PEN ACCLAIMS

Volume 14, January 2021 ISSN 2581-5504

"Role of Credit Rating Agencies- a Critical Analysis"

Diksha Singh
National Institute of Securities Market,
Maharashtra

CHAPTER 1- ROLE AND OBJECTIVE OF CREDIT RATING AGENCIES IN INDIA

With the Indian economy's ever business orientation, a formal evaluation of two kinds of risks are valued by the investors, first is the "business risk" emerging from the open economy and connections between markets for money, capital and foreign exchange and second is the "risk of payments". It is the small investors who are made to suffer the loss by the unlisted corporate debt in the form of fixed deposits by the companies[1]. Thus, credit rating has been made mandatory. In layman's language credit rating is the opinion of a credit rating agency about the ability and willingness or the inclination of a corporate debt issuer to meet his obligations as and when they arise. The rating agencies provide ratings in the form of alphabetic or alphameric symbols which can easily be understood by the investors and thus a rational decision can be made by them taking into consideration the percentage of interest offered and security of payment of the principal amount in future[2].

Taking a short overview of the background of credit rating system, perhaps India was the first among the developing countries to set up a credit rating system in 1988. The system was brought under a regulatory framework when the Reserve Bank of India made credit rating compulsory for the commercial paper (CP) and thereafter by the Securities and Exchange Board of India when it made credit ratings compulsory for certain debt instruments and debentures. In June, 1994 the Reserve Bank of India made credit rating mandatory for the Non-Banking Financial Companies (NBFC's).[3] Also credit ranking for the public sector is optional for bonds and privately placed non-convertible debentures for undertakings (PSU's) up to 50 million. Manufacturing companies fixed deposits are also covered under the ambit of credit rating at their own option[4]. In India six credit rating agencies are registered and regulated by SEBI (Credit Rating Agencies) Regulation, 1999. CRISIL (Credit Rating and Information Services of India ltd.) was set up in 1987 as the first credit rating agency, it was followed by ICRA (Investment and Information Credit Rating Agency ltd) in 1991. Other credit rating agencies are, CARE (Credit Analysis and Research ltd.) in 1994, Fitch India Private Ltd in 1913, Brickwork India Ratings Private Ltd in 2007, and SMERA (Small and Medium Enterprises Rating Agency of India ltd) in 2005.[5] The regulators namely the Reserve

---

[1] Rai University ,*Credit Rating – An Introduction*- Management of Financial Services, see http://www.psnacet.edu.in/courses/MBA/Financial%20services/16.pdf

[2] K.S. Venkateshwara Kumar and S. Hanumantha , *Credit Rating- Role in Modern Financial Systems*, International Journal of Marketing, Financial Services & Management, Vol.1 Issue 8, ISSN 2277 3622 (aug,2012), http://indianresearchjournals.com/pdf/IJMFSMR/2012/August/9.pdf

[3] *Supra* note 2, at 129

[4] *Supra* note 3

[5] SEBI official website, see https://www.sebi.gov.in/otherentry/aug-2002/registered-credit-rating-agencies_20330.html

Bank of India and Securities and Exchange Board of India determine the eligibility criteria of certain instruments using the credit ratings. The RBI has decided to review and monitor the performance of the rating agencies so as to ensure effective continuation of their accreditation. This step will help in greater accountability with respect to the quality of rating mechanism and the rating methodologies. [6]

Initially it is necessary to understand that the key activity of the rating agencies is to market the ratings that measures the overall credit calibre of securities, business entities and governments. The rating agencies do not provide any kind of investment advice to the investors, they merely provide their own opinion about the relative ability to meet the debt obligations on the part of the business entity, securities and governments. There are some experienced professionals who collect information from the client and other sources and thereafter use their own methods to analyze and examine the creditworthiness of the client or the issuer[7]. The internal mechanisms and methodologies used would be discussed under the upcoming heads in this paper.

