Today, credit rating agencies have numerous potential to perform a distinctive role in bolstering the capital market and increasing investor trust in the financial system. With this in mind, the current research project aims to provide critical insights to Indian credit rating agencies in order to better understand and comprehend investors' attitudes in the current shifting environment. As a result, this study carefully examines investors' perceptions of credit rating agencies' performance.

Review of Literature

Bhattacharyya M (2009) attempted to examine the effectiveness of credit rating agencies in India, including CRISIL, ICRA, CARE, and FITCH, in his Study of Issuer Rating Service with an Appraisal of ICRA's Rating Model. The analysis relied on secondary data pertaining to long-term debt instruments from the years 2000 to 2008. This indicates that the ratings were skewed by the issuer. As a result, the authors recommend that strict approaches be

used to avoid frequent downgrades. An Empirical Analysis of Changes in Credit Rating Properties: Timeliness, Accuracy, and Volatility, by Mei Cheng and Monica Neamtiu (2009), noted that credit rating companies were under greater regulatory pressure and investor criticism for their lack of timeliness. The purpose of this study was to see if and how rating agencies react to such pressure and criticism. It was discovered that rating agencies improve not just rating timeliness, but also rating accuracy and minimise rating volatility. The Credit Rating Agencies and the Subprime Mess: Greedy, Ignorant, and Stress? Rom Mark Cart (2009) credit rating agencies were a key part of the subprime issue, according to the author. Incentives, ignorance, and stress were investigated as main suspects in the CRA's difficulties. The analysis found that all three variables were significant, that public officials were slow to respond, and that extra measures had been implemented to prevent future problems. The Economic Function of Credit Rating Agencies: What Does the Watch List Tell Us?, Christina E. Bannier and Christian W. Hirsch (2010). Using Moody's rating data from 1982 to 2004, the study examined the economic function underpinning credit rating agencies' review procedures. Credit rating organisations did not only reveal simple ratings, but also announced watch lists (rating reviews) and outlooks. This research discovered that rating agencies used watch lists for high-credit-

worth borrowers largely to improve information delivery. Emiliios C. Galariotis (2010) The Impact of Credit Rating Announcements on the Informational Efficiency of Credit Default Swap and Stock Markets, During the years 2000–2002, the study looked at how the stock and CDS markets responded to rating announcements from the three major rating agencies. According to the study, both markets anticipate not only rating downgrades, but also reviews for downgrade by all agencies. The credit rating role in the current financial system was examined by Venkateshwara Kumar K.S. and Hanumantha Rao S (2012) in their paper Credit Rating Role in Modern Financial System. The credit rating business in India was a sweet position since it was on the verge of explosive expansion thanks to the triggers. The Indian economy is experiencing a strong apex cycle, with decreasing corporate bond market penetration and regulatory pressure due to the adoption of Basel II requirements. According to the findings, the entities had a strong credit rating mechanism in place to ensure that the entity chain ran smoothly. Luitel, P., & Vanpée, R. (2021). The importance of a sovereign credit rating for a country's financial development is investigated in this study. We compare several characteristics of the financial sector and capital markets of recently rated nations with otherwise similar, but unrated countries after correcting for endogeneity and selection bias. We discovered that obtaining a sovereign credit rating modifies the mix of local banks' assets and leads to asset growth. With a sovereign rating, the government can access foreign bond markets instead of relying on bank financing. Banks then extend more credit to the private sector, resulting in a riskier credit portfolio and an increase in risk-weighted assets for the banks. A sovereign credit rating provision increases the weight of foreign currency bond offerings in overall bond issue activity by increasing the number of local currency bond issues. We also show that a sovereign credit rating promotes both FDI and portfolio investments from international investors. As a result, we believe that a sovereign credit rating provision is critical in facilitating a country's financial development. Mutize, M., & Nkhalamba, M. P. (2021). The perceptions, trends, and challenges of international rating agencies' influence on national economic affairs in African countries are examined in this study. According to a descriptive examination of independent studies on international sovereign credit ratings, a survey of the African Union's financial authorities, and conversations with the

