

<b>UNIVERSITY OF MANAGEMENT AND TECHNOLOGY</b>	<b>UMT</b>
--	------------

**The Impact of Credit Rating on Firm Performance and Stock  
Return; Evidence from Pakistan**

Submitted to  
School of Business and Economics  
in Partial Fulfillment of the  
Requirements for the Degree of  
Masters of Science in Finance

By

**Muhammad Ahmad Abbas – 13005096009**

**May, 2016**

## Research Completion Certificate

It is certified that the research work contained in the thesis "The impact of credit rating on performance of firms and stock return: A case of Pakistan" has been conducted under my supervision by Mr. Muhammad Ahmad Abbas, ID, 13005096-009, of MS Finance program.

Signature: \_\_\_\_\_

Date: September 19, 2017

Supervisor's Name: Prof. Dr. Nouman Afgan

## Declaration

IMuhammad Ahmad Abbas, ID#13005096-009, hereby declare that the work entitled “The impact of credit rating on performance of firms and stock return : A case of pakistan” is my own work and no part of this dissertation has been copied from any other source except where explicit acknowledgement is made in the text.

I certify that this thesis is being submitted in partial fulfillment of the requirements for the Master of Science degree in Finance.

This thesis is my original work, and the data/material presented herein has not been used for the acquisition of any other degree from any institution.

The Similarity Index is below permissible limit.

---

Researcher Signature: \_\_\_\_\_

Date: September 19, 2017

Researcher Name: Muhammad Ahmad Abbas

CONFIRMED BY

Signature: \_\_\_\_\_

Date: September 19, 2017

Supervisor's Name: Prof. Dr. Nouman Afgan

**DEDICATED**

**To**

**MyParentsandTeacher**

## ACKNOWLEDGEMENT

In the name of Allah, the Most Gracious and the Most Merciful Alhamdulillah, all praises to Allah for the strengths and His blessing in completing this thesis. Special appreciation goes to my supervisor, Dr. Nouman Afgan, for his supervision and constant support. His valuable help of constructive comments and suggestions throughout the practical and thesis works have contributed to the success of this research. I would like to express my appreciation to the Dean, School of Business and Economics, Dr. Rukhsana Kaleem and the Chairperson of department, Prof. Abdul Rafay for their support and help towards my postgraduate affairs. Not forgotten, my appreciation to my lecturers Ramla Sadiq for their support and knowledge regarding this topic. My acknowledgement also goes to my colleagues for their kindness and moral support during my study.

Last but not least, my deepest gratitude goes to my beloved parents for their endless love, prayers and encouragement. My acknowledgement also goes to my colleagues for their kindness and moral support during my study.

### *Abstract*

The respective study focus on three aspects; factors determining credit rating, the impact of CR on act of firm & the relation between return of stocks and credit rating. The study focuses on the firms listed in Karachi Stock Exchange (KSE) of Pakistan. The empirical analysis uses the data of 49 firms rated by Pakistan Credit Rating Agency (PACRA) for the time period of 6 years, 2009-2014. Two estimation techniques have been applied, Ordered Probit Model and Panel data Regression. Our findings illustrate credit ratings are predicted by important firm specific factors (size, growth opportunities and capital intensity, asset returns, sector type). Moreover, it is suggested further that firm with higher credit rating tend to have better performance (measured by Tobin's Q & ROA) of listed firms. Likewise, higher rated firms tend to achieve higher returns on their stocks.

**Keywords:** Credit Ratings, Financial Attributes, Stock Returns, Ordered Probit Model, PACRA

## Table of contents:

No.	Headings and Sub headings	Page No.
1	<b>SECTION I: Introduction</b>	1
1.1	Background	1
1.2	Objective of study	4
1.3	Research questions	4
2	<b>SECTION II: Literature review</b>	5
2.1	Theoretical background	14
2.2	Hypotheses	16
2.3	Conceptual framework	17
3	<b>SECTION III: Methodology</b>	18
3.1	Sample selection	18
3.2	Data collection	22
3.3	Model specification	24
3.4	Estimation techniques	26
4	<b>SECTION IV: Results and discussion</b>	28
4.1	Descriptive analysis	28
4.2	Correlation	30
4.3	Histogram	30
4.4	Regression results	30
5	<b>SECTION V: Conclusion and policy implications</b>	39
6	Appendices	42
6.1	Appendix A	42
6.2	Appendix B	46
7	References	50

## ***SECTION I: Introduction:***

### ***1.1 Background:***

The current study tends to examine the effect of CR on performance of companies and stock returns considering Pakistan. The credit rating concept of a firm is the reflection of its creditworthiness and its overall capacity to placate the financial obligations of the company and these ratings are reflected by the opinion of credit rating agencies (Standard & Poor's, 2002). Various financial institutions as well as numerous investors rely on these credit ratings because their creditworthiness is summarized in a solitary grade. Some of the main ratings used worldwide are Fitch, Standard & Poor's (S&P) and Moody's.