The role played by the credit rating agencies can be summed up as follows-:

- **Role towards the investor-** Typically the investors follow the credit ratings while making investments. The ratings are considered as the objective assessment of the likelihood of default of the borrower. A default occurs when the borrower makes late payment. The holders of bonds issued by a distressed corporation earn only a fraction of debt in most situations. Also, there is no communication between the rating agency and the investor therefore the investor is at liberty either to accept or to reject the rating or the opinion of the agency. Therefore, the agency cannot in either case be made responsible for any financial loss suffered by the investor who made investment based on the ratings of the particular agency. Therefore, credit rating is a service for investors and the rating agency is expected to maintain highest possible level of scientific competence and uprightness. Ultimately in long run the trustworthiness upon the credit rating agency is built depending upon its established programmes, undertaken effort and continuous research. [8]
- **Role towards the borrowers/ issuers-** High credit rating by the agencies enable the borrowers to raise the required debt easily at low interest rates from the banks, and individual investors. Credit ratings would allow for independent debt pricing benchmarks which have been introduced in a culture of financial discipline. More precisely the ratings help in determining the probability of risk and thus assist in apportioning capital efficiently[9].

[6] *Supra* note 2, at 130
[7] Suzana Baresa, Sinisa Bogdan & Sasa Ivanovic, *Role, Interests and Critics of credit rating agencies*, UTMS Journal of Economics 3 (1): 71–82, 2012, see http://www.utmsjoe.mk/files/Vol.%203%20No.%201/1-B3-Bogdan.pdf
[8] *Supra* note 7, at 131
[9] *Supra* note 7, at 132

- **Role of credit rating agencies in the structured products market-** Structured products are pre-packaged investments which usually include interest-related assets plus one or more derivatives. They are typically connected to a securities index or basket and are intended to promote highly tailored risk-return objectives. [10] Structured finance has always been a rated sector from the very beginning. Structured products issuers required them to be graded on scales similar to those for bonds. The investors are encouraged to buy those structured products which have single scale ratings, more specifically for those investors whose investment mandate contains rating- based constraints. In contrast to the ratings of the debt instruments like sovereign and corporate bonds the structured products are structured so as to achieve a targeted position on the rating scale, and this is the mechanism wherein the credit rating agencies play an important role. Structured products involve asset combining and wedging thus there is a need of third party. In this phase the credit rating agencies play a two-fold role- (i) they provide credit assessment of the underlying collateral asset pools, (ii) they also engage in the configuration of a particular structure of such products. In their second position the credit rating agencies must decide the degree to which the structure of the structured product provides credit assistance required for the senior tranche to achieve the AAA rating targeted in the agreement by the arrangers. The rating agencies also provide implicit structuring advice at the very inception of the deal. Structured product ratings have a distinctly ex-ante character, which in contrast to conventional bond ratings, where the negotiations between the issuers and rating agencies have very restricted role. Given the non-transparent character and intricate nature of the structured products the credit rating agencies play a more significant role. Due to the non-transparent nature of structured products the investors in determining their structure and risk profile, usually face relatively high costs, this problem in turn increases their dependence upon the credit ratings at the origination stage of the agreements.[11]
- **Role towards the regulators-** The credit rating agencies also have an obligatory role to play towards the regulators namely the Securities and Exchange Board of India and the Reserve Bank of India. However, such obligations have only to be complied by the six credit rating agencies which are registered with the SEBI. The agencies have to work according to the provisions of the Securities and Exchange Board (Credit Rating Agencies) Regulation, 1999, which is subject to amendment from time to time. As according to the recent 2018 amendment the rating agencies which are already registered with the SEBI have to maintain capital of 25 crore rupees, and those agencies which have a net worth less than 25 crore will have to increase their net worth within 3 years duration from the date of the notification under SEBI (Credit Rating Agencies) Amendment

[10] Katrina Lamb, *An introduction to structured products*,Investopedia.com articles, 12 January,2020 , see https://www.investopedia.com/articles/optioninvestor/07/structured_products.asp
[11] Amadou N.R. Sy, *The Systemic Regulation of Credit Rating Agencies and Rated Markets* 15-16, International Monetary Fund, WP/09/129, 2009.

