INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE, IT & MANAGEMENT

IJRCM

A Monthly Double-Blind Peer Reviewed (Refereed/Juried) Open Access International e-Journal - Included in the International Serial Directories

Indexed & Listed at:

Ulrich's Periodicals Directory ©, ProQuest, U.S.A., EBSCO Publishing, U.S.A., Cabell's Directories of Publishing Opportunities, U.S.A.,
Open J-Gage, India [link of the same is duly available at Inflibnet of University Grants Commission (U.G.C.)],
Index Copernicus Publishers Panel, Poland with IC Value of 5.09 & number of libraries all around the world.

Circulated all over the world & Google has verified that scholars of more than 2151 Cities in 155 countries/territories are visiting our journal on regular basis.

Ground Floor, Building No. 1041-C-1, Devi Bhawan Bazar, JAGADHRI – 135 003, Yamunanagar, Haryana, INDIA

http://ijrcm.org.in/

CONTENTS

Sr. No.	TITLE & NAME OF THE AUTHOR (S)	Page No.
1.	IDENTIFICATION OF KEY MOTIVATIONAL FACTORS; AN IMPLEMENTATION OF MASLOW'S HIERARCHY OF NEEDS IN PAKISTANI ORGANIZATIONS *MUHAMMAD TAHIR AKBAR & DR. MUHAMMAD RAMZAN*	1
2.	PROFITABILITY OF POTATO BASED CROPPING PATTERNS COMPARED TO RICE BASED CROPPING PATTERNS IN MYMENSINGH REGION *ROMAZA KHANUM, MD.SHARIFUL ISLAM & D. AFROZA*	5
3.	THE IMPACT OF ACCOUNTING INFORMATION SYSTEMS IN THE QUALITY OF FINANCIAL INFORMATION IN THE PRIVATE JORDANIAN UNIVERSITIES: AN EMPIRICAL STUDY *DR. ATEF A. S. AL-BAWAB*	11
4.	THE ROLE OF SNNPRS MARKETING AND COOPERATIVE BUREAU IN THE EXPANSION AND DEVELOPMENT OF COOPERATIVES IN SNNPR REGION, ETHIOPIA, AFRICA *DR. S. BALAMURUGAN*	18
5.	STUDY ON THE HEALTH LIFESTYLE OF SENIOR LEARNERS IN TAIWAN *JUI-YING HUNG & CHIEN-HUI YANG*	27
6.	EFFECT OF INFORMATION TECHNOLOGY ON CORPORATE FINANCIAL REPORTING IN NIGERIA *AKINYOMI OLADELE JOHN & DR. ENAHORO JOHN A.*	31
7.	DIAGNOSTIC STUDY ON INTERACTIVE ADS AND ITS RESPONSE TOWARDS THE FM RADIO *EMON KALYAN CHOWDHURY & TAHMINA REZA*	36
8.	ACCOMMODATION OF ETHNIC QUEST FOR SELF-GOVERNANCE UNDER ETHNIC FEDERAL SYSTEM IN ETHIOPIA: THE EXPERIENCE OF SOUTHERN REGIONAL STATE *TEMESGEN THOMAS HALABO*	42
9.	UNIVERSITY PERFORMANCE MEASUREMENT USING THE BALANCED SCORECARD METHOD – SPECIAL FOCUS TO THE LEARNING AND GROWTH PERSPECTIVE *W.M.R.B.WEERASOORIYA*	46
10.	INDEPENDENT DIRECTORS IN LISTED INDIAN PUBLIC SECTOR ENTERPRISES: AN ANALYTICAL STUDY *MOHINDER SINGH TONK*	51
11.	RELATIONSHIP BETWEEN EMOTIONAL & SOCIAL COMPETENCES AND TRANSFORMATIONAL LEADERSHIP STYLE *BADRI BAJAJ & DR. Y. MEDURY*	56
12.	ICT DEVELOPMENTS IN HIGHER EDUCATION IN INDIA: THE ROAD MAP AHEAD *DR. M. K. SINGH & DR. SONAL SHARMA*	60
13.	CONSUMER SENSITIVITY TOWARDS PRICING OF COSMETIC PRODUCTS: AN EMPIRICAL STUDY *DR. D. S. CHAUBEY, LOKENDRA YADAV & HARISH CHANDRA BHATT*	67
14.	CONVENIENCE YIELD: EMPIRICAL EVIDENCES FROM INDIAN CHILLI MARKET *IRFAN UL HAQ & DR. K CHANDERASEKHARA RAO*	74
15.	CELLULAR PHONES: THE HUB OF MODERN COMMUNICATION - AN ANALYTICAL STUDY *DR. A. RAMA & S. MATHUMITHA*	78
16.	WOMAN LEADERSHIP IN AXIS BANK: A COMPARISON OF WOMAN AND MAN LEADER USING CAMEL MODEL *ARTI CHANDANI & DR. MITA MEHTA*	83
17.	A STUDY OF ANTS TEAMBUILDING TECHNIQUES AND ITS APPLICATION IN ORGANIZATIONAL WORK TEAMS *AMAR DATT & DR. D. GOPALAKRISHNA*	90
18.	BASEL II AND INDIAN CREDIT RATING AGENCIES – IMPACT & IMPLICATIONS *RAVI KANT & DR. S. C. JAIN*	95
19.	A STUDY ON THE CONSUMPTION PATTERN OF BAKERY PRODUCTS IN SOUTHERN REGION OF TAMIL NADU *DR. A. MARTIN DAVID, R. KALYAN KUMAR & G.DHARAKESWARI*	101
20.	e-COMMERCE: AN INVISIBLE GIANT COMPETITOR IN RETAILING IN EMERGING COUNTRIES *NISHU AYEDEE.*	107
21.	THE GREAT MATHEMATICIAN SRINIVASA RAMANUJAN *G. VIJAYALAKSHMI*	111
22.	ISSUES RELATING TRANSITION IPv4 TO IPv6 IN INDIA *ANANDAKUMAR.H*	117
23.	QUALITY OF WORK-LIFE: A TOOL TO ENHANCE CONFIDENCE AMONG EMPLOYEES *JYOTI BAHL*	124
24.	GLOBAL RECESSION: IMPACT, CHALLENGES AND OPPORTUNITIES *SHAIKH FARHAT FATMA*	128
25.	IMPACT OF CELL PHONE ON LIFESTYLE OF YOUTH: A SURVEY REPORT *MALIK GHUFRAN RUMI, PALLAVI TOTLANI & VINSHI GUPTA*	133
26.	EFFECTIVENESS OF TRAINING IN AUTO COMPONENT INDUSTRY – AN EMPIRICAL STUDY *R.SETHUMADHAVAN*	143
27.	THE IMPACT ON MARKETING BY THE ADVENT OF WEB 2.0 INTERNET TOOLS *JAYAKUMAR MAHADEVAN*	146
28.	MARKET INFLUENCE ON THE TECHNOLOGY IN THE ENERGY SECTOR - A STUDY OF INDIAN SCENARIO *MANOHAR SALIMATH C*	150
29.	SPOT ELECTRICITY PRICE MODELLING AND FORECASTING *G P GIRISH*	154
30.	AN ANALYTICAL STUDY OF RURAL MARKETING IN INDIA - OPPORTUNITIES AND POSSIBILITY *BASAVARAJAPPA M T*	158
	REQUEST FOR FEEDBACK	162

