

Rating Methodology - Infrastructure Sector Ratings (ISR)

[In supersession of “Rating Methodology - Infrastructure Sector Ratings (ISR)” issued in [June 2017](#)]

CARE’s ISR (Infrastructure Sector Ratings) encompasses 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. The infrastructure projects are capital intensive and have a long gestation period. CARE Ratings adopts a separate methodology for evaluation and assignment of ISR, distinct from corporate sector debt ratings. Demand-related risks are minimal because of huge demand-supply gap in infrastructure segments while supply-related risks assume paramount significance in these ratings. The projects are usually undertaken under distinct entities (Special Purpose Vehicles – SPVs) which have contractual life and revenue model. The risks are assessed separately for project phase (funding risk, completion risk) and operational phase (revenue risk, regulatory policy framework) of the entities.

CARE Ratings 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 are evaluated in case of infrastructure sector ratings. Parameters like Sponsor credit profile, financial flexibility, any credit enhancements extended to the underlying infrastructure entity are also taken in consideration. ISR involves analyzing the legal framework in greater detail and does not restrict assessment to financial statements. CARE Ratings also evaluates financial risk and management risk in line with its methodology for corporate ratings. CARE Ratings arrives at an ISR after substantial evaluation

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and seeking opinion with various legal experts and/or, technical experts in the respective infrastructure segment.

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.

[Last updated on August 17, 2018. Next review due in April-June 2019]

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable.

CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

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