Regulations 2018.[12] The Reserve Bank of India in cooperates with SEBI on the issue of adherence to the International Organization of Securities Commissions Code of Conduct Fundamentals for Credit Rating Agencies.[13] Also the rating agencies have to compulsorily comply with various other circulars and guidelines issued by the SEBI and RBI such as the SEBI (Enhanced Standards for Credit Rating Agencies) Circular, 2016[14], SEBI (Master Circular for Credit Rating Agencies),2018[15], SEBI (Guidelines for Enhanced Disclosure by Credit Rating Agencies) , 2nd May 2019[16], RBI circular on risk-weighting under Standardised Approach of Computation of Capital for Credit Risk in Basel Framework - an Analysis of Default Experience of Credit Rating Agencies in India, 2017[17].

CHAPTER 2- FACTORS AFFECTING THE ASSIGNED CREDIT RATINGS

Various factors which affect the ratings assigned by a credit rating agency are as follows:

- The relative potentiality or preparedness of the borrower/debt issuer to pay off his debt. Here the credit rating agencies calculate and analyze the actual and possible cash flows in future, past performance, market position, efficiency of the management, etc so that the issuer can easily pay off the principal amount along with the interest back to the investor.
- The amount of unpaid debt and its composition.
- The reliability and earning power of the borrower or the issuer and the potential cash flows.
- How many times the borrower was in a sound position to satisfy its fixed interest obligations that is the interest coverage ratio.
- Ratio of existing assets and liabilities is determined so as to analyze the liquidity position of the borrower.
- The value of properties pledged as corroborative protection and the protection of priority of claim against the properties of the borrower.
- Market position of the goods of the borrower is determined by consumer demand, market share of competitors, and channels for delivery.
- Operational productivity is judged by the use of capacity, perspectives of growth, modernity, diversification, raw material availability and various other factors.

[12] SEBI Regulation on Credit Rating Agencies, SEBI/LAD- NRO/GN/2018-15, section 5, (India), see https://www.sebi.gov.in/legal/regulations/may-2018/securities-and-exchange-board-of-india-credit-rating-agencies-amendment-regulations-2018_39183.html

[13] See https://pvijaykumar1978.wordpress.com/2017/06/19/iosco-code-of-conduct-fundamentals-for-credit-rating-agencies/#:~:text=%20IOSCO%20Code%20of%20Conduct%20Fundamentals%20for%20Credit,MARKET%20PARTICIPANTS.%20If%20a%20CRA%E2%80%99s%20code...%20More%20

[14] See https://www.sebi.gov.in/legal/circulars/nov-2016/enhanced-standards-for-credit-rating-agencies-cras-_33585.html

[15] See https://www.sebi.gov.in/legal/master-circulars/may-2018/master-circular-for-credit-rating-agencies_38832.html

[16] See [16] https://www.sebi.gov.in/legal/circulars/jun-2019/guidelines-for-enhanced-disclosures-by-credit-rating-agencies-cras-_43268.html

[17] See https://www.rbi.org.in/Scripts/PublicationsView.aspx?id=17453

- The track record of the promoters, directors and employee expertise also affect the ratings.[18]

CHAPTER 3- CREDIT RATING PROCESS/MECHANISM

The credit rating process is set into motion by a written request of the borrower/ issuer who is wanting to get his concerned obligations to be rated by a rating agency. A credit rating agency is actively tracking and keeping record of all ratings in relation to the political, economic and financial innovations and also the patterns in the market. To be more precise, almost all the credit rating agencies follow same process while assigning the ratings. The process can be summed up as follows-

