



IMPACT OF CREDIT RATINGS ON FINANCING DECISIONS AT CARE RATINGS

^{#1}Mr VR RAMAKRISHNA, *Associate Professor,*

^{#2}S MAMATHA, *MBA Student,*

Department of MBA,

VISWAM ENGINEERING COLLEGE (Autonomous), ANGALLU, MADANAPALLE, AP.

ABSTRACT: This research examines how credit ratings affect corporate funding decisions, focusing on CARE Ratings. Credit ratings help investors and lenders analyze credit risk and reduce information asymmetry. The study explores how CARE ratings affect corporate loan and equity funding decisions. It also examines how ratings affect funding and capital costs. Analysis uses secondary data from CARE reports and firm financial filings. Higher ratings improve market access and lower borrowing costs, research shows. However, rating downgrades make borrowing harder. Credit ratings indicate market financial health. The study found that CARE Ratings significantly affect business finance methods.

Index terms: *Credit Ratings, Corporate Financing Decisions, Cost of Capital, CARE Ratings, Information Asymmetry, Debt Financing, Equity Financing, Credit Risk Assessment, Financial Performance, Market Access*

1. INTRODUCTION

Personal loan and government bond rates depend on credit ratings. Despite their importance, few know how these evaluations are calculated.

Credit ratings help the financial sector evaluate governments, corporations, and financial instruments. Independent credit risk assessment companies in India and elsewhere provide these ratings. The issuer's financial situation, industry trends, debt repayment history,

And macroeconomic context are carefully analyzed for these ratings. The organization or instrument's creditworthiness is usually signified by AAA, BB, or C.

Credit ratings affect international capital market funding decisions by financial institutions, governments, and corporations as a dependable indicator. An organization's ability and resolve to meet its financial obligations on time is fully

assessed by Moody's, Standard & Poor's, and Fitch's ratings. Credit ratings impartially measure default risk and decrease investor information asymmetry, implying debtor stability and financial health. Due to their impact on financing circumstances, structure, cost, and cash flow, credit ratings are crucial to strategic financial planning.

One area where credit ratings matter is capital cost. AAA or AA-rated companies can borrow at lower rates since they are safer. Bond investors and lenders demand lower risk premiums. To offset investment risk, speculative-grade or lower-rated borrowers must pay higher loan rates and observe tougher covenants. When ratings collapse, companies may delay borrowing or seek other funding, altering issuance timing, term structures, and debt vs. equity financing. Therefore, credit ratings greatly influence long-term financing and capital structure decisions.



Credit ratings impact capital markets and funding. Mutual funds, insurance companies, and pension funds cannot invest in non-investment-grade assets due to internal rules. A downgrade below this threshold may force sales and diminish demand for a borrower's securities, lowering investors. Therefore, firms may prioritize maintaining a rating level to ensure market access over aggressive debt-backed growth by decreasing leverage, selling assets, or hoarding earnings.

Corporate strategies and management are affected by credit ratings beyond financial costs and access. Mergers, dividends, share repurchases, and substantial capital expenditures can affect cash flows and leverage, therefore management routinely modifies ratings. Financial discipline and transparency can be promoted by protecting or improving ratings, although cautious investment decisions that prioritize growth over stability may result. This highlights how credit ratings affect firm strategy and risk-taking beyond finance systems in modern financial decision-making.

2. LITERATURE SURVEY

Feda (2020) This research examines non-financial firm panel data. Grades are compared to loan length, leverage, and funding mix. Higher-rated companies employ debt funding more due to lower interest rates and easier market access. Firms near rating requirements carefully limit leverage to prevent declines. The study revealed ratings constrain managerial funding decisions externally. Rating upgrades boost debt issuance, whereas downgrades deleverage, study shows. Ratings can lessen information asymmetry, the results reveal. The analysis

also highlights firm size and industry differences. Credit ratings affect how firms manage money. The disciplinary role of rating agencies is better understood with this research. It finds that ratings drive capital structure dynamics.

