ABSTRACT

The present study tries to assess the accuracy of credit ratings in India using a 3-pronged approach-focussing on internal consistency, rating variability and default prediction. The results show that on the whole, discriminatory power, can be classified as moderate at best. However at a disaggregated level we find that certain ratios like Current Ratio and D/E ratio fit into neat expected patterns, and hence exhibit a pattern in contrast to that observed at the aggregate level .Hence we emphasize the fact that rating agencies supplement their mathematical models with ‘soft/qualitative factors’; management quality being the most vital amongst them. Rating Variability over time seems to be on a continuous rise, majority of which seems to be on the downside. Finally lack of concordance between Altman-Z score and published rating in case of both the CRAs under study highlight the fact that the ratings published by the agencies are not merely reflective of quantitative firm-level data; rather they incorporate their subjective judgements, access to confidential information, management’s experience and expertise etc. into the rating process to yield improved accuracy.