- **A formal request-** The rating procedure starts with a request of a formal nature by the issuer or the borrower company which is desirous of getting its obligations under instruments, and securities to be rated. Thereafter the rating agency and the borrower inter into an agreement which contains certain terms of obligation for both the parties. The terms of the agreement creates an obligation upon the borrower to provide all the important information and details to the agency for giving a rating and future monitoring, also the agreement requires the agency to keep all the details and information in a confidential manner and not to disclose it to any third party. Last but not the least the borrower is at liberty whether to accept the credit rating or not to accept the rating. The borrower further has an option of seeking ratings from other credit rating agencies.
- **Analytical team assignment-** When the mentioned details are provided the credit rating agency delegates the assignment to a team consisting of two analysts, they have the required experience in the related field and are therefore responsible to carry forward the task of rating.
- **Obtaining the relevant details and data-** The analysts receive all the important information and data from the issuer. Usually the issuer is given a list which contains the specification the information required and also a wide system of discussions. Such specifications are centered upon the experience of the issuer company, and it widely and very precisely contains all the dimensions which can affect the credit rating to be assigned. Thereafter the members conduct a thorough study and analyses of the information and data regarding the statements of finance, forecast of cashflow, and other pertinent information whichever is important.
- **Company visit and meeting with the management-** In order to obtain a deeper understanding of the issuer company's operations the team of analysts make a visit to the company, meet the staff and communicate with the business executives. The visits make it very easy to understand the method of production, assessment of the condition of the equipment, and also the key evaluation of the standard of professional staff. Thereafter the team can easily form an opinion about the main variables influencing the business, the quality and also the production costs. The subject under consideration during the

[18] Rai University ,*Credit Rating – An Introduction*- Management of Financial Services, see http://www.psnacet.edu.in/courses/MBA/Financial%20services/16.pdf

management meetings are broad in categories including the competition, further plans, financial policy, historical efficiency, profile of risk and strategy and also the examination of financial data. Such meetings help the team to obtain all such internal information which is unavailable publically.

- **Presentation of observations and facts-** After the study is completed the findings shall be discussed at length before an internal level committee which consists of some senior credit rating experts. This is the department where all the problems which can have an adverse effect on the rating are analyzed. Thereafter an opinion is made as to what rating should be assigned. The findings and conclusions of the team are eventually sent to the rating committee.
- **Meeting of the rating committee-** The rating committee is the final authority before which the ratings are allocated. In this process the borrower/issuer is not involved explicitly. A rating is decided after the matrix assessment of all the relevant factors which can influence the issuer, including key problems gaining more focus.
- **Communication of the decision of the committee-** the ratings decided by the committee are communicated to the borrower/issuer and proper reasons are given for the assigned ratings. It is at the instance of the issuer, he can either accept or reject the rating, the rejected one's are not disclosed by the agency to anyone and are kept confidential.
- **Publicizing the ratings-** After the issuer accepts the ratings the agency shall publish the information in the form a circular or report to the public at large.
- **Monitoring for future change-** once the credit rating agency assigns the rating for any instruments are that rating is accepted by the issuer, the rating agency shall monitor the rating till the life of the instrument or security. The agency shall keep studying all the future political, economic, technological, financial and industrial developments and accordingly change assigned rating as and when they think it to be proper. Any changes in the ratings shall be properly notified to the public through published reports. [19]

CHAPTER 4- THE CREDIT RATING METHODOLOGIES

Almost all the Credit Rating Agencies in India use more or less similar rating methodologies. The methodologies take into consideration an overview of various factors such as competitive position of the borrower, business, industry, financial characteristics, operating effectiveness, standard of management and also dedication to new strategies and new projects etc.[20] A thorough study and analysis is made of the past statements of finance and also prospective earnings in future. Also, an evaluation is made of the relative ability of the borrower to satisfy his debt obligations on time along with the promised interest rate. While evaluating the ability of the debt instrument the following factors are taken into consideration-

[19] Rai University ,*Credit Rating – The Process*- Management of Financial Services, see http://www.psnacet.edu.in/courses/MBA/Financial%20services/16.pdf

