Local and State Governments Rating Criteria

Sector-Specific Criteria

This criteria report updates and replaces the previous version, dated 11 September 2015.

Sector-Specific Criteria: This criteria report incorporates and expands upon the Master Criteria report *Tax-Supported Rating Criteria,* December 2018 (*see Related Research*), with a focus on Indian local and state governments. It identifies rating factors that are considered by India Ratings and Research (Ind-Ra) in assigning ratings to a particular entity or debt instrument within the scope of the Master Criteria.

Application: Not all rating factors in this report may apply to each individual rating or rating action. Each specific Rating Action Commentary or rating report will discuss those factors most relevant to the individual rating action.

Institutional Framework: To determine the rating of an Indian local or state government, Ind-Ra first evaluates the institutional framework under which the subnational operates. In the institutional framework assessment, Ind-Ra considers constitutional and statutory regulation, control, oversight and intergovernmental fiscal transfers by the upper tiers of government, fiscal flexibility and degree of responsibilities, transparency and prudential regulations.

Additional Rating Factors: Once the institutional framework has been assessed, Ind-Ra then analyses the five major rating factors to establish the general quality of the local or state government. These include the quality of social and physical infrastructure, economic structure and performance, management, administration and reforms, budgetary performance, and debt and other long-term liabilities. In general, consistency and an ability to absorb shocks are likely to contribute to stronger ratings, while fluctuations and a limited capacity to respond to unforeseen events are likely to lead to weaker ratings.

Trend Analysis: Ind-Ra rating process involves analysing relevant trends and identifying actual and potential future obligations and exposures. The analysis is carried out in the context of the institutional framework in the jurisdiction in which the rated entity is located and will take into account Ind-Ra base case scenario.

Interaction of Rating Factors: Although an issuer may have a vibrant and wealthy economy, weak fiscal management or stringent tax rate limits may offset the resulting positive credit factors, resulting in a reduced ability to meet obligations. A weak economy may be offset by other strengths, such as proactive management, higher support by way of transfers from upper tiers of government or low debt.

Debt Securities: When a specific security is rated, the rating will reflect the nature of the security, its relationship to the general credit quality of the issuer and credit enhancers. The most common form of credit enhancers are: guarantee from upper-tier government, debt service reserve fund and upfront cash collateral. Rating of specific debt instruments also depends on transaction structure.

Related Research

Tax-Supported Rating Criteria (December 2018)

Revenue-Supported Rating Criteria December 2018

Analysts

Anuradha Basumatari
+91 22 4035 6123
anuradha.basumatari@indiaratings.co.in

Sunil Kumar Sinha
+91 11 4356 7255
sunil.sinha@indiaratings.co.in

Variations from Criteria

Ind-Ra's criteria are designed to be used in conjunction with experienced analytical judgment exercised through a committee process. The combination of transparent criteria, analytical judgment applied on an instrument-by-instrument or issuer-by-issuer basis and full disclosure through a rating action commentary (RAC) strengthens Ind-Ra's rating process while assisting market participants in understanding the analysis used in the ratings.

A rating committee may adjust the application of these criteria to reflect the risks of a specific instrument or entity. Such adjustments are called variations. All variations will be disclosed in the respective RACs, including their impact on the rating where appropriate.

A variation can be approved by a ratings committee where the risk, feature, or other factor relevant to the assignment of a rating and the methodology applied to it are both included within the scope of the criteria, but where the analysis described in the criteria requires modification to address factors specific to the particular instrument or entity.

Institutional Framework

A study of the institutional framework in which the subnational authority operates is a fundamental and necessary beginning Ind-Ra's rating process. Once the agency has a clear view of intergovernmental relations and funding, it assesses the other rating factors.

The institutional framework, whether centralised or decentralised, influences subnationals' operating revenue and expenditure. To assess it, Ind-Ra looks at the revenue structure and flexibility of the subnational and the funding arrangements, if any, from the central/state government. Any equalisation mechanisms in place that could mitigate a weaker socioeconomic profile would be viewed as positive. An assessment of the type of responsibilities of the subnational, whether operating or investment focused, is also important.