Vink, Naas, & van Bremen (2021) This research examines how security design affects collateralized loan obligation credit rating risk. The authors examine structural traits and ratings using CLO tranche data. The research found that design considerations greatly impact rating stability and downgrade risk. Complex structures increase rating volatility. The study shows managers change tranche designs to meet ratings. This increases the likelihood of rating migration risk. This report also shows discrepancies between senior and junior tranches. Rating agencies affect CLO structures. The findings imply ratings affect risk assessment and product design. This study raises concerns about systemic risk in structured finance. In CLO, ratings and security design go together.

Dang et al. (2022) Debt spending and credit ratings are linked to strategic characteristics of different firms in this study. The authors divide companies into prospectors, defenders, and analysts using global data. The data suggest that strategic direction significantly impacts credit ratings. Most aggressive expansion tactics result in poorer ratings and greater financing costs. Conservative strategies receive better reviews and cheaper funding. The research shows that corporate strategy affects credit risk perception. Ratings influence strategy-borrowing cost relationships. Regardless of country or industry, outcomes are consistent. Qualitative company aspects are stressed



in the paper. It integrates strategy and finance literature. Strategic decisions generally affect finance and credit risk.

Kim, Thompson, & Kim (2023) This research examines how credit ratings affect Korean corporate investment decisions by managers. Using firm-level data, the authors explore whether managers change investments to maintain or improve ratings. The data show that managers of enterprises near rating limits reduce risky investments. They prioritize cash flow stabilization over expansion. Study shows rating-driven conservatism in management. High downgrading risk increases investment sensitivity to internal cash flow. Companies with excessive leverage and inadequate governance suffer more. Paper highlights behavioral responses to external observation. Ratings affect financial and judgmental decisions. The findings add emerging market evidence to the literature. Credit ratings generally affect managerial investment behavior.

Bwowa, Mouton, & de Wet (2024) This research examines how credit rating changes affect South African firm capital structure. Panel data is used to study upgrade and downgrade leverage adjustments. The data show that downgrades enhance stock issuance and lower debt. Upgrades boost borrowing and debt capacity. Studies show asymmetric reactions to rating adjustments. Downgrades correct faster and stronger than upgrades. The effects are especially obvious for deeply leveraged companies. Ratings are stressed throughout the article for developing markets. Ratings affect short- and long-term funding decisions. The data suggest corporations should actively manage their ratings. South

Africa's capital structure is heavily influenced by credit ratings.

Kakouris, Charalambakis, & Psychosis (2025) Credit rating releases may affect corporate dividend policy, according to this study. The authors examine rating behaviors and narratives using firm-level event data. Negative outlooks and downgrades cause dividend reduction or slower growth. Dividend rises indicate positivity. The report underlines that managers and investors value qualitative disclosures over ratings. Companies with less financial flexibility benefit from dividends. The study shows how narrative content provides incremental knowledge. This affects executive pay beyond headline ratings. The work improves our understanding of rating pathways. Credit risk assessments are linked to business payout policy. Rating announcements affect dividend behavior through details and signals.

3. 5 Cs OF THE CREDIT DECISION

The Five Cs of Credit help lenders evaluate borrowers. By using these factors, lenders can better assess risk and decide whether to grant a loan and under what terms.

Character

Customer character is their credit history and reputation. D&B, Experian, and Equifax are used by credit teams to assess payment history, debts, credit ratings, bankruptcies, and court rulings. A good credit history and high credit score make a customer less risky and more likely to repay loans on time.

Capacity

The customer's capacity to repay the supplier is assessed. Credit teams use trade



and bank references to assess customer cash flow stability. They watch consumer financial news to understand their status. The client's financial capacity is assessed by this evaluation.

Collateral

Like a mortgage, collateral is assets a consumer pledges for loan. Collateral provides the credit team confidence and increases the chance of a greater credit line. High-risk clients often need collateral to avoid bad debts.

Capital

The customer's equity and assets are capital. Credit teams examine public financial accounts to assess these financial and non-financial assets. Increased capital allows the lender to claim these assets if the borrower defaults, lowering loan risk.

