

Infrastructure Sector Ratings (ISR)

CARE's ISR (Infrastructure Sector Ratings) includes the ratings assigned to debt programmes of issuers in the power, roads, telecommunications and other such infrastructure-related sectors. Of late these sectors have witnessed considerable private participation considering huge investments required in these sectors and limited funds available with the government for the infrastructure sector. The infrastructure projects are capital intensive and have a long gestation period. Unlike corporate sector debt ratings, infrastructure encompass distinct rating criteria to which, CARE adopts a separate methodology for evaluation and assignment of ISR. Demand-related risks are minimal because of huge demand-supply gap in infrastructure segments. Supply-related risks assume paramount significance in the infrastructure sector whereas demand-related risks are minimal.

CARE evaluates economic viability of the project being financed, legal risks, contractual framework, credit enhancement mechanism etc while assigning ISR. Socio-economic viability assessment is critical as majority of the infrastructure companies have revenues determined or regulated by the government or specific authorities and are not market driven, lending inflexibility to their pricing mechanism. Further credit profiles of respective government bodies awarding the projects have close linkages with those of infrastructure entities. Consequently, the impact of respective government policies, funding support /arrangement etc has to be evaluated in case of the infrastructure sector ratings. Parameters like Sponsor credit profile, financial flexibility, any credit enhancements extended to the underlying infrastructure entity are also taken in consideration.

CARE's adoption of a distinctive rating methodology for ISR, enables the investors /issuers /regulators to gather a better perspective on the attributes of the rated entity, instead of benchmarking them with corporate debt ratings. ISR involves analyzing the legal framework in greater detail and does not restrict assessment to financial statements. CARE arrives at an ISR

after substantial evaluation and seeking opinion with various legal experts and/or, technical experts in the respective infrastructure industry.