

Financial determinants of corporate credit ratings: An Indian evidence

Rahul Gupta 

First published: 04 February 2021

<https://doi.org/10.1002/ijfe.2497>

Citations: 3

Abstract

Credit rating is a vital tool in the hands of investors and other users. Standard mathematical formulas do not exist for determining credit ratings. Instead, rating agencies exercise their judgment and use their experience to determine what information is to be important in providing a rating. Thus, knowledge and understanding about factors influencing credit ratings is very crucial for companies being rated and other users. Most of the prior studies in related context have used developed countries' data, and the effect in emerging markets, especially in Indian context, is still unclear due to lack of such studies. So, this study attempts to identify the long-term and short-term financial determinants of credit ratings issued to Indian companies and examines their impact on credit ratings on the basis of panel data and cross-sectional approaches. Ordered probit analysis is used with credit ratings as the dependent variable and six financial factors as the independent variables. Results indicate that size, profitability and leverage have a significant relationship with corporate credit ratings in both panel data and cross-sectional approaches. Also, size has the highest impact on credit ratings followed by leverage and profitability in both the approaches. The major contribution of present study is that two different mathematical models are framed which have a reasonably well correct prediction percentage. These models can be used by the investors' academicians, practitioners and other users for predicting the rating categories of various companies and to get a fair idea about their creditworthiness and safety.

Open Research 

DATA AVAILABILITY STATEMENT

The data that support the findings of this study are available from the corresponding author upon reasonable request

REFERENCES

Adams, M., Burton, B., & Hardwick, P. (2003). The determinants of credit ratings in the United Kingdom insurance industry. *Journal of Business Finance & Accounting*, 30, 539–572.

Al-khawaldeh, A. A. (2013). Determinants and impacts of internal credit rating. *International Journal of Financial Research*, 4, 120–131.

Aman, H., & Nguyen, P. (2013). Does good governance matter to debtholders? Evidence from the credit ratings of Japanese firms. *Research in International Business and Finance*, 29, 14–34.

Andreasen, E., & Valenzuela, P. (2015). Financial openness, domestic financial development and credit ratings. *Finance Research Letters*, 1–8.

Ashbaugh-Skaife, H., Collins, D. W., & LaFond, R. (2006). The effects of corporate governance on firms' credit ratings. *Journal of Accounting and Economics*, 42, 203–243.

Attig, N., Ghouli, S. E., Guedhami, O., & Suh, J. (2013). Corporate social responsibility and credit ratings. *Journal of Business Ethics*, 117, 679–694.

Bhalla, V. K. (2008). *Management of financial services*, New Delhi, India: Anmol Publications Pvt. Ltd.

Bolarinwa, S. T., & Obembe, O. B. (2019). Firm size–profitability nexus: An empirical evidence from Nigerian listed financial firms. *Global Business Review*, 20, 1109–1121.

Bone, R. B. (2010). Determinants of corporate ratings in the oil industry: The Repsol-YPF case. *Read*, 16, 70–90.

Cantor, R. (2004). An introduction to recent research on credit ratings. *Journal of Banking & Finance*, 28, 2565–2573.

Capital Intelligence Ratings. (2015). *Types of credit ratings*. Retrieved from <https://www.ciratings.com/page/credit-rating-services/types-of-credit-ratings>.

CARE. (2018). *Issuer ratings*. Retrieved from <https://www.careratings.com/upload/NewsFiles/GetRated/IssuerRating-28-Aug-2018.pdf>.

Chadha, S., & Sharma, A. K. (2016). An empirical study on capital structure in Indian manufacturing sector. *Global Business Review*, 17, 411–424.

Creighton, A., Gower, L., & Richards, A. J. (2007). The impact of rating changes in Australian financial markets. *Pacific-Basin Finance Journal*, 15, 1–17.

Dodd, C., & Hill, M. D. (2018). Determinants of REIT credit ratings. *Journal of Real Estate Portfolio Management*, 24, 191–199.

Feki, A., & Khoufi, W. (2015). The determinants of issuers' long term credit ratings: American S&P500 index. *International Journal of Accounting and Economics Studies*, 3, 78–85.

Gonis, E., Paul, S., & Wilson, N. (2012). The rating decision and the determinants of credit ratings: A UK empirical investigation. *International Review of Financial Analysis* ISSN 1057-5219.