Conditions

Conditions include the customer's finances and economic factors. Credit teams review financial statements, cash flow, balance sheets, and income statements. They also include macroeconomic issues including business trends and geopolitics. These factors heavily influence borrowing costs and terms.

4. TYPES OF FINANCIAL DECISION



Investment Decisions

Organizations allocate funds to long-term assets and projects through investment decisions. They involve choosing efforts with the highest long-term results. Examples include investing in machines, technology, and new businesses. These decisions affect business growth and profitability. Think carefully about risk and return.

Financing Decisions

Financing decisions focus on how a company acquires money for operations and investments. This requires choosing loan, stock, or both. Goal is to lower capital costs while maintaining financial stability. These decisions affect the company's capital structure and risk. Proper finance ensures timely funding.

Dividend Decisions

Dividend decisions determine how much earnings to keep and pay shareholders. Corporate reinvestment and shareholder expectations must be balanced by management. Dividends improve investor trust while hanging onto earnings fosters growth. These decisions affect firm value and shareholder wealth.

Working Capital Management

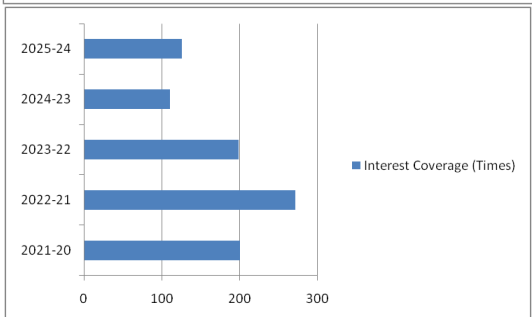
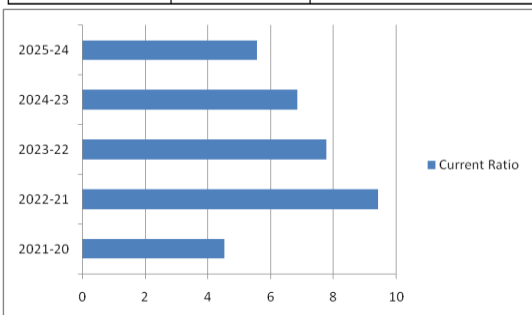
Working capital management manages cash, inventories, and receivables. The goal is sufficient funds for daily operations. Effective management cuts holding costs and prevents cash shortages. It improves the company's finances and operations.



5. DATA ANALYSIS AND INTERPRETATION

Liquidity & Debt Servicing Capacity

Year	Current Ratio	Interest Coverage (Times)
2021-20	4.51	199.89
2022-21	9.41	270.88
2023-22	7.76	198.51
2024-23	6.83	110.72
2025-24	5.55	125.43

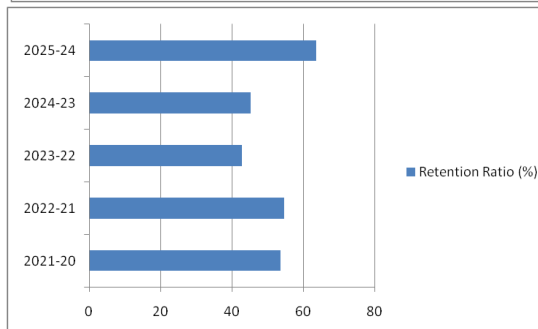
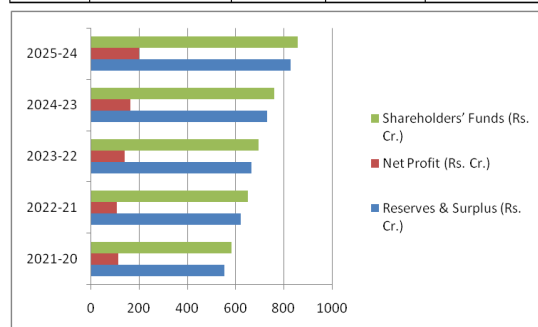


