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PRESS RELEASE

CARE Ratings launches New Credit Rating System for Infrastructure Projects

CARE Ratings in consultation with the Ministry of Finance and other stakeholders has developed a new credit rating framework for infrastructure projects to facilitate greater participation of long-term investors by enabling better risk-based pricing.

Speaking on this new framework, **Mr Rajesh Mokashi, MD & CEO, CARE Ratings said,** ***'This new rating system that has been formulated will go a long way in enhancing participation of investors and lenders, which in turn will provide a fillip to the development in the corporate bond market in these instruments. We are confident that this will add a new dimension of buoyancy to a market that has hitherto been enveloped with some skepticism when it comes to infra projects.'***

Long-term investors and the corporate bond market have not been too enthusiastic on infrastructure projects because of the tendency for credit ratings to be low. Conventional credit ratings are based on the concept of 'one day, one rupee' delay has a conceptual challenge as debt tenures are relatively shorter than the economic lives of projects, ramp-up periods are unpredictable and cash flows are volatile because of risks from counterparty, markets and operations.

However, once they stabilize such projects enjoy the benefits of near-monopolies with a fair degree of pricing power and low technological obsolescence risk. This in turn lowers the risk of default or loss. Additionally, many public private partnership (PPP) projects also have embedded safeguards such as termination payments and contractual protection.

The new ratings will be a comment on the expected loss (EL) of a debt instrument after factoring in the probability of default (PD) and recovery prospects. The new credit rating addresses the concerns of the existing approach and focusses on recovery of dues by investors or lenders over the lifecycle of an infrastructure project. What would give comfort to long-term investors is that these ratings can be assessed for their differentiating and predictive abilities.

The new ratings will be assigned on a scale from [Infra] EL 1 to [Infra] EL 7, with EL 1 having the lowest expected loss and EL 7 the highest.

The new rating scale can be used to assess projects across sub-sectors in infrastructure throughout their life cycle. However, initially, ratings will be assigned only to completed and operational infrastructure projects. Conventional ratings scales will continue to be used for capital provisioning, while the new scale will be an additional input for debt market investors.

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ABOUT US

Credit Analysis and Research Limited (CARE Ratings) is the second largest full service rating Company in India*. CARE Ratings offers a wide range of rating and grading services across a diverse range of instruments and has over 20 years of experience in the rating of debt instruments and related obligations covering wide range of sectors. The Company's list of clients includes banks and other financial institutions, private sector companies, central public sector undertakings, sub-sovereign entities, small and medium enterprises ("SMEs") and micro-finance institutions, among others. The Company also provides issuer ratings and corporate governance ratings and has rated innovative debt instruments, such as perpetual bonds. CARE Ratings is recognized for being knowledge based Company and has continued to work towards deepening the base. The company's global venture, which is a JV with 4 other global CRAs, 'ARC Ratings', has commenced operations. CARE also has a subsidiary CARE (Ratings) Africa Private Limited (CRAF) in Mauritius which was launched on 3rd August 2015.

The Company has its registered office in Mumbai, and branches in Ahmedabad, Bengaluru, Chandigarh, Chennai, Coimbatore, Hyderabad, Jaipur, Kolkata, New Delhi, and Pune. The subsidiary CRAF (CARE Ratings Africa) has an office in Mauritius.

*** In terms of rating income FY16**