

MBA FINAL YEAR THESIS

**The Relationship between Credit Rating and Beta: Quantitative
Study of Pakistani Market**



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ABSTRACT

The aim of doing this research is to analyze first that is there any relationship exist between credit rating and beta or not and if there exist a relationship between credit rating and beta then what's its nature is, either the relationship between the two variables is positive or negative. As systematic risk is measured by Beta which an investor or the organization both could not diversify completely. So it is an important consideration for both the parties. Although there are a number of companies whose beta is given at their official company website or at the site of Standard Capital Security (pvt) Limited and investor can take decision by observing it but there are still a lot of companies whose beta is not given at their site or another reliable site. So those investor who want to invest in those companies needs some sort of source through which they get an idea either they are investing in right areas or not. Especially those who are going to insurance industry for the purpose of insurance or investment they need some reliable source to make their decision. So in this research an attempt is made to provide investor a reliable source in the form of credit rating which they can use to judge whether they are investing in the right securities or not.

As this topic is explore by two to three researchers before this so literature that is directly related to the relationship between credit rating and beta is not available in a considerable amount. In order to have a maximum understanding of the relationship all articles regarding the relationship of Credit Rating and Beta with other variables like capital structure, leverage, stock price etc. have been studied separately and an attempt is made to create a link of all those studies with this research work.

In order to produce a reliable result a sample of 74 companies that are listed on Karachi Stock Exchange and there Credit Rating and Beta is also available on the site of Pakistan Credit Rating Agency (PACRA) and Standard Capital Security (pvt) Limited are selected. Then on the collected data regression analysis, Johnson cointegration and T-test was applied. It was concluded that a weak relationship exist between credit rating and beta as credit rating is measured by credit risk and it is a part of systematic risk measured by Beta. Although this relationship has no statistical significance because of its weakness.

DEDICATION

This report is dedicate this report to all of my teachers and specifically to my parents, who supported me throughout my educational career and motivated me to complete this report in timely manner. This report is also specifically dedicated to my supervisor who help me a lot in completing this research work on time.

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Table of Contents

ABSTRACT	2
Research Question:	7
1. Introduction:	7
1.1. Types of risk	7
1.1.1. Unsystematic risk:	8
1.1.2. Systematic risk	8
1.2. Credit rating process	10
1.2.1. Credit Rating Process:	10
1.2.2. Credit rating agencies	10
1.2.3. Explanation of credit ratings	11
1.2.4. The use and role of credit ratings	15
1.2.5 Credit rating in practice	16
Research Intent:	17
2. Literature review	17
2.1 Credit ratings	17
2.2. Relationship between Credit Rating and Beta	20
2.2.1 Market Efficiency Studies	24
2.2.2 The US Bond Market Studies	25
2.2.3 The US Stock Market Studies	26
2.2.4 Non-US Studies	29
Research Objective:	34
3. Methodology:	34
3.1. Literature search	34
3.2. Research method	35
3.3. Scientific Approach	36
3.4. Beta calculations	37
3.5. Credit ratings	38
3.6. Sampling problems	40
3.7. Data processing	41
4. Experimental results	44
4.1. Regression analysis:	45
4.2. Johnson Co-integration test	47

4.3. ONE SAMPLE t-TEST:	51
4.3.1. One-Sample Test for Rating Groups:	51
4.3.2. One sample test for all A and B rating	52
5. Analysis	53
5.1. Information Content	53
5.2 Data Analysis	54
6.3 Karachi stock exchange:	55
6. Conclusion:	55
6.1 Future research:	56
Bibliography	57