CALL FOR MANUSCRIPTS

We invite unpublished novel, original, empirical and high quality research work pertaining to recent developments & practices in the area of Computer, Business, Finance, Marketing, Human Resource Management, General Management, Banking, Insurance, Corporate Governance and emerging paradigms in allied subjects like Accounting Education; Accounting Information Systems; Accounting Theory & Practice; Auditing; Behavioral Accounting; Behavioral Economics; Corporate Finance; Cost Accounting; Econometrics; Economic Development; Economic History; Financial Institutions & Markets; Financial Services; Fiscal Policy; Government & Non Profit Accounting; Industrial Organization; International Economics & Trade; International Finance; Macro Economics; Micro Economics; Monetary Policy; Portfolio & Security Analysis; Public Policy Economics; Real Estate; Regional Economics; Tax Accounting; Advertising & Promotion Management; Business Education; Management Information Systems (MIS); Business Law, Public Responsibility & Ethics; Communication; Direct Marketing; E-Commerce; Global Business; Health Care Administration; Labor Relations & Human Resource Management; Marketing Research; Marketing Theory & Applications; Non-Profit Organizations; Office Administration/Management; Operations Research/Statistics; Organizational Behavior & Theory; Organizational Development; Production/Operations; Public Administration; Purchasing/Materials Management; Retailing; Sales/Selling; Services; Small Business Entrepreneurship; Strategic Management Policy; Technology/Innovation; Tourism, Hospitality & Leisure; Transportation/Physical Distribution; Algorithms; Artificial Intelligence; Compilers & Translation; Computer Aided Design (CAD); Computer Aided Manufacturing; Computer Graphics; Computer Organization & Architecture; Database Structures & Systems; Digital Logic; Discrete Structures; Internet; Management Information Systems; Modeling & Simulation; Multimedia; Neural Systems/Neural Networks; Numerical Analysis/Scientific Computing; Object Oriented Programming; Operating Systems; Programming Languages; Robotics; Symbolic & Formal Logic and Web Design. The above mentioned tracks are only indicative, and not exhaustive.

Anybody can submit the soft copy of his/her manuscript **anytime** in M.S. Word format after preparing the same as per our submission guidelines duly available on our website under the heading guidelines for submission, at the email address: infoijrcm@gmail.com.

GUIDELINES FOR SUBMISSION OF MANUSCRIPT

1. **COVERING LETTER FOR SUBMISSION:**

DATED: _____________

THE EDITOR
IJRCM

Subject: **SUBMISSION OF MANUSCRIPT IN THE AREA OF ____.**

(e.g. Finance/Marketing/HRM/General Management/Economics/Psychology/Law/Computer/IT/Engineering/Mathematics/other, please specify)

DEAR SIR/MADAM

Please find my submission of manuscript entitled '____' for possible publication in your journals.

I hereby affirm that the contents of this manuscript are original. Furthermore, it has neither been published elsewhere in any language fully or partly, nor is it under review for publication elsewhere.

I affirm that all the author (s) have seen and agreed to the submitted version of the manuscript and their inclusion of name (s) as co-author (s).

Also, if my/our manuscript is accepted, I/We agree to comply with the formalities as given on the website of the journal & you are free to publish our contribution in any of your journals.

NAME OF CORRESPONDING AUTHOR:
Designation:
Affiliation with full address, contact numbers & Pin Code:
Residential address with Pin Code:
Mobile Number (s):
Landline Number (s):
E-mail Address:
Alternate E-mail Address:

NOTES:
a) The whole manuscript is required to be in ***ONE MS WORD FILE*** only (pdf. version is liable to be rejected without any consideration), which will start from the covering letter, inside the manuscript.
b) The sender is required to mention the following in the **SUBJECT COLUMN** of the mail:
New Manuscript for Review in the area of (Finance/Marketing/HRM/General Management/Economics/Psychology/Law/Computer/IT/Engineering/Mathematics/other, please specify)
c) There is no need to give any text in the body of mail, except the cases where the author wishes to give any specific message w.r.t. to the manuscript.
d) The total size of the file containing the manuscript is required to be below **500 KB**.
e) Abstract alone will not be considered for review, and the author is required to submit the complete manuscript in the first instance.
f) The journal gives acknowledgement w.r.t. the receipt of every email and in case of non-receipt of acknowledgment from the journal, w.r.t. the submission of manuscript, within two days of submission, the corresponding author is required to demand for the same by sending separate mail to the journal.

2. **MANUSCRIPT TITLE**: The title of the paper should be in a 12 point Calibri Font. It should be bold typed, centered and fully capitalised.

3. **AUTHOR NAME (S) & AFFILIATIONS**: The author (s) **full name**, **designation**, **affiliation** (s), **address**, **mobile/landline numbers**, and **email/alternate email address** should be in italic & 11-point Calibri Font. It must be centered underneath the title.

4. **ABSTRACT**: Abstract should be in fully italicized text, not exceeding 250 words. The abstract must be informative and explain the background, aims, methods, results & conclusion in a single para. Abbreviations must be mentioned in full.

5. **KEYWORDS:** Abstract must be followed by a list of keywords, subject to the maximum of five. These should be arranged in alphabetic order separated by commas and full stops at the end.

6. **MANUSCRIPT:** Manuscript must be in ***BRITISH ENGLISH*** prepared on a standard A4 size ***PORTRAIT SETTING PAPER***. It must be prepared on a single space and single column with 1" margin set for top, bottom, left and right. It should be typed in 8 point Calibri Font with page numbers at the bottom and centre of every page. It should be free from grammatical, spelling and punctuation errors and must be thoroughly edited.

7. **HEADINGS:** All the headings should be in a 10 point Calibri Font. These must be bold-faced, aligned left and fully capitalised. Leave a blank line before each heading.

8. **SUB-HEADINGS:** All the sub-headings should be in a 8 point Calibri Font. These must be bold-faced, aligned left and fully capitalised.

9. **MAIN TEXT:** The main text should follow the following sequence:

   INTRODUCTION

   REVIEW OF LITERATURE

   NEED/IMPORTANCE OF THE STUDY

   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

   CONCLUSIONS

   SCOPE FOR FURTHER RESEARCH

   ACKNOWLEDGMENTS

   REFERENCES

   APPENDIX/ANNEXURE

   It should be in a 8 point Calibri Font, single spaced and justified. The manuscript should preferably not exceed ***5000 WORDS***.

10. **FIGURES & TABLES:** These should be simple, crystal clear, centered, separately numbered & self explained, and **titles must be above the table/figure**. **Sources of data should be mentioned below the table/figure**. It should be ensured that the tables/figures are referred to from the main text.

11. **EQUATIONS:** These should be consecutively numbered in parentheses, horizontally centered with equation number placed at the right.

