

The Impact of Credit Rating Announcements on Share Price in Colombo Stock Exchange

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Abstract

This study examines the impact of Credit Rating Announcements on Share Prices in Colombo stock Exchange. This study uses the event study methodology to determine the stock market reactions to credit rating announcements. The three windows as pre-announcement window (-15,-1), announcement window (0, +1) and post-announcement window (+2, +15) to determine how much contribute to CAAR value from each window. Selected sample comprise with 20 companies representing bank sector, leasing and finance sector, corporate sector and insurance sector. The data are collected during the study period of April 2012 to June 2015 which is related to the credit rating announcement of Fitch Ratings Lanka Ltd, ASPI and the daily prices. The empirical results for rating changes show a negative CAAR for the pre-announcement window and post-announcement window and a positive CAAR for the Announcement window. Almost all CAAR in the event windows are statistically significant but market reaction of announcement window is higher compared to other windows because of the CAAR recorded positive value. Empirical result related to ASPI, can be identified, ASPI has a growth after the rating announcement. For downgrades the empirical results show a negative CAR for the pre-announcement window (-15, -1) and a positive CAR for the announcement window (0, +1) and post-announcement window (+2, +15). For upgrades the CAR for positive for the pre-announcement window, they become negative for the announcement window and shows negative reaction to the announcement.

Key Words- *Credit Rating, Abnormal Return, Event Study, Cumulative Abnormal Return*