Ratings Simplified

Ratings are an evaluation of the financial status or credit worthiness of an organization or a country. Credit rating agencies consider financial and non-financial aspects to predict the debtor’s ability to pay back the debt. A credit rating represents the evaluation of the credit rating agency of qualitative and quantitative information for the debtor; including non-public information obtained by the credit rating agencies’ analysts. This information is critical for companies, banks, VC and other financial services organizations to decide on investing in an organization or a country.

Credit Rating Agencies

Standards and Poors (S&P), Moody’s, Fitch and DBRS (derived from Dominion Bond Rating Service) are the most recognized and trusted credit-ratings agencies of the world. While Moody’s, S&P and Fitch Ratings control approximately 95% of the credit ratings business, they are not the only rating agencies. Credit ratings by a trusted and recognized agency matter because:

- Ratings reflects risk to Investors
- Ratings reflect real cost to Issuers
- Role of Issuer
- Role of Investors

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Importance of Credit Rating

Credit rating is evaluated on the basis of financial transactions carried in the past and assets and liabilities at present. A Credit Rating Agency plays an important catalytic role fostering the growth, stability and efficiency of global and domestic capital markets. A comprehensive analysis of a credit instrument and a subsequent impartial assessment of the credit risk of the instrument, offer numerous benefits to all parties in concern. Reasons for rating credit risk could be rationalized from the following perspectives:

- Country: Achieve a higher economic growth and a higher standard of living
- Investors / Savers: Default risk protection, Enhance returns for Individual Investors, Enhance Returns for Institutional Investors
- Borrowers / Debt Issuers: Reduce costs, Increase the flexibility of funding sources, Advantages for both listing and private placement of debt,
- Intermediary: Merchant bankers, underwriters, et al. find ratings valuable in the planning, pricing and placement
- Regulators: An independent and well-run rating system will serve a number of quasi-regulatory market functions at less cost to the government

TYPES OF RATINGS

- **Credit Ratings:** This involves the assessment of Credit Quality of the issuer. The credit rating represents evaluation of qualitative and quantitative information for a company or government; including non-public information obtained by the credit rating agencies analysts.
- **Non Credit Ratings:** Addresses other aspects of risk like Investment Quality Rating, Management Quality Rating and Market Risk Rating.

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