12. **REFERENCES:** The list of all references should be alphabetically arranged. The author (s) should mention only the actually utilised references in the preparation of manuscript and they are supposed to follow **Harvard Style of Referencing**. The author (s) are supposed to follow the references as per the following:

- All works cited in the text (including sources for tables and figures) should be listed alphabetically.
- Use (**ed.**) for one editor, and (**ed.s)** for multiple editors.
- When listing two or more works by one author, use --- (20xx), such as after Kohl (1997), use --- (2001), etc, in chronologically ascending order.
- Indicate (opening and closing) page numbers for articles in journals and for chapters in books.
- The title of books and journals should be in italics. Double quotation marks are used for titles of journal articles, book chapters, dissertations, reports, working papers, unpublished material, etc.
- For titles in a language other than English, provide an English translation in parentheses.
- The location of endnotes within the text should be indicated by superscript numbers.

PLEASE USE THE FOLLOWING FOR STYLE AND PUNCTUATION IN REFERENCES:

BOOKS

- Bowersox, Donald J., Closs, David J., (1996), "Logistical Management." Tata McGraw, Hill, New Delhi.
- Hunker, H.L. and A.J. Wright (1963), "Factors of Industrial Location in Ohio" Ohio State University, Nigeria.

CONTRIBUTIONS TO BOOKS

- Sharma T., Kwatra, G. (2008) Effectiveness of Social Advertising: A Study of Selected Campaigns, Corporate Social Responsibility, Edited by David Crowther & Nicholas Capaldi, Ashgate Research Companion to Corporate Social Responsibility, Chapter 15, pp 287-303.

JOURNAL AND OTHER ARTICLES

- Schemenner, R.W., Huber, J.C. and Cook, R.L. (1987), "Geographic Differences and the Location of New Manufacturing Facilities," Journal of Urban Economics, Vol. 21, No. 1, pp. 83-104.

CONFERENCE PAPERS

- Garg, Sambhav (2011): "Business Ethics" Paper presented at the Annual International Conference for the All India Management Association, New Delhi, India, 19–22 June.

UNPUBLISHED DISSERTATIONS AND THESES

- Kumar S. (2011): "Customer Value: A Comparative Study of Rural and Urban Customers," Thesis, Kurukshetra University, Kurukshetra.

ONLINE RESOURCES

- Always indicate the date that the source was accessed, as online resources are frequently updated or removed.

WEBSITES

- Garg, Bhavet (2011): Towards a New Natural Gas Policy, Political Weekly, Viewed on January 01, 2012 http://epw.in/user/viewabstract.jsp

BASEL II AND INDIAN CREDIT RATING AGENCIES – IMPACT & IMPLICATIONS

RAVI KANT
RESEARCH SCHOLAR
SCHOOL OF LAW & MANAGEMENT
SINGHANIA UNIVERSITY
PACHERI BARI

DR. S. C. JAIN
ASSOCIATE PROFESSOR
SHAHEED BHAGAT SINGH COLLEGE (E)
UNIVERSITY OF DELHI
DELHI

ABSTRACT

With Basel II implementation in India, the bank borrowers are rushing to get themselves rated by the credit rating agencies. The business of the rating agencies is growing in multiples. The individual size of these new clients is small and the credit profile is perceived to be weak. The structure of the client portfolio of rating agencies has deteriorated with the dominance of low rated clients from AA to BB. Rating agencies opine that influx of low grade clients would redefine transition probabilities of these grades. This means rating agencies are perhaps assigning conservative ratings which would improve the rating stability at low levels. Low client ratings adds cost to the banks in terms of higher risk capital and increased borrowing costs to their clients. Under this scenario, due to the differential of risk weights prescription for BB ratings and 'no ratings' at 150% & 100% respectively, banks do not gain by insisting external ratings to their clients, albeit external ratings protect the bank managers for their lending decisions! The quality of ratings is failing on the test of ordinality for both Cummultive Default Rates and stability.

JEL CODE
G210, G240, G280

KEYWORDS
Basel II, bank, rating agencies, risk capital, rating transition.

INTRODUCTION

Basel Committee of Banking Supervision (BCBS) formulated banking regulations have been religiously and zealously implemented by RBI on Indian banks, irrespective of their size of operations abroad; though these regulations are primarily meant for Internationally active banks, as defined in BCBS (1988).

Under recently implemented BCBS banking regulations - 2004 (Basel II), the risk weights of bank loan assets are linked to the external credit ratings, under standardised approach, for the determination of risk capital of the banks. This necessitated obtaining the credit rating for most of the loan asset portfolio of the banking industry. And, with implementation of Basel II in India, the Indian credit rating agencies (CRAs)[1] are flooded with unprecedented number of rating assignments and the client portfolio size of CRAs increased in multiples[2]. The increasing volume of business for the CRAs is reflected in the growth of number of outstanding ratings over this period (see fig.1b). The number is still growing. CRAs collaterally gained from the implementation of Basel II !

With the implementation of Basel II in India, not-so-strong and small sized entities too are pressurised to seek ratings, just for being bank borrowers. Though the client portfolio of CRAs is swelling, the revenue per client has declined. The difference between growth in number of rated entities and growth in revenue overtime is a good indicator of the decline in per client revenue.

CRISIL (2013) reported 10,542 rated firms as on Sept.30, 2012 against 783 rated firms four years ago, registering above 133% CAGR. In contrast, its rating revenue increased from Rs.188 cr in CY08 to Rs.313 cr in CY11, registering a CAGR of mere 18%. Though comparative period is not exactly same, large commonality in the period does exist to draw suitable inferences. Further, it is not very clear from the fragmented data collected from various publications of CRISIL that the above rated firm statistics include SME ratings3. And, if it does not, then the fall in per client rating revenue must have been steep. It is noteworthy that CRAs charge rating fee on the basis of size of each of the rated instrument, instead of per rated entity basis. This means the growth in number of rated instruments must have been more than that of rated entities and in effect, the fall in revenue per rated instruments must have been steeper.

Under this scenario, there can be two unwarranted possibilities –

(i) CRAs are aggressively competing for larger share of the new business and assigning higher ratings[4]; or

(ii) CRAs are exercising caution and assigning conservative ratings without conducting adequate due diligence and with low analyst input.

In both the cases, the banks would be the affected party. The banks would not know the actual credit risk of their loan portfolio and either they would provide low risk capital or high risk capital. In the second case, the clients too would be affected with higher borrowing costs incorporating higher risk premium.

Further, the stability of these ratings is important from bank's angle. The fluctuating ratings would lend similar fluctuation to the risk capital requirements of the banks. The higher the credit risk of the loan portfolio, the higher would the risk capital that the bank would need to provide.

Hence, it is pertinent to study the impact and implications of Basel II on Indian CRAs, including whether the rating quality of Indian CRAs has suffered. Here, we have attempted to bridge some of this knowledge gap. In the following sections, the relevant research literature, methodology of the present research and analysis, followed by conclusions is discussed.

LITERATURE SURVEY

Like in India, Basel II induced business must be accruing to the CRAs in other countries as well, wherein these regulations have been implemented. During literature survey, we have not come across any research touching upon this aspect of Basel II either for India or abroad. For India, there could perhaps be two reasons –

(i) Indian rating industry is not too big to catch the attention of global financial researchers; and

(ii) the financial research originating from India is low and is largely focussed on stock markets and mutual funds.

