



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 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.

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.

ABOUT BRICKWORK RATINGS

Brickwork Ratings (BWR), a Securities and Exchange Board of India [SEBI] registered Credit Rating Agency and accredited by Reserve Bank of India [RBI], offers credit ratings of Bank Loan, Non- convertible / convertible / partially convertible debentures and other capital market instruments and bonds, Commercial Paper, perpetual bonds, asset-backed and mortgage-backed securities, partial guarantees and other structured / credit enhanced debt instruments, Security Receipts, Securitization Products, Municipal Bonds, etc. BWR has rated over 11,400 medium and large corporate and financial institutions' instruments. BWR has also rated NGOs, Educational Institutions, Hospitals, Real Estate Developers, Urban Local Bodies and Municipal Corporations. BWR has Canara Bank, a leading public sector bank, as one of the promoters and strategic partner. BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

Disclaimer: It must be clearly understood that a Rating opinion is based on various factors/aspects which includes application of certain Rating criteria. The particular criteria applied depends on a number of factors, inter alia, sector/Industry, historical performance, cyclical trends, prevailing economic condition, group support etc. Rating opinions factor many assumptions and the application of any particular criteria or a set of criteria may be full or partial depending upon peculiarity of each case. Application of any Rating criteria should not therefore be considered as rendering finality or completeness to a Rating assessment. A reference to criteria needs to be perceived in broad terms, only as an aid to a rating decision.

Brickwork Ratings India Pvt. Ltd. (BWR), a Securities and Exchange Board of India [SEBI] registered Credit Rating Agency and accredited by the Reserve Bank of India [RBI], offers credit ratings of Bank Loan facilities, Non- convertible / convertible / partially convertible debentures and other capital market instruments and bonds, Commercial Paper, perpetual bonds, asset-backed and mortgage-backed securities, partial guarantees and other structured / credit enhanced debt instruments, Security Receipts, Securitization Products, Municipal Bonds, etc. [hereafter referred to as "Instruments"]. BWR also rates NGOs, Educational Institutions, Hospitals, Real Estate Developers, Urban Local Bodies and Municipal Corporations.

BWR wishes to inform all persons who may come across Rating Rationales and Rating Reports provided by BWR that the ratings assigned by BWR are based on information obtained from the issuer of the instrument and other reliable sources, which in BWR's best judgement are considered reliable. The Rating Rationale / Rating Report & other rating communications are intended for the jurisdiction of India only. The reports should not be the sole or primary basis for any investment decision within the meaning of any law or regulation (including the laws and regulations applicable in Europe and also the USA).

BWR also wishes to inform that access or use of the said documents does not create a client relationship between the user and BWR.

The ratings assigned by BWR are only an expression of BWR's opinion on the entity / instrument and should not in any manner be construed as being a recommendation to either, purchase, hold or sell the instrument.

BWR also wishes to abundantly clarify that these ratings are not to be considered as an investment advice in any jurisdiction nor are they to be used as a basis for or as an alternative to independent financial advice and judgement obtained from the user's financial advisors. BWR shall not be liable to any losses incurred by the users of these Rating Rationales, Rating Reports or its contents. BWR reserves the right to vary, modify, suspend or withdraw the ratings at any time without assigning reasons for the same.

BWR's ratings reflect BWR's opinion on the day the ratings are published and are not reflective of factual circumstances that may have arisen on a later date. BWR is not obliged to update its opinion based on any public notification, in any form or format although BWR may disseminate its opinion and analysis when deemed fit.

Neither BWR nor its affiliates, third party providers, as well as the directors, officers, shareholders, employees or agents (collectively, "BWR Party") guarantee the accuracy, completeness or adequacy of the Ratings, and no BWR Party shall have any liability for any errors, omissions, or interruptions therein, regardless of the cause, or for the results obtained from the use of any part of the Rating Rationales or Rating Reports. Each BWR Party disclaims all express or implied warranties, including, but not limited to, any warranties of merchantability, suitability or fitness for a particular purpose or use. In no event shall any BWR Party be liable to any one for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of any part of the Rating Rationales and/or Rating Reports even if advised of the possibility of such damages. However, BWR or its associates may have other commercial transactions with the company/entity. BWR and its affiliates do not act as a fiduciary.

BWR keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of the respective activity. As a result, certain business units of BWR may have information that is not available to other BWR business units. BWR has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

BWR clarifies that it may have been paid a fee by the issuers or underwriters of the instruments, facilities, securities etc. , or from obligors. BWR's public ratings and analysis are made available on its web site, www.brickworkratings.com. More detailed information may be provided for a fee. BWR's rating criteria are also generally made available without charge on BWR's website.

This disclaimer forms an integral part of the Ratings Rationales / Rating Reports or other press releases, advisories, communications issued by BWR and circulation of the ratings without this disclaimer is prohibited.

BWR is bound by the Code of Conduct for Credit Rating Agencies issued by the Securities and Exchange Board of India and is governed by the applicable regulations issued by the Securities and Exchange Board of India as amended from time to time.