[20] *Supra* note 19, at 291

- **Business risk analysis or the company analysis-** various factors such as the industry risk, position of the company in the market, operational performance of the business, and the legal position of the company, are taken into consideration which making a business risk analysis. The structure of the company, demand and supply of the goods and services, the quality of the goods supplied, adopted government policies, selling and distribution arrangements, the satisfaction of the consumer, the current competitive position in the market and its advantages and disadvantages, the research and development processes undertaken, the diversity of the customers, the relationship between the management and labor, the employed capital compliance to pollution prevention measures, mode of payment of interest to the investors, the responsibilities of the trustees , the terms mentioned in the prospectus, measures taken in case of any fraud/misrepresentation/forgery, and the overall size of the business, are all relevant factors which are determined by the agency before assigning the rating. [21]
- **Economic analysis-** Economic activities have a significant effect on corporate income, the expectations and preferences of the investor. The important economic variables such as the prospective growth rate, national income, and cashflow cannot be overlooked. The research analyst uses surveys, polls, different economic variables and indexes for the purpose of economic forecasting.
- **Financial analysis-** It includes the consideration of the factors such as the standard of accounting, profit potential, analysis of cash flows, flexibility of financial capital. Various sub-factors to be taken into consideration are- the understatement and overstatement of profits, income generation methods, liabilities apart from balance sheets, sources of prospective income, profit ratio, profits compared to fixed income adjustments, uncertainty of potential cash flows, alternative funding plans in the sense of stress, and the capacity to collect funds for the purpose of asset reallocation.
- **Management evaluation-** The output of any organization is to a very great extent affected by the management priorities, plans and tactics, ability to deal with unfavorable circumstances, personal expertise and knowledge, monitoring and scheduling systems. Thus, analysis these factors also helps the rating agencies assign fair and reasoned credit ratings to the borrower.
- **Geographical analysis-** Geography means location, and thus the advantages and disadvantages of the location of the issuer company plays a significant role in the credit ratings assigned. If the issuer company is established over a large area, it enjoys great diversification of its business and customer exposure. On the other hand, if the issuer company is located at a remote area, it may have the benefit of some government policies and thus may enjoy a lower cost of production.
- **Regulatory environment analysis-** The rating agencies determine the structure, and the regulatory regime of the issuer company under which it operates. While the agency is assigning the rating the agency also takes into consideration the impact of the prevailing

[21] *Supra* note 19, at 292

regulatory regime of the company and what shall be the impact if the issuer company is privatized.

- **Fundamental analysis-** This analysis is important for the evaluation of financial organizations, which involves an examination of the cashflow management, profit margins, budgetary position of the company, and the interest and tax exposure of the issuer company.[22]

CHAPTER 5- WHAT ARE THE DRAWBACKS OF THE CREDIT RATING SYSTEM?

- **Lack of transparency**- The lack of transparency is the greatest problem associated with the internal procedure of the credit rating agencies in India. The rating agencies are not obliged by any government regulation to disclose the internal work procedures and mechanisms. The working procedure disclosed to the public is more or less a theoretical knowledge, it can be treated as the tip of the ice-berg. According to the SEBI (Credit Rating Agencies) Regulation, 1999, the credit rating agencies need to disclose only specific kinds of information into public domain such as disclosure on liquidity indicators, probability of default, track of deviations in bond spread. [23] Apart from these, no other disclosures are made by the rating agencies, which in turn raises serious questions upon its credibility relating to work procedure.
- **There is no uniformity in the rating procedures**- The ratings agencies in India so far till now have been unable to maintain a uniform rating system so that it can easily be understood by an average investor. In spite of comprehensive disclosures made relating to the understanding of various rating symbols on the official site of the rating agency, small investors and average investors find it very difficult to understand so many symbols and their meanings. Different rating agencies have their own alphabetical and alphanumeric symbols indicating different kinds opinions about issuer instruments.
- **Reliability upon the credit ratings**- Reliability is a serious problem the credit rating agencies in India, even highest credit rated companies like the IL & FS, CRB Capital Markets ltd having huge turn overs have failed to meet their debt obligations on time, neither SEBI nor RBI could come to their rescue at the time of crisis[24].
- **Probability of biased ratings-** There is always a probability that the team of analysts appointed for the purpose of rating may act in some personal bias and may conceal material information while making risk assessment. These practices work to the prejudice of the investors. Also, the issuer who tends to get a lower rating does not disclose the