At international level, the key research issues pertaining to credit ratings and banking regulations are non-standardisation of rating definitions, risk assessment differences among CRAs, complacency of CRAs and over-reaction, pro-cyclicality, internal versus external ratings, and impact of inclusion of ratings for banks' risk capital determination.

- *No standarisation*: There is no single quantitative definition of any rating class which is followed by CRAs. The probability of default and expected loss pertaining to a rating class are not standardised. There are intances of differences of ratings assigned by two or more CRAs to the same entity. Such ratings differences are sometimes to the extent of two notches, according to Moody's (2001). Roy (2005) says that the summary statistics of the three CRAs (S&P, Moody's and Fitch) shows the disagreement in ratings to the extent of 18% for corporates, 15% for banks and 13% for sovereign. Further, he concluded that one CRA was systematically more conservative than the others. Moody's (2001) believes that using non-standardised definition for ratings would create confusion in the market when the rating is used for risk capital determination of banks. Entities with higher ratings would be benefited under Basel II, with the linking of external ratings with the risk capital of the banks. Low rated entities would be penalised in terms of low availability of finance and/or higher cost of finance.

- *No superior information, complacency and over-reaction*: Creighton *et al* (2006) conclude that the CRAs are not perceived to possess superior information than what is there already in public domain. The financial markets reaction is just minimal to the rating actions. Similarly, Elkhoury (2008) concluded that credit ratings tend to be sticky, lagging behind the market and then over-react. This behaviour of over-reaction might have aggravated the financial crisis in the past contributing to the financial instability and cross-country contagion.
- *Pro-cyclicality of ratings:* Amanto & Furfine (2003) believe that though CRAs don't react to the small changes in the risk profile of the firms but when rating agencies do make a change, they over-react relative to present conditions, and the nature of this over-reaction is positively correlated with the state of the aggregate economy. This could be the consequence of excessive optimism (pessimism) during economic upturns (down turns) on the part of the rating agencies. In effect, the capital determination based on external ratings too would be pro-cyclical.
- *Internal versus External ratings*: The banks may have better knowledge about their customers by being in their regular touch, but they would have vested interest in their risk assessment. Kirstein (2002) suggests the local supervisors may impose higher equity requirements on the banks indulging in such irregularities, to do away with any incentive therein. In the absence of such correspondence between vested divergence and imposition of equity capital requirements, Basel II objectives would be served by external CRAs. But, CRAs have proved to be on the wrong side time and again in the event of a crisis.

METHODOLOGY

The rating quality is determined by the stability of the outstanding ratings of the credit rating agency's portfolio. The stability of the ratings is determined by the philosophy of ratings agencies and the rating portfolio character. The rating philosophy means whether credit ratings are assigned keeping in view the current stage of economic cycle and the likely economic behaviour over the maturity of the rated financial instrument[5] or the forecasting is done assuming continuation of the current scenario (extrapolation). The rating portfolio character is reflected in the distribution of the ratings in the CRA's rated portfolio. Concentration of the 'live' ratings towards high rating categories would lend more stability to the portfolio and vice versa. The higher rated entities are more likely to survive the economic down turns and low category ratings have high mortality rates.

The stability is indicated by the ratio of the number of ratings remaining unchanged as a proportion to the outstanding ratings (of that rating class) within one year. A matrix drawn for the migration of a rating class to various rating classes within one year is drawn. This matrix is known as one year rating transition matrix. The ordinality in the rating stability and the cumulative default rates (CDRs) of the rating spectrum is used here for examining each CRA's rating quality.

To study the impact and implications of Basel II induced business on Indian CRAs, the trends in growth in rating portfolio, portfolio character, default rates, rating philosophy and rating ordinality are examined.

DATA AND ITS LIMITATIONS

There are serious issues concerning the data, with respect to the rating transition matrices of various CRAs in India. The CRAs explicitly refused to furnish the annual rating transition matrices for the past years, citing either policy matter or non-availability of data. Only ICRA, the third largest CRA in India is furnishing one year transition matrix, but ICRA's rating transition matrix too does not give the stability rates of 'BB and lower' ratings, where the current concentration of rating portfolio lies. Other CRAs are publishing *1-year average* transition matrices for erratic time periods. The averaging, by nature, eclipses the cyclical variations as well as, pattern of deterioration or improvement in ratings stability. The periodic changes in averaging period further impede the quality of the data for any meaningful analysis and conclusions, both from rating stability of individual CRA viewpoint and for inter-CRA comparisons. The averaging smoothens out the fluctuations in the rating transition, which though affects the banks and their clients.

The difference between 1-year annual transition data and 1-year average transition data is reflected in the table-1:

TABLE:1. CRISIL RATINGS – 1-YR STABILITY RATES (%)

Ratings	1-year annual stability rates*				1-year average stability rates			
	2002	2004	2005	2006	1992-02	1992-04	1992-05	1992-06
AAA	96.10	100.00	100.00	100.00	95.50	96.64	97.24	97.6
AA	90.80	91.10	94.90	93.60	86.50	89.26	89.66	89.9
A	75.00	88.50	81.80	100.00	82.80	82.40	82.37	82.6
BBB	75.00	66.70	75.00	100.00	75.50	73.27	73.26	73.6

*Published on one-off basis. CRISIL declined to give data for other years citing policy matter.

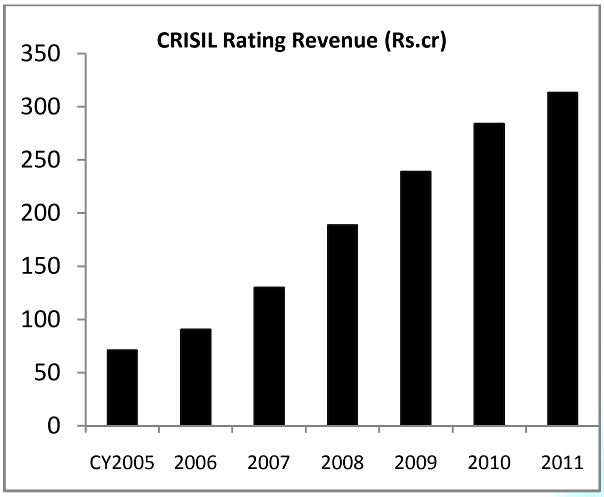
Source : CRISIL

The fluctuations in the annual rating data are discernible, which get smoothen out by the averaging in each rating class. In this context, the following analysis is constrained by the availability of quality data. Consequently, the study relied on the fragmented, unstructured and inconsistent data published by the CRAs. CRISIL, though in the same league, but its data are relatively more comprehensive than that of others, which is largely used for this study.

