



Rating Criteria – Rating of State Government and State Entities

EXECUTIVE SUMMARY

The State Government elements can be appraised either on an independent premise or dependent on assurance given by the state. In the event of independent rating, a structure like rating of corporate is applied. With growing Industrialization and large number of government entities leading to significant economic development of the country, various factors that are considered for rating a state is considered in this document.

Brickwork evaluates the state government's credit worthiness depending on the below factors:

- Economic composition of the State entities
- Inter-governmental arrangement
- Management Structure of state government entities
- Financial profile of state government entities

This document provides Brickwork's methodology and assumptions for rating State Government and State entities and assists in understanding the impact of significant credit factors. It identifies various assessing factors considered by Brickwork Ratings in assigning ratings to State Government and State entities.

SCOPE

This criteria document covers a brief analysis of the attributes considered by Brickwork Ratings (BWR), while assessing the overall risks towards rating of State Government and State entities. It focuses on the credit risk assessment and analyzes various risks in detail. A brief summary of the effect of these attributes on the overall credit rating is highlighted which helps ascertain the parameters used to evaluate the creditworthiness of state government and state entities.

RISK ASSESSMENT AND RATING CRITERIA AT BRICKWORK RATINGS

- **Social and Demographic Factors:**
Brickwork considers the social factors such as the education and health facilities available in the states to assess the economic development of the state entities. Brickwork also factors in demographic attributes such as density, growth rate, literacy rates, unemployment, age distribution of population, their income and expenditure along with the GSDP factors in evaluating the state government and state entities. A higher growth in state economic activities results in increased per capita income, expenditure and in turn creating more employment. Nevertheless, the size of the dependent population is also an important aspect of demographics.

- **Infrastructure Factors:**

Brickwork evaluates the state's power, transportation facilities, irrigation, labour, investment pull, agriculture and natural resources set-up to assess the state entities. Power is the most essential component for industrialization and thus a well-established plant provides a base for the states development, the transportation facilities help connect people from various regions increase revenue flow to the states therefore Brickwork evaluates the availability of airports, railways, good roads to evaluate the quality of the state's infrastructure as these aids in assessing the state's industry and infrastructure policies. Factors such as availability of water resources for irrigation and agriculture, assessing the availability of natural resources acts as a benchmark for Brickwork in assessing any State government or state entities.

- **Economic Indicators:**

In order to evaluate the economic strategies of the state government Brickwork factors in the state's economic development and state's financial profile. State government's credit risk profile is assessed through focus on economic reforms, revenue and GSDP growth, capital expenditure and the fiscal deficit. Reliable adherence to monetary changes fortifies the state's creditworthiness and imparts changes on a lasting premise. The state government's ability in timely debt servicing is also considered as an attribute to evaluate the state government or state entities.

Tax attributes such as the state's own tax revenues (SOTR), the state's share in central taxes (SCT), the state's own non-tax revenues (SONTR), grants from center contribute to state government or state entities revenue, Brickwork evaluates the state's tax potential and the effort the government has put in to collect these revenues to analyze the efficiency of the state entities. State government's expenditure is taken into account while assessing the state entities i.e., whether the expenditure is under control or overshoot the budget, this aids in assessing whether the state government has been spending in line with its revenue generated.

Fiscal deficit composition is taken into account to analyze the quality of economic and fiscal management of state government and state entities.

- **Financial Management:**

Brickwork compares the budgeted and revised estimates to analyze the forecasting techniques and understand the management's ability to minimize deviations, understand the state government's short- and long-term financial obligations, reporting the financials regularly and following the reporting standards. Brickwork compares the financial Governance in terms of fiscal position, the quality and adequacy of disclosure of fiscal data to be considered. This will help to assess the adequacy of released document.

Brickwork evaluates the state's short term and long-term liabilities and the capacity of the state to cover interest payments on time, the amount of debt issued and outstanding debt. It also factors in the state's ways and means advances (WMA) i.e., the state government can avail an overdraft facility from the Reserve Bank of India in order to channel the funding-gaps as per guidelines or with some restriction, this acts as the benchmark to assess the liquidity management of state government or state entities.

Additionally, for the State Government entities Legal structure/CE if any, to be considered while assessing the Standalone/public supported credit profile of the state entity. This will assess the legal recourse to the State Government leading to correct assessment of credit worthiness

CONCLUSION

Brickwork considers the state government's historical performance and trends to assess the economic development and financial position of the state entities. State government or state entities are driven by the attributes of financial management, Economic Infrastructure and Liquidity management which act as key factors in assessing the creditworthiness.

[The previous version of criteria document can be found in](#)

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