three international credit rating agencies, there is dwindling faith in Africa's operations rating agencies. Despite critiques of credit rating agencies' techniques, operations, and regulation, the results suggest that they continue to be the greatest accessible source of trustworthy risk information for emerging economies seeking international funding. As a result, rating agencies' information-gathering and opinion-leading functions remain vital to capital flow and economic development. As a result, the study suggests that African countries take a multi-stakeholder approach to working with rating agencies to review methodologies, indicators, and the rating process, as traditional methods and indicators undervalue the potential of emerging economies, resulting in poor credit ratings. Basu, K., & Sun, H. (2022). The article looks into the sources of power and influence of organisations that rate and rank countries. Their authority and knowledge are perplexing, given that the economics profession is divided on what constitutes sound economic foundations. The study creates a model that indicates ratings can contribute to generating a focal point for investors, driving behaviour that makes the ratings come out right in retrospect, based on certain stylised information from the Ease of Doing Business rankings. The paper then discusses the model's real-world consequences, hypothetical expansions of the theory, and how the ability to establish focal points might be abused by rating and ranking companies.

Statement of the problem

CRISIL, ICRA, CARE, FITCH, and BRW are five key agencies in India that issue credit ratings to investors. The importance of these agencies' services in the Indian debt market cannot be overstated, especially given the significant increase in the number of Indian companies raising funds through long-term borrowings over the last decade, which was accompanied by an increase in the volume of debt instrument trade in India's secondary markets. Given the inefficiency of Indian financial markets, which is similar to that of most developing nations, their function becomes even more critical, as information relevant to establishing creditworthiness may not be publicly available. Investors around the world are closely monitoring rating withdrawals or lower ratings, as it signals caution to them. However, due to a lack of financial literacy, Indian investors do not place a high value on credit ratings. A considerable portion of investors do not know how to appropriately evaluate and analyse the information contained

in public financial statements, nor do they trust credit ratings. As a result, it's important to figure out what elements influence investors' investment decisions and how much credit rating influences those decisions. As a result, the current study has made a sincere effort to examine investors' perceptions of credit rating organisations' performance. The following research questions are investigated in this regard.

1. What has been the level of investor awareness of credit ratings?
2. What has been the investor reaction to credit rating firms' rating mechanisms and methodology in India?

Objectives of the study

1. To know the perception of the individual investors about credit rating instruments offered by Indian credit rating agencies.
2. To know the perception of investors towards application Indian credit rating for Investment decision

Hypothesis

H₀: The Knowledge on Rating Agencies, Knowledge on Rating Mechanism, and

Knowledge on Utility of Ratings does not significantly predicted Use of Credit rating before Investing.

Research Methodology

The investigation was conducted using the field survey approach. Data is gathered from both primary and secondary sources. The investors were asked to complete a well-structured questionnaire that elicited the relevant data and details. Secondary information was gathered from books, journals, magazines, and websites. To acquire the necessary data for this study, the researcher used a straightforward sampling strategy. For the study, 100 people were chosen. SPSS 21 was used to apply several statistical procedures such as Descriptive Statistics and Regression Analysis to the investigation.

Result & Discussion

Descriptive Statistics

Frequencies and Percentages

The most frequently observed category of Gender was Male ($n = 56, 56.00\%$). Frequencies and percentages are presented in Table 1.

Table 1: Frequency Table for Nominal Variables

Variable	<i>n</i>	%
Gender		
Male	56	56.00
Female	44	44.00
Missing	0	0.00

Note. Due to rounding errors, percentages may not equal 100%.

Table 2: Frequency Table for Nominal Variables

Variable	<i>n</i>	%
I have Knowledge on Rating Agencies		
Strongly Agree	40	40.00
Disagree	11	11.00
Neutral	16	16.00
Agree	33	33.00
Missing	0	0.00
I have Knowledge on Rating Mechanism		
Strongly Agree	39	39.00
Disagree	10	10.00
Neutral	17	17.00
Agree	34	34.00
Missing	0	0.00
I have Knowledge on Utility of Ratings		
Strongly Agree	45	45.00
Disagree	6	6.00
Neutral	26	26.00
Agree	23	23.00

Missing	0	0.00
I See Credit rating before Investing in the Instruments		
No	19	19.00
Yes	81	81.00
Missing	0	0.00
<i>Note.</i> Due to rounding errors, percentages may not equal 100%.		