INTERPRETATION AND ANALYSIS

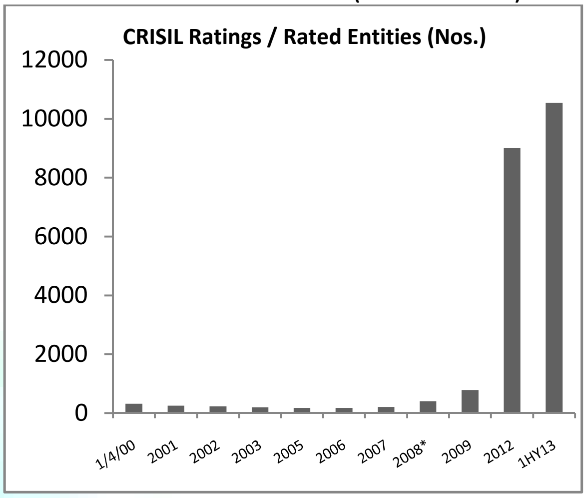
As already stated, the Indian CRAs are experiencing phenomenal rating business growth since the implementation of the Basel II in India. CRISIL (2012) states "CRISIL's portfolio of outstanding ratings has continued to expand in recent years, both in numbers and rating composition. The outstanding ratings increased to around 9000[6] entities as on March 31, 2012, up from around 400 entities, four years ago." Further, CRISIL reported 10,542 rated entities as on Sept.30, 2012. In six months, it rated 1500+ new entities (perhaps excluding SME ratings)! (see fig.1b). CRISIL is the largest CRA in India and hence may be treated as representative for the industry business growth.

FIG.1a: CRISIL RATING REVENUE



Source : Crisil Annual Reports

FIG.1b: OUTSTANDING RATINGS (FY END POSITION)



*Data upto 1/4/2007 pertains to number of ratings and after that the data relates to rated entities (excluding SME ratings).

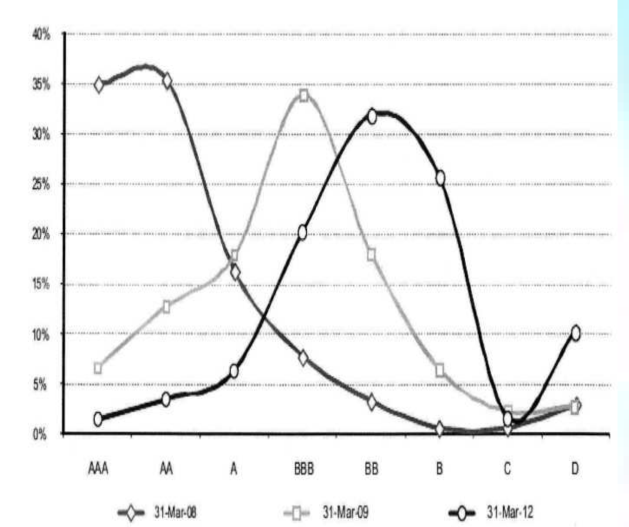
Source : CRISIL

- *Shifting rating portfolio character:* With the rise in number of rated entities, the character of the rated entity portfolio has undergone massive change. The majority of the ratings as on March 31, 2008 pertained to AA category which shifted to BB or lower class as on March 31, 2012! This trend is common to both CRISIL and ICRA for which this data is available (see fig.2). Higher rated (AA and above) entities are more likely to withstand the macro-economic downturns than lower rated entities. According to the CRISIL (2011), over the period 1988-2011, the 3 yr cumulative default rate (CDR) of AA is 1.09% against a high of 24.58% for BB. Fitch Ratings (2012) reported better 3 yr CDR of 16.67% during 2000-2009. Significantly, India Ratings (formerly, Fitch India) reported 100% CDR for BB category in 4 year period.

The deterioration in quality of concentration of rated portfolio of both these CRAs (CRISIL & ICRA) is very significant, with more than 60% of its rating portfolio relates to speculative grade (BB or below) as on March 31, 2012. And further, the portfolio is deteriorating fast such that as on Sept.30, 2012, CRISIL reported rise in share of 'BB or below' rated entities to 74% of its portfolio up from 13% four years ago (see fig.3).

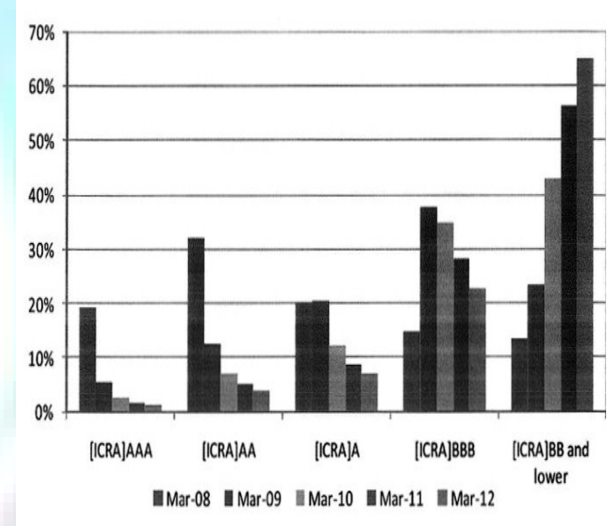
In the absence of information about number of outstanding ratings at the end of year for various rating categories, it is not possible to deduce if the portfolio concentration shifting is due to actual downgrades or addition of new ratings directly to speculative grades[7].

FIG.2a : DISTRIBUTION OF RATING PORTFOLIO OF CRISIL



Source : Crisil

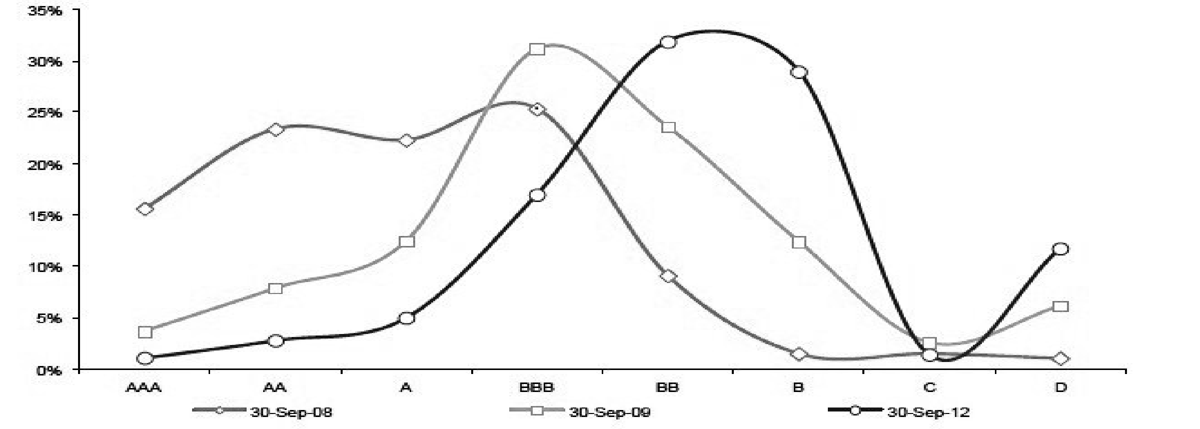
FIG.2b : DISTRIBUTION OF RATING PORTFOLIO OF ICRA



Source : ICRA

There are some peculiar aspects of the rating business in India. During the initial phase of credit rating industry, the strong and big business entities which were eligible to get high ratings got themselves rated during first 20 years of rating history of India. These high rated entities have been active borrowers in fixed income markets so they require mandatory credit ratings. CRAs too targeted those entities as these are high margin clients, as the rating fee is dependent upon the size of the instrument rated. Also, there is prestige issue involved to have impressive client portfolio with low probability of default.