[22] Abey Francis, *Credit Rating and financial management,* MBA Knowledge Base, 5 Jan,2013, https://www.mbaknol.com/financial-management/credit-rating/

[23] Securities and Exchange Board of India (Guidelines for Enhanced Disclosure by Credit Rating Agencies), SEBI/ HO/ MIRSD/ DOS3/CIR/P/2019/70,June 13, 2019, https://www.sebi.gov.in/legal/circulars/jun-2019/guidelines-for-enhanced-disclosures-by-credit-rating-agencies-cras-_43268.html

[24] Sanket Dhanorkar, *How reliable are credit ratings?* , Economic Times Prime (Wealth Column), Feb 26, 2019, 7:40 pm IST, https://economictimes.indiatimes.com/wealth/invest/how-reliable-are-credit-ratings/articleshow/68122355.cms

rating to the investors while raising capital from them, this also affects the creditworthiness of the issuer as well as the rating agency.

- **Ratings given in non-favorable conditions –** There are chances that the ratings given by a credit rating agency to the issuer company, are given when the company was passing through tough times or there was a stagnant growth in profits. As a result of which the agency would be giving very low ratings. The investors who are willing to invest would get a wrong impression about the credibility of the company hence company's interest would be subrogated.
- **Rating model of credit rating agencies-** It is very well known that the credit rating system works on a model where the issuer or the borrower makes a payment to the rating agency and obtain a suitable rating thereafter. It raises concerns about the biasness of the agency towards the issuer company. It is a kind of shopping or say pick and choose business going on between the issuers and rating agencies. If this system shifts to the model wherein the investor pays the rating agency to obtain information about some issuer then only such chances of bias can be mitigated.
- **Insufficient competition-** Only six credit rating agencies are registered with the SEBI. According ton recent amendment the credit rating agencies who wish to be registered under SEBI will have to maintain a minimum turn over of 25 crore rupees. This creates an entry barrier in the regulatory system. Most rating agencies which are unable to maintain such huge amount of turn over cannot get themselves registered under SEBI regulation.
- **Rating grade differences-** There is also a probability that one same instrument may be rated differently by two or more rating agencies, it creates lot of misleading conclusions for the investors.

CHAPTER 6- HOW DID CREDIT RATING AGENCIES MISS THE IL & FS CRISIS?

Infrastructure Leasing & Financial Services Limited is an Indian infrastructure development and finance company. It was formed in 1987 as an RBI registered Core Investment Company. Its institutional shareholders included LIC India, ORIX and Abu Dhabi Investment Authority, and also small shareholdings by a few Indian banks. IL & FS was the principal lender behind the construction of the 9.28 km long Chanani-Nashri Tunnel, in Jammu and Kashmir. The infrastructure lender had a total consolidated debt of close to Rs. 1 lakh crore, and it started to miss deadlines on its debt obligations beginning august 27, 2018. It had already defaulted on around 450 crore worth of inter-corporate deposits to the Small Industries Development Bank of India (SIDBI), and more defaults were likely to come. Till 2018 the big domestic credit rating agencies like ICRA, CARE, India Ratings, Brickwork rating, and CRISIL could not identify the internal crisis going on in IL & FS, and kept on giving high credit rating in between 2011 and 2019. Thereafter the RBI understood that there is a need of liquidity in the market and infused up to Rs. 36,000 crores through open market bond purchases. On 1st October,2018, the Government of India took steps to take control of the company and arrest the spread of the contagion to the financial markets. A new board was constituted as the earlier board was deemed to have failed to discharge its duties. New Board included Uday Kotak from Kotak Mahindra Bank and some other well- known bankers. The Government had superseded the IL&FS board and appointed six new directors- including Uday Kotak and ICICI Bank's G.C. Chaturvedi to restore confidence in the financial markets[25]. Uday Kotak appointed Grant Thornton to conduct a forensic audit of the firm's accounts and the relative role of the auditors and credit rating agencies between 2011 and 2019. It was found that the agencies had intentionally manipulated the rating procedures. There were several instances of lapses, which were very serious and deliberate. The rating agencies had betrayed the investors and stakeholders. The emails exchanged between the former key executives of the firm and the rating agencies revealed that the rating agencies were aware of the serious liquidity crunches and weak financial positioning of the firm. The rating agencies had received several favors and gifts from the firm and this was the probable reason behind consistent high ratings given to the firm[26]. As a consequence, heavy penalty was imposed upon five credit rating agencies by SEBI. Also, most recently in 2020, the Board enhanced the penalty amount to Rs. 1 crore on ICRA and CARE in connection with lapses on their parts while assigning credit rating to non-convertible debentures of IL&FS.[27]

