FINANCIAL Chronicle
12th August 2016

WHATSINIT 4me

MARKET TODAY

WHY credit rating alone is insufficient?

A CREDIT rating is an "opinion" on the credit Worthiness of a borrower or the relative degree of risk of timely payment of Interest and principal on a debt instrument. A credit Rating indicates the probability of default of the rated instrument and, therefore, provides a benchmark for measuring and pricing of credit risk. A credit rating may reflect a credit rating agency's subjective judgement of an issuer's business and management. While historical financial and operating experience and collateral performance may factor into the analysis of a borrower, credit ratings are simply a prediction of how a borrower may behave in the future. Even though a lot of research might have gone into determining credit ratings, yet ratings have their own laminations. Hence, credit rating alone cannot be used as a single indicator/input for investment decisions. These limitations are part of the disclaimers with every credit rating. For instance, a credit rating is not a recommendation to buy, hold or sell any shares, bonds, debentures or any financial instruments issued by the rated entity. Credit rating is not a performance evaluation of the rated entity and as part of the rating process, agencies do not conduct any statutory audit or forensic audit of the rated entity. Credit rating agencies never give any guarantee against default of the rated instrument. Credit ratings can also be revised if there has been a major change in the business or financial risks profile of the issuer. Every investor must consider other risks apart from credit risk, taxation, risk of secondary market loss and exchange loss risk.

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