INTERPRETATION: Between 2021–2020 and 2025–2024, the company's cash and debt-servicing capacities change. The current ratio spiked from 4.51 in 2021–20 to 9.41 in 2022–21, then declined to 7.76, 6.83, and 5.55 in 2025–24, reflecting robust but gradually tighter liquidity. Interest coverage shot up from 199.89 times in 2021–2020 to 270.88 times in 2022–2021, demonstrating a strong ability to pay interest. It plummeted to 198.51 times in 2023–2022 and 110.72 times in 2024–2023, indicating lower but still strong earnings relative to interest expenses. Interest coverage improved slightly to 125.43 times in 2025–2024, reflecting debt service strength. Despite the decline after

2022–21, both ratios remain high, indicating robust liquidity and solvency.

Retained Earnings & Growth in Net Worth

Year	Reserves & Surplus (Rs. Cr.)	Net Profit (Rs. Cr.)	Retention Ratio (%)	Shareholders' Funds (Rs. Cr.)
2021-20	553.82	112.73	53.66	583.28
2022-21	620.58	106.98	54.67	650.23
2023-22	665.16	138.14	42.85	694.86
2024-23	729.4	161.88	45.22	759.26
2025-24	827.91	197.02	63.65	857.84

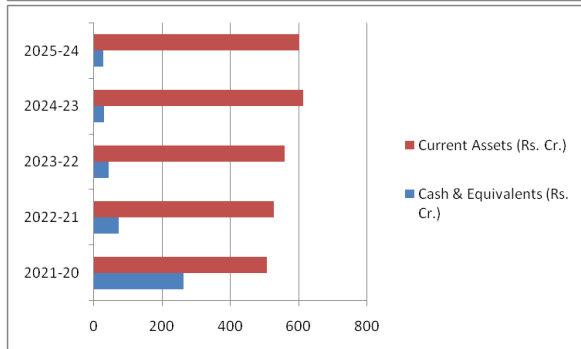
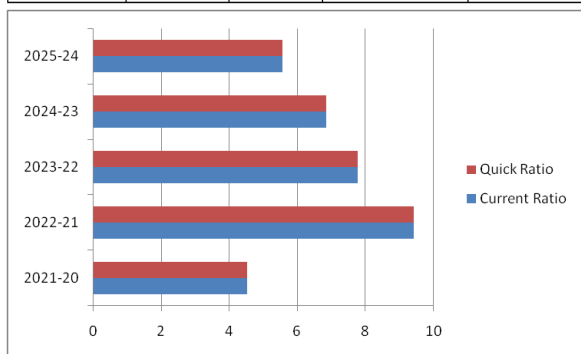


INTERPRETATION: From 2021–20 to 2025–24, reserves and surplus consistently climbed from ₹553.82 Cr. to ₹827.91 Cr., while shareholders' funds increased from ₹583.28 Cr. to ₹857.84 Cr., suggesting increasing net worth. Overall net profit increased from ₹112.73 Cr. in 2021–20 to ₹197.02 Cr. in 2025–24. From 53.66% to 54.67%, retention dropped to 42.85% in 2023–2022 and rose to 63.65% in 2025–2024. Earnings and retention supported consistent reserve and equity expansion.



Liquidity Strength Supporting Debt Avoidance

Year	Current Ratio	Quick Ratio	Cash & Equivalents (Rs. Cr.)	Current Assets (Rs. Cr.)
2021-20	4.51	4.51	261.9	505.6
2022-21	9.41	9.41	71.27	527.53
2023-22	7.76	7.76	42.76	558.81
2024-23	6.83	6.83	30.5	613.5
2025-24	5.55	5.55	26.56	602



INTERPRETATION: The firm had significant liquidity from 2021–20 to 2025–24, with current and quick ratios rising from 4.51 to 9.41 in 2022–21 before normalizing to 7.76, 6.83, and 5.55. Cash and equivalents decreased from ₹261.90 Cr. in 2021-20 to ₹71.27 Cr. in 2022-21 and ₹26.56 Cr. by 2025-24, showing greater cash deployment. During 2024-2023, total current assets rose from ₹505.60 Cr. to ₹613.50 Cr., but then declined to ₹602 Cr. in 2025-2024. High ratios indicate that non-cash current assets could meet short-term obligations despite dropping cash levels.