CHAPTER 7- FURTHER RECOMMENDATIONS

The credit rating agencies play a dubious role in financial markets. Securities and Exchange Board of India and Reserve Bank of India are playing a crucial role in regulating the credit rating agencies since many years however the regulations seem insufficient in many ways.

- The issuer companies follow a usual practice of getting their instruments rated by more than one credit rating agency. Such practice should be brought under the SEBI regulation and made punishable for the agencies who assign rating to the issuers whose instruments have already been rated by one rating agency.
- Further, the credit rating agencies should keep their fee structure fixed and even which will in turn limit the competition to the quality of rating and not to the money charged before assigning the ratings. The rating agencies by increasing the intellectual honesty of their credit rating models can reduce the ambiguity and perceptual bias.
- Also, the rating agencies should conduct a thorough investigation through the issuer company's micro and macro economics and thereafter assign a rational rating. The unethical practice of assigning rating based upon static and limited amount of information

[25] Bloomberg, *How India's credit rating agencies missed the IL & FS fail,* The Financial Express, 28 Sept, 2018, https://www.financialexpress.com/industry/how-indias-credit-ratings-agencies-missed-ilfs-epic-fail/1329754/

[26] Anuradha Shukla, *IL &FS Case*: *SEBI to take action against five credit rating agencies,* The New Indian Express- 22 July, 2019, https://www.newindianexpress.com/business/2019/jul/22/ilfs-case-sebi-to-take-action-against-5-cras-2007513.html

[27] PTI, *IL &FS case: SEBI raises penalty to Rs 1 crore each on ICRA and CARE,* Financial Express- 22 sept, 2020, https://www.financialexpress.com/market/ilfs-case-sebi-raises-penalty-to-rs-1-cr-each-on-icra-care/2089399/

should be strongly regulated by SEBI and RBI by making such practices subject to penalty.

- The government and also the regulators should try to establish a surveillance policy, so that the high ratings given by the rating agencies to the issuer can be monitored strictly.
- Further, the credit rating agencies should be made more accountable and morally responsible. For this purpose, the SEBI should frame certain stringent laws, the violation of which by any agency will invite penal measures. For instance- a rating agency should be restricted from rating the instrument of an issuer company who has defaulted in fulfilling its debt obligations above a certain threshold limit of time.[28]
- Moreover, it has been observed many number of time that whenever an aggrieved investor has sued a credit rating agency, the agency has pleaded absence of duty to care and also lack of actual malice. Thus, the agency tends to escape the civil liability easily even when it is actually guilty. Such practices should be strongly condemned by the practice of judicial activism in India. [29]

CHAPTER 8- BIBLIOGRAPHY

- **BOOKS**-

1- The Rating Agencies and their Credit Ratings - What They Are, How They Work and Why They Are Relevant- Herwig M. Langohr and Patricia T. Langohr, 2008.

2- The Role of Credit Rating Agencies in Responsible Finance- Daniel Cash, Palgrave Studies in Impact Finance, 2018.