FIG.3: RATING DISTRIBUTION OF CRISIL AS ON SEPT.30, 2012



Source : CRISIL

Another important fact of Indian credit rating business is that once a rating is assigned, it needs the acceptance of rated entity for it to go public. Non-accepted ratings die their own death and never come in public domain. Earlier, the acceptance rate of speculative grade was almost nil. But with Basel II induced solicited ratings coming in speculative categories, the newly rated entities are not giving too much importance to the rating grades, as it is just a formality for them to seek ratings on banks' insistence and there is no possibility for better rating through *rating shopping*. The acceptance of speculative grade ratings was unseen before, which has now skewed the rating portfolio of the CRAs.

The weakening character of the rating portfolio may adversely affect its overall rating migration record. The default may rise in the coming years for the overall rating portfolio.

It is noteworthy that under Basel II guidelines, loans to BB rated entities carry 150% risk weights against 100% risk weight for unrated entities. This is against the Basel I stipulations of 100% risk weights for all types of private loan assets. With high proportion of rated entities figuring in, BB or below categories, the purpose of obtaining credit rating is lost for both bank and its clients, in view of the risk weight structure of the regulations. Banks have to provide more capital if a loan is rated BB than would have to, if it remains unrated.

It can be better understood by an illustration. For a loan asset of Rs.1,000, the risk capital requirements would be as under :

TABLE:2. CAPITAL REQUIREMENTS UNDER VARIOUS RATING CATEGORIES

Ratings →	AAA	AA	A	BBB	BB & Below	Unrated
Risk weight	20%	30%	50%	100%	150%	100%
Capital Required (Rs.)*	18	27	45	90	135	90

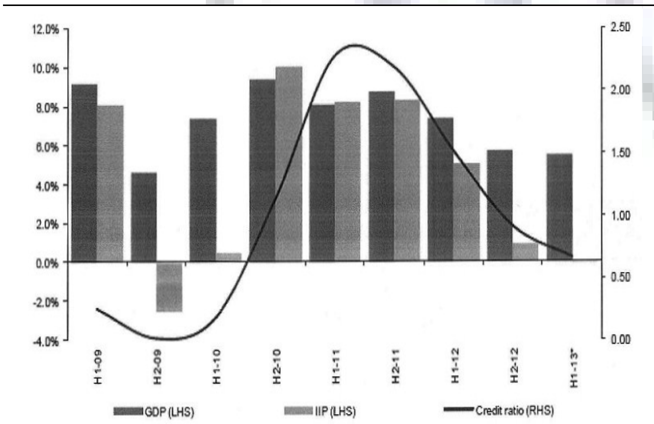
*at 9% CAR

On one side, *BB & below* rated bank clients are paying rating fee to the CRAs and are penalised with higher interest rates on risk based interest rate card, and on the other side, banks have to provide more risk capital than they would have otherwise, had the loan assets remain unrated. Eventually, under this situation, the banks may not insist their weak clients to obtain credit ratings. External ratings protect the bank managers for their lending decisions, though!

- *'Point-of-Time' Ratings moving with macro-economic cycles:* CRAs generally claim that they assign ratings which are through-the-cycle (TTC) that covers the rated instruments' tenure. TTC ratings are long term assessment of the risk associated with an entity which does not change with the economic cycle and therefore, the rating of the borrower will not change due to economic condition. Against this, the point-in-time (PIT) default ratings are assessment of the borrower risk at that particular point-in-time and the borrower will move up or down credit grades in line with the economic cycles (Dalessandro (2011)).

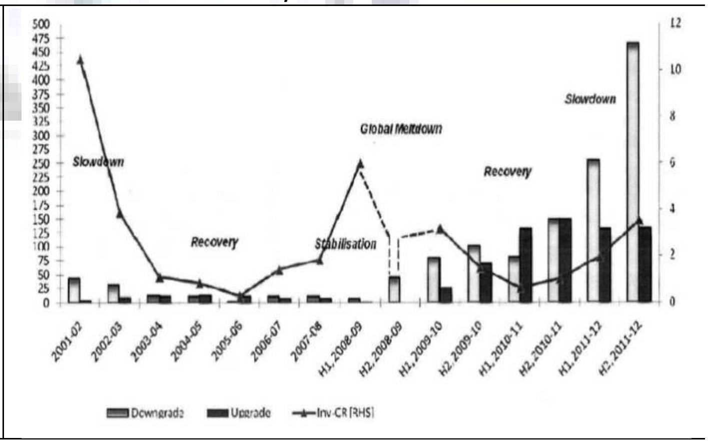
Analysis of the ratings migration of Indian CRAs shows that their assigned ratings are PIT ratings instead of TTC ratings, as these ratings are moving in tandem with the economic cycles. While commenting on the upgrades and downgrades of rating, CRISIL (2002), noted "A strong correlation was observed between GDP growth and the credit ratio[9] for the previous six years upto 1999-00… IIP growth rate was higher at 9.5% and 13% during 1994-95 and 1995-96 respectively and in those years the credit ratios were above 1.5 levels. Subsequently, IIP growth dropped to around 4-6% and the credit ratio trends also followed a similar trend within 1.0 or lower levels." And, almost 10 years later, CRISIL (2013) maintained and reasoned, "CRISIL's credit ratio exhibits a correlation with economic indicators such as index of industrial production (IIP) and GDP. Notably, the steep fall in credit ratio has been accompanied by a sharp decline in IIP and GDP in H1 of 2012-13." (see fig.4a). ICRA's exhibit also showing similar pattern of upgrade-downgrades with economic cycle phases (fig.4b). This is against the usual claim of rating agencies that their ratings are TTC.

FIG.4A : CREDIT RATIO OF CRISIL WITH IIP AND GDP



Source : CRISIL

FIG.4B : UPGRADES/DOWNGRADE WITH ECO EVENTS*



Source : ICRA

*ICRA's chart is showing 'inverse credit ratio' curve against credit ratio curve of CRISIL in adjoining chart

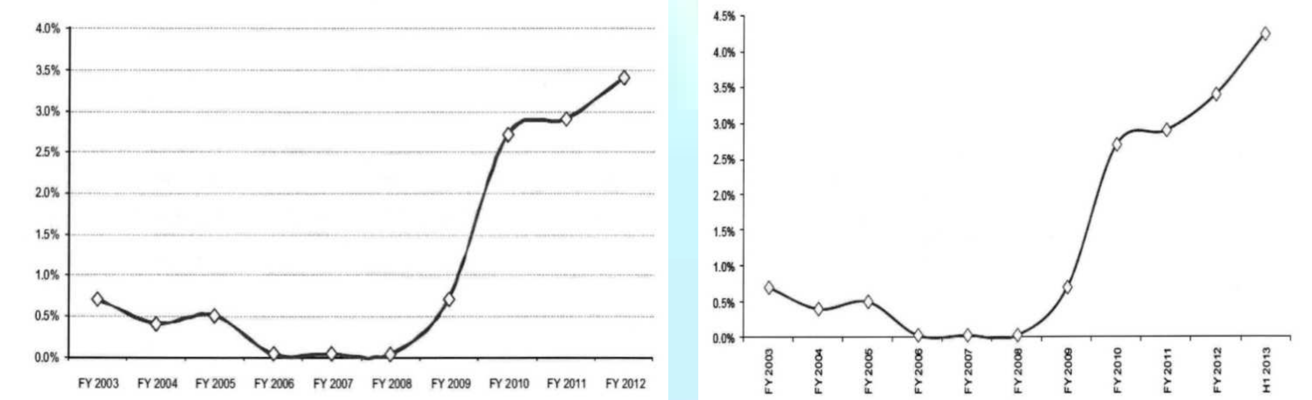
The two premier CRAs of India themselves noted in their own publications that rating upgrades-downgrades are following IIP and GDP growth patterns. The claim that ratings are TTC, at least in India, does not hold true, by CRAs' own admission and the relevant data. *If credit ratings are subject to economic risks, then the pro-cyclicality is imbibed.*