Gordon, E., & Natarajan, K. (1999). *Financial markets and services*, Mumbai, India: Himalaya Publishing House.

Grassa, R. (2016). Corporate governance and credit rating in Islamic banks: Does Shariah governance matters? *Journal of Management and Governance*, **20**, 875–906.

Greene, H. W., & Hensher, D. A. (2010). *Modeling ordered choices: A primer*, Cambridge, MA: Cambridge University Press.

Grunert, J., Norden, L., & Weber, M. (2005). The role of non-financial factors in internal credit ratings. *Journal of Banking & Finance*, **29**, 509–531.

Gujarati, D. (2011). *Econometrics by example*, UK: Palgrave Macmillan.

ICRA. (2017). *Corporate credit rating methodology*. Retrieved from <https://www.icra.in/Files/Articles/Rating%20Meth%20Mar%202017.pdf>.

Kang, Q., & Liu, Q. (2005). *Guess who's also minding your business? The effect of credit ratings changes on CEO incentives*. Paper presented at Seminar Proceedings of School of Economics and Finance, University of Hong Kong, HKU, Hong Kong. Retrieved from <http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.574.3904&rep=rep1&type=pdf>.

Kaur, K., & Kaur, R. (2011). Credit rating in India: A study of rating methodology of rating agencies. *Global Journal of Management and Business Research*, 11, 62–68.

Kumar, K. S. V., & Rao, S. H. (2012). Credit rating- role in modern financial system. *International Journal of Marketing, Financial Services & Management Research*, 1, 126–138.

Ministry of Finance. (2009). *Report of the committee on comprehensive regulation for credit rating agencies. Committee report*, New Delhi, India: Capital Markets Division, Ministry of Finance, Government of India Retrieved from https://www.sebi.gov.in/sebi_data/attachdocs/1288588001441.pdf

Murcia, F. C. D. S., Murcia, F. D., Rover, S., & Borba, J. A. (2014). The determinants of credit rating: Brazilian evidence. *Brazilian Administration Review*, 11, 188–209.

Nejad, N. R., & Wasiuzzaman, S. (2015). Multilevel determinants of capital structure: Evidence from Malaysia. *Global Business Review*, 16, 199–212.

Padmalatha, S., & Justin, P. (2010). *Management of Banking and Financial Services*. Noida, UP, India: Dorling Kindersley India Pvt. Ltd., Pearson Education India.

Papaikonomou, V. L. (2010). Credit rating agencies and global financial crisis: Need for a paradigm shift in financial market regulation. *Studies in Economics and Finance*, 27, 161–174.

Roje, G. (2005). *The role of accounting determinants in predicting long term credit ratings*. Paper presented at Proceedings of the 28th European Accounting Association Congress, Gotheborg, Sweden. Retrieved from https://bib.irb.hr/datoteka/206030.GORANA_ROJThe_Role_of_Accounting_Determinants_in_Predicting_Long_Term_Credit_Ratings.doc

Roychoudhury, S., & Lawson, R. A. (2010). Economic freedom and sovereign credit ratings and default risk. *Journal of Financial Economic Policy*, 2, 149–162.

Tarigan, C. K., & Fitriany, F. (2017). Impact of corporate governance on credit rating. *Advances in Economics, Business and Management Research (AEBMR)*, 55, 248–253.

Venkiteshwaran, V. (2014). Do asset sales affect firm credit risk?—Evidence from credit rating assignments. *Managerial Finance*, 40(9), 903–927.

Citing Literature



[Download PDF](#)

ABOUT WILEY ONLINE LIBRARY

[Privacy Policy](#)

[Terms of Use](#)

[About Cookies](#)

[Manage Cookies](#)

[Accessibility](#)

[Wiley Research DE&I Statement and Publishing Policies](#)

[Developing World Access](#)

HELP & SUPPORT

[Contact Us](#)

[Training and Support](#)

[DMCA & Reporting Piracy](#)

OPPORTUNITIES

[Subscription Agents](#)

[Advertisers & Corporate Partners](#)

CONNECT WITH WILEY

The Wiley Network
Wiley Press Room

Copyright © 1999-2023 John Wiley & Sons, Inc. All rights reserved