The most frequently observed category of I have Knowledge on Rating Agencies was Strongly Agree ($n = 40, 40.00\%$). The most frequently observed category of I have Knowledge on Rating Mechanism was Strongly Agree ($n = 39, 39.00\%$). The most frequently observed category of I have Knowledge on Utility of Ratings was Strongly Agree ($n = 45, 45.00\%$). The most frequently observed category of I See Credit rating before Investing in the Instruments was Yes ($n = 81, 81.00\%$). Frequencies and percentages are presented in Table 2.

Hypothesis testing:

H_0 : The Knowledge on Rating Agencies, Knowledge on Rating Mechanism, and Knowledge on Utility of Ratings does not significantly predicted Use of Credit rating before Investing. A linear regression analysis was conducted to assess whether Knowledge on Rating Agencies, Knowledge on Rating Mechanism, and Knowledge on Utility of Ratings significantly predicted Use of Credit rating before Investing.

Results

The results of the linear regression model were significant, $F(3,96) = 50.94, p < .001, R^2 = .61$,

Table 3: Results for Linear Regression with Knowledge on Rating Agencies, Knowledge on Rating Mechanism, and Knowledge on Utility of Ratings predicting Use of Credit rating before Investing

Variable	B	SE	95.00% CI	β	t	p
(Intercept)	0.78	0.09	[0.61, 0.95]	0.00	8.92	< .001
Knowledge on Rating Agencies	0.11	0.03	[0.05, 0.18]	0.35	3.43	< .001
Knowledge on Rating Mechanism	0.12	0.03	[0.06, 0.17]	0.36	4.28	< .001
Knowledge on Utility of Ratings	0.05	0.03	[-0.006, 0.11]	0.18	1.78	.079

Conclusion

The goal of this study is to examine investors' perceptions of credit rating agencies, which includes a Knowledge on Rating Agencies, Knowledge on Rating Mechanism, and Knowledge on Utility of Ratings significantly predicted Use of Credit rating before Investing. The results of the linear regression model were significant, $F(3,96) = 50.94, p < .001, R^2 = .61$, indicating that approximately 61.42% of the variance in Use of Credit rating before Investing is explainable by Knowledge on Rating Agencies, Knowledge on Rating Mechanism, and Knowledge on Utility of Ratings . 81% of

indicating that approximately 61.42% of the variance in Use of Credit rating before Investing is explainable by Knowledge on Rating Agencies, Knowledge on Rating Mechanism, and Knowledge on Utility of Ratings . Knowledge on Rating Agencies significantly predicted Use of Credit rating before Investing, $B = 0.11, t(96) = 3.43, p < .001$. This indicates that on average, a one-unit increase of Knowledge on Rating Agencies will increase the value of Use of Credit rating before Investing by 0.11 units. Knowledge on Rating Mechanism significantly predicted Use of Credit rating before Investing, $B = 0.12, t(96) = 4.28, p < .001$. This indicates that on average, a one-unit increase of Knowledge on Rating Mechanism will increase the value of Use of Credit rating before Investing by 0.12 units. Knowledge on Utility of Ratings did not significantly predict Use of Credit rating before Investing, $B = 0.05, t(96) = 1.78, p = .079$. Based on this sample, a one-unit increase in Knowledge on Utility of Ratings does not have a significant effect on Use of Credit rating before Investing. Table 4 summarizes the results of the regression model.

the Investors make use of Credit rating for the purpose of Investments. The findings of this study will be extremely useful to rating agencies in understanding investors' perceptions, framing appropriate mechanisms to avoid rating swings, and developing relevant strategies to serve capital market stakeholders.

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