- **SCHOLARLY ARTICLES/ WORKING PAPERS/JOURNALS** –

1- Abey Francis, *Credit Rating and financial management*, MBA Knowledge Base, 5 Jan,2013, https://www.mbaknol.com/financial-management/credit-rating/

2- Rai University ,*Credit Rating – An Introduction*- Management of Financial Services, see http://www.psnacet.edu.in/courses/MBA/Financial%20services/16.pdf

3- K.S. Venkateshwara Kumar and S. Hanumantha , *Credit Rating- Role in Modern Financial Systems*, International Journal of Marketing, Financial Services & Management, Vol.1 Issue 8, ISSN 2277 3622 (aug,2012), http://indianresearchjournals.com/pdf/IJMFSMR/2012/August/9.pdf

4- Suzana Baresa, Sinisa Bogdan & Sasa Ivanovic, *Role, Interests and Critics of credit rating agencies*, UTMS Journal of Economics 3 (1): 71–82, 2012, see http://www.utmsjoe.mk/files/Vol.%203%20No.%201/1-B3-Bogdan.pdf

5- Katrina Lamb, *An introduction to structured products,*Investopedia.com articles, 12 January,2020 , see https://www.investopedia.com/articles/optioninvestor/07/structured_products.asp

[28]Professor JP Sharma, *Dubious role of the credit rating agencies*, University of Delhi, Lawyers club India article- July 2009, https://www.lawyersclubindia.com/articles/Dubious-Role-of-Credit-Rating-Agencies-1435.asp

[29] R Rajesh Babu, *Rating Agencies,* Working Paper Series number 746, Indian Institute of Management Calcutta, June,2014, https://www.iimcal.ac.in/sites/all/files/pdfs/wps_746_0.pdf

6- Amadou N.R. Sy, *The Systemic Regulation of Credit Rating Agencies and Rated Markets* 15-16, International Monetary Fund, WP/09/129, 2009.
7- Rai University ,*Credit Rating – The Process*- Management of Financial Services, see http://www.psnacet.edu.in/courses/MBA/Financial%20services/16.pdf
8- *Assessing Credit Rating Agencies Rating Methodologies: Evidence from India*: Dr. Rajesh Mamilla, Abhijay Shukla and Mehul Mehta- Vellore Institute Technology, Tamil Nadu- Sept, 2019, http://ijmr.net.in/

- **NEWSPAPER COLUMNS AND REPORTS**-

1- *Strengthening of the Credit Rating Framework in the country:* PRS Legislative Research- Feb, 2019, https://www.prsindia.org/report-summaries/strengthening-credit-rating-framework-country
2- PTI, *IL &FS case: SEBI raises penalty to Rs 1 crore each on ICRA and CARE,* Financial Express- 22 sept, 2020, https://www.financialexpress.com/market/ilfs-case-sebi-raises-penalty-to-rs-1-cr-each-on-icra-care/2089399/
3- Anuradha Shukla, *IL &FS Case*: *SEBI to take action against five credit rating agencies*, The New Indian Express- 22 July, 2019, https://www.newindianexpress.com/business/2019/jul/22/ilfs-case-sebi-to-take-action-against-5-cras-2007513.html
4- Bloomberg, *How India's credit rating agencies missed the IL & FS fail,* The Financial Express, 28 Sept, 2018, https://www.financialexpress.com/industry/how-indias-credit-ratings-agencies-missed-ilfs-epic-fail/1329754/
5- Sanket Dhanorkar, *How reliable are credit ratings?* , Economic Times Prime (Wealth Column), Feb 26, 2019, 7:40 pm IST, https://economictimes.indiatimes.com/wealth/invest/how-reliable-are-credit-ratings/articleshow/68122355.cms
6- *India's market regulator fines credit rating agencies for IL & FS debt rating*: by Reuters staff- 26 Dec, 2019, https://in.reuters.com/article/us-india-il-fs-idINKBN1YU0WO
7- Professor JP Sharma, *Dubious role of the credit rating agencies*, University of Delhi, Lawyers club India article- July 2009, https://www.lawyersclubindia.com/articles/Dubious-Role-of-Credit-Rating-Agencies-1435.asp
8- *What are credit rating companies and their impact on the economy:* by editorial team, Forex Promos- 7 July, 2011, http://www.forexpromos.com/what-are-credit-rating-companies-and-their-impact-on-the-economy