It is noteworthy to quote S&P (2006) here, "The ideal is to rate 'through the cycle'. There is no point in assigning high ratings to a company enjoying peak prosperity if that performance level is expected to be only temporary. Similarly, there is no need to lower ratings to reflect poor performance as long as one can reliably anticipate that better times are just around the corner." This is against the Indian CRAs' track record.

PIT ratings lose their significance in offering predictability or probability of servicing of the rated financial instruments. In other words, the credit ratings become pro-cyclical. And, this feature of ratings affects the risk capital requirements of the banks, and lends pro-cyclicality attributes. Amato & Furfine (2003) feel that to the extent that ratings are pro-cyclical, banks' CAR will tend to be higher during downturns thereby reducing credit supply from banking.

- *Rising incidence of defaults:* With shifting profile of rated entities to low investment or non-investment grades and the pro-cyclical nature of credit ratings, the default rate is rising (fig.5). The defaults rate in CRISIL's rated portfolio has risen within a period of 6 months from 3.4% in 2011-12 to 4.2% in 1HFY2013. CRISIL reported 183 defaults during first two quarters of FY2013 against 107 in the corresponding period of FY2012. Similarly, India Ratings reported rising default rates in its portfolio. The default rate of India Ratings increased to 2.21% in 2010-11 from 1.28% in 2009-10. And, this default rate is likely to rise further to unprecedented levels as the actual effect of portfolio character deterioration would come into being in next 8-12 quarters. The default rate would though depend upon the rating stability at lower levels.

FIG.5 RISING DEFAULT RATE (CRISIL) IN 6 MONTHS



Source : CRISIL

- *Rising stability at low rating categories:* Indian CRAs feel that the stability rates and default rates in lower rating categories (BBB and BB or below) would rise. This means the rating transition rate of lower ratings would improve and so would be the CDR. CRISIL (2010) reported surge in BBB and lower ratings during 2010 with smaller companies availing the ratings for their bank loan facilities and its overall default rate declined in 2010 to 2.3% from 3% in 2009 even though there was steep rise in default susceptible lower category ratings in its overall rating portfolio. Further, it reported improvement in default rates and stability rates prominently in BB & B categories, though it did not furnish the related data.

TABLE 3: CRISIL'S 1-YEAR AVERAGE RATING STABILITY RATES

Period	AAA	AA	A	BBB
2000-2007	98.1%	93.7%	86.4%	73.8%
2000-2008	97.9%	94.7%	87.7%	75.8%
2000-2009	96.5%	93.8%	88.4%	80.2%
2000-2010	96.9%	93.9%	88.8%	87.2%
2000-2011	97.3%	94.4%	89.9%	89.3%

Note : Data for BB and below is not available

Source: CRISIL

BBB ratings showed marked improvement in one year average stability rates from 73.8% during 2000-2007 to 89.3% during 2000-2011. Despite new ratings, which are largely related to small business outfits, getting added to BBB or below categories during 2007-2011 (Basel II induced business), there was significant improvement in stability rates in these categories. This implies that the smaller entities showed better credit risk profile stability when the economy was slowing!

There can be two reasons for this trend:

i) CRAs assigning low rating to the banks' clients, giving higher weightage to the entity size factor though these are better managed businesses (owner – manager type entities) and owner-management has high stakes in business success, and business reputation is important to them; or

ii) Caution on the part of the CRAs to handle such high workload of new ratings (more than 10,000 in one year) and, naturally, assigning lower ratings without conducting desired analytical due diligence and relying more on process driven exercise.

In any of these cases, both clients and banks get penalised. The bank borrowers are assigned low ratings and hence, banks would have to provide higher risk capital and clients have to bear higher borrowing costs associated with low level of ratings.

It would be a learning for Indian CRAs too that eventually these would rectify their style of operations, in case stability of BB rises higher to that of BBB. Till then, both banks and their clients would suffer.

- *Quality of Ratings*: Though, the quality of ratings is determined by the stability of ratings as determined by the 1-year annual transition matrix and CDRs of rating classes, in the absence of this information, ordinality in rating transition and CDR is a good indicator for examining the quality of individual CRA's ratings.

TABLE 4: CRISIL'S 3-YR CDR AND 1-YR TRANSITION RATES FOR LOWER CATEGORIES

Calculation Basis (for 2001-2011)	Long Term Instruments 3 YR CDR		Short Term Instruments 1 Yr Avg. Stability Rates			
	BB	B	A1	A2	A3	A4
Monthly static pool basis	19.50%	15.46%	85.63%	88.99%	86.58%	92.26%
Annual static pool basis	17.65%	15.31%	85.70%	88.60%	87.10%	92.40%

Source : CRISIL Default Study 2011

CRISIL claims that its rating process is vetted by the ordinal nature of default rates, high stability and predictability of its ratings. But, as per published information in CRISIL (2011), such claim is not fully admissible, at least for lower rating categories (see table-4). *The statistics for lower grade ratings is better than higher grades for both short and long term instruments for both default and transition rates, calculated on either monthly or annual static pool basis*. In fact, A2 & A4 categories showed better stability than their respective immediate higher rating categories and stability rates of A4 are better than all other higher rating categories!

CRISIL numbers are just indicative in nature and this study should not be construed as a company-specific case study. CRISIL is the largest CRA in India. The story could be similar or worse for other CRAs, which have shied away from disclosing the relevant data on self regulatory basis.

CONCLUSION

Overall, Indian CRAs have seen massive business growth during since 2008, which is largely Basel II induced. These CRAs are experiencing structural changes in their rating portfolio which would have long term ramifications on rating transitions and default rates.

Though the new rating business is boon to CRAs from revenue point of view, the concentration of rating portfolio has already shifted from high investment grade ratings to speculative grades ratings. The low ratings naturally are more susceptible to quick rating migrations (low stability) and high default rates as compared to their high investment grade counterparts.

Crisil, the largest CRA in India, opines that shifting of rating portfolio to low grades would redefine transition or default probabilities of these rating classes. This means, these low rating classes would better their default probabilities from the current levels. BBB ratings are already showing high improvement in stability from 74% to 89% during 2007-2011. If this observation of CRAs is believed to be correct, then CRAs are either giving too much weightage to the size of the entities disregard to their owner-management feature, business and financial strengths or are conducting inadequate analytical due diligence and simply assigning low grade ratings to be on safer side through process-driven rating exercise.