Growth in Equity Base & Capital Structure

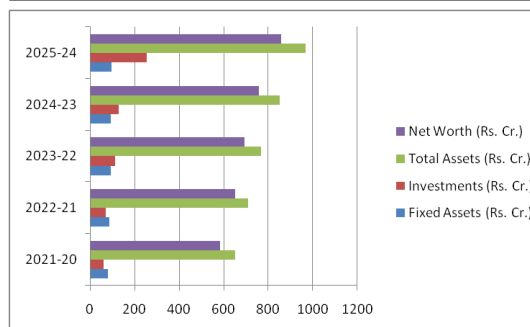
Year	Equity Capital (Rs. Cr.)	Reserves (Rs. Cr.)	Net Worth (Rs. Cr.)	Debt (Rs. Cr.)
2021-20	29.46	553.82	583.28	0
2022-21	29.65	620.58	650.23	0
2023-22	29.7	665.16	694.86	0
2024-23	29.85	729.4	759.26	0
2025-24	29.93	827.91	857.84	0



INTERPRETATION: From 2021-20 to 2025-24, equity capital increased steadily from ₹29.46 Cr. to ₹29.93 Cr., while reserves grew significantly from ₹553.82 Cr. to ₹827.91 Cr. Net worth increased from ₹583.28 Cr. to ₹857.84 Cr., indicating consistent internal capital generation. The capital structure appears to be wholly financed by equity, as debt stayed at ₹0 throughout the term. Overall, the company's balance sheet is improving, with growing net worth and no leverage risk.

Asset Base Expansion Funded Internally

Year	Fixed Assets (Rs. Cr.)	Investments (Rs. Cr.)	Total Assets (Rs. Cr.)	Net Worth (Rs. Cr.)
2021-20	80.09	60.32	651.25	583.28
2022-21	88.47	70.51	708.62	650.23
2023-22	93.71	112.19	767.23	694.86
2024-23	94.45	129.3	851.12	759.26
2025-24	95.73	255.49	969.12	857.84





INTERPRETATION: Between 2021-2020 and 2025-2024, fixed assets increased steadily from ₹80.09 Cr. to ₹95.73 Cr. Investments contributed significantly to asset growth, increasing from ₹60.32 Cr. to ₹255.49 Cr. Thus, total assets increased from ₹651.25 Cr. in 2021-20 to ₹969.12 Cr. in 2025-24. Net worth increased steadily from ₹583.28 Cr. to ₹857.84 Cr., indicating strong internal equity support for asset expansion.

6. CONCLUSION

Credit ratings determine the cost and availability of outside capital, hence they are critical to firm financing decisions. Stronger-rated corporations have greater access to debt markets, lower interest rates, and more flexibility in loan duration and structure, while lower-rated companies face higher borrowing costs and tighter covenants, forcing them to use stock or internal financing. Managers actively consider rating implications when choosing capital structure, issuance timing, and investment volume, showing that credit ratings limit financial policy and risk assessments.

Overall, credit ratings are vital to firm finance strategy beyond market perception. Financial sustainability improves with stable ratings, improved governance, tighter liquidity management, and prudent leverage. Ratings underline the need for firms to reconcile credit quality and growth ambitions and for stakeholders to be mindful of rating-based financing's rigidity and procyclicality.

REFERENCES

1. Chang, K.-P. (2023). Corporate finance: A systematic approach. Springer.
2. Mennillo, G. (2022). Credit rating agencies. Agenda Publishing.
3. Ganguin, B., & Bilardello, J. (2025). Standard & Poor's fundamentals of corporate credit analysis. Wiley.
4. Langohr, H., & Langohr, P. (2023). The rating agencies and their credit ratings. Wiley.
5. Ganguin, B., & Bilardello, J. (2024). Fundamentals of corporate credit analysis: A practitioner's guide. Wiley.