Irrespective of the future events of whether low rating classes would redefine their risk perception or whether these entities would show actual deterioration or caution on the part of the CRAs, banks have to provide more risk capital for these rated entities than they would have to, otherwise. The higher pricing of finance due to provision of higher risk capital is collateral damage to their clients.

The pro-cyclical feature of the ratings in India would adversely affect the capital requirements of the banks. Even if Indian banks graduate themselves for internal ratings under Advance Approach of the Basel II for credit risk, the pro-cyclicality is unlikely to be diminished because these CRAs are reported to be advising and implementing their models in the banks. The ordinality in the lower rating classes of CRISIL for both CDR and transition is missing for both short term and long term instruments. This reflects the lack of quality of ratings.

Another important aspect of the credit ratings is the 1-yr transition matrix which determines the quality of the ratings. This information is consciously being kept under wraps by the frontline Indian CRAs. Indian CRAs are publishing 1-yr transition matrix on average basis for inconsistent periods which hides annual random movement of the ratings. The presence of this random movement is reflected by one-off published data shown in Table-1. The dispersion of ratings stability could not be determined due to absence of data, the random movement though affects the level of risk capital of the banks which is based on this movement. This side of the story could not be explored due to secrecy maintained around it. However, the secrecy can't be without reasons.

REFERENCES

1. Amanto, J.D. and Furfine, C.H. (2003), "Are credit ratings pro-cyclical?", BIS working paper no.129.
2. BCBS (1988), "International Convergence of Capital Measurement and Capital Standards", http://www.bis.org/publ/bcbs04a.pdf (Viewed on Feb.01, 2013)
3. Creighton, A., Gower, L. and Richards, A.J., (2006), "The Impact of Rating Changes in Australian financial markets", Pacific-Basin Finance Journal 15 (2007) 1–17.
4. CRISIL (2002), "Credit rating trends round up - half year 2001-02", http://www.crisil.com (Viewed on Feb.01, 2013).
5. CRISIL (2008), "Annual Report 2008", http://www.crisil.com (Viewed on Feb.01, 2013).
6. CRISIL (2010), "CRISIL default study -2010", http://www.crisil.com (Viewed on Feb.01, 2013).
7. CRISIL (2011), "CRISIL default study -2011", http://www.crisil.com (Viewed on Feb.01, 2013).
8. CRISIL (2012), "CRISIL Rating Roundup – FY11-12", http://www.crisil.com (Viewed on Feb.01, 2013).
9. CRISIL (2013), "CRISIL Rating Roundup – FH 2012-13", http://www.crisil.com (Viewed on Feb.01, 2013).
10. Dalessandro, A. (2011), 'Credit Migration Risk and Point in Time Credit Dynamics: A New Perspective for Credit Risk Management', SSRN: http://ssrn.com/abstract=1969796 (viewed on Feb.01, 2013)
11. Elkhoury, M. (2008), "Credit rating agencies and their potential impact on developing countries", UN Conference on Trade and Development, Discussion Paper, 186, Jan.2008.
12. Financial Crisis Inquiry Commission (2011), "Financial Crisis Inquiry Commission Official Government Edition", Viewed on Feb,01, 2013, http://www.cfr.org/united-states/financial-crisis-inquiry-commission-report-january-2011/p23952
13. Fitch (2012), "Fitch India national ratings 2011 transition and default study", http://www.fitchindia.com/upload/research/specialReports/2012/9/3/FitchIndiaNationalRatings.pdf (Viewed on Feb.01, 2013).
14. Kirstein, R. (2002), "The new Basle Accord, internal ratings and incentives of banks", International Review of Law and Economics 21 (2002) 393–412.
15. Moody's (2001), "Moody's investor service response to the consultative paper issued by Basel Committee of Banking Supervision - A new capital adequacy framework", Journal of Banking & Finance 25 (2001) 171-185.
16. Roy, P.V. (2005), "Credit ratings and the standardised approach to credit risk in Basel II", European Central Bank, Working Paper No.517, Aug.2005
17. S&P (2006), "Standard and Poor's Corporate Rating Criteria", http://www.standardandpoors.com (Viewed on Feb.01, 2013).
18. S&P (2011), "2011 Annual Asia-Pacific Corporate Default Study And Rating Transitions", http://www.standardandpoors.com /ratings/articles/en/ap/?articleType=HTML&assetID=1245338868718 (Viewed on Feb.01, 2013).

NOTES

1. The data used in this paper is collated from various publications of CRAs given in unstructured formats.
2. In India, there five CRAs-CRISIL, CARE, ICRA, India Ratings (formerly, Fitch India) and Brickworks. (SME Rating Agency received license from SEBI and RBI in Sept-Oct.2012).
3. In Crisil's Annual Report (2007), Director Report says ....*"The Reserve Bank of India's guidelines on the use of external ratings for computation of Capital under Basel II norms have opened up the bank loan rating market. The Bank Loan Rating activity got off to a brisk start in 2007... We expect substantial growth in the bank loan rating business in 2008 with banks' need to comply with Basel II requirements."*
4. CRISIL assigned fresh 2,434 bank loan ratings and 7,800 SME ratings in CY2010 itself and about 12500 SME ratings in CY2011.
5. In 2006 alone, Moody's stamped 30 securities everyday as triple-A. 83% of the triple-A rated securities were downgraded ultimately in that year (Financial Crisis Inquiry Commission Report 2011)
6. It is noteworthy that credit rating is assigned to the financial instrument and not to the rated entity. The specifications of the financial instruments are considered while assigning the rating.
7. Major rise came in CY2009 – from 900 ratings as on Dec.31, 2008 to more than 8,000 ratings as on Dec.31, 2009.
8. S&P provides this data in its publications but its Indian affiliate and other Indian CRAs prefer not to publish such data.
9. Credit ratio is the ratio of no. of upgrades to no. of downgrades.

REQUEST FOR FEEDBACK

Dear Readers

At the very outset, International Journal of Research in Commerce, IT and Management (IJRCM) acknowledges & appreciates your efforts in showing interest in our present issue under your kind perusal.

I would like to request you to supply your critical comments and suggestions about the material published in this issue as well as on the journal as a whole, on our E-mail i.e. **infoijrcm@gmail.com** for further improvements in the interest of research.

If you have any queries please feel free to contact us on our E-mail infoijrcm@gmail.com.

I am sure that your feedback and deliberations would make future issues better – a result of our joint effort.

Looking forward an appropriate consideration.

With sincere regards

Thanking you profoundly

Academically yours

Sd/-

Co-ordinator

ABOUT THE JOURNAL

In this age of Commerce, Economics, Computer, I.T. & Management and cut throat competition, a group of intellectuals felt the need to have some platform, where young and budding managers and academicians could express their views and discuss the problems among their peers. This journal was conceived with this noble intention in view. This journal has been introduced to give an opportunity for expressing refined and innovative ideas in this field. It is our humble endeavour to provide a springboard to the upcoming specialists and give a chance to know about the latest in the sphere of research and knowledge. We have taken a small step and we hope that with the active co-operation of like-minded scholars, we shall be able to serve the society with our humble efforts.

Our Other Journals