A detailed description of the types of public services provided by the entity, and an understanding of the legal and regulatory environment, enables Ind-Ra to assess the degree of autonomy, rigidity of expenditure, demand for capital investment and other constraints. Full autonomy is rare, and cities and other local governments are normally subject to constitutional and statutory regulation regarding governmental powers, organisational structure, financial operations, debt issuance, and government service provision. Therefore, in most cases the central government has greater financial flexibility than states and local bodies.

In analysing the strength of the institutional framework, Ind-Ra gauges, amongst other things, the level of control the central or upper tiers of government have over the subnational. The agency views prudential regulations (eg, debt or debt-servicing limits) favourably if they are not too restrictive. In developed markets where debt-management experience among subnationals is considerable, formal prudential regulations can be replaced by capital market discipline. However, in India with an evolving regulatory framework or where responsibilities have recently been devolved to the subnational, prudential regulations can act as a control mechanism for responsible debt accumulation and affordability.

Ind-Ra does not apply a floor to its ratings of subnationals even though in some instances sovereign/upper tier government support through extraordinary funding to a troubled subnational has been forthcoming.

Figure 1

Attributes: Institutional Framework

Stronger	• Effective oversight from upper tiers of government • Strong horizontal and vertical fiscal transfer mechanism • Realistic prudential ratios with penalties for non-adherence • Formula driven and predictable transfers systems • Best accounting policies with both accruals and cash based financial data provided
Midrange	• Satisfactory levels of control from upper tiers of government • Formula driven horizontal but limited vertical fiscal transfer mechanism • Some prudential regulations in place • More limited budgetary and financial information requirement
Weaker	• Constant interference from upper tiers of government, • No predictability in the funding from upper tiers of government Limited or inadequate controls in place • Constant changes in responsibility • Cash based accounting only

Source: Ind-Ra

Social and Physical Infrastructure Performance

The level of social and physical infrastructure has a strong link with the fiscal performance of the issuer. A relatively less developed social and physical infrastructure means a higher burden on the issuer's budget.

It is widely recognised that the availability of good social and physical infrastructure facilities are vital for an economy. If well developed, they stimulate economic growth and development but if inadequate they prove to be hindrance in the growth process. Social infrastructure refers to the core elements of social change such as education and health implying the development of skilled personnel as well as healthy and efficient human beings. Physical infrastructure refers to elements such as power, transport and communication etc. which are critical for economic activities and growth.

Figure 2

Attributes: Social and Physical Infrastructure

Stronger	• Well-developed, diverse and stable social and physical infrastructure base • Strong visibility with respect to long term planning and development of social and physical infrastructure base • Institutionalised and prudent budgetary/non budgetary mechanism to sustain/improve social and physical infrastructure • Strong ability and fiscal flexibility to make adjustments/allocate resources as needed during the fiscal year
Midrange	• Diverse and stable social and physical infrastructure base • Moderate visibility with respect to long term planning and development of social and physical infrastructure base • Budgetary/non budgetary mechanism to sustain/improve social and physical infrastructure • Moderate ability and fiscal flexibility to make adjustments/allocate resources as needed during the fiscal year
Weaker	• Weak social and physical infrastructure base • Lack of long term planning to develop social and physical infrastructure base • Weak budgetary/non budgetary mechanism to sustain/improve social and physical infrastructure • Weak ability and limited fiscal space to make adjustments as needed during the fiscal year

Source: Ind-Ra

Economy – Structure and Performance

Ind-Ra's economic analysis considers the capacity of the issuer's economic base to support balanced operations and repayment of debt, capital expenditure needs and provides insight into potential future financial and debt resources or challenges.

Major Economic Drivers

The evaluation of the economy begins with a determination of the types of economic activity that dominate the area. For example, some issuers are heavily reliant on an industry like automobile manufacturing or natural resource mining, while others have a more diverse base. A broad, diverse, and stable economy is credit strength, and undue concentration on one or a small group of industry sectors or taxpayers, or a high level of cyclicality may be cause for concern. For issuers (local bodies) that are dependent on property taxes for a large proportion of their revenue, Ind-Ra pays particular attention to the level of and trends in the valuation of the total tax base and the largest taxpayers.

Income and Wealth

Income levels are evaluated on both an absolute basis and relative to state and national averages. Reviewing trends in the issuer's income and wealth compared with those of the state and nation provides an indication of the rate at which economic value is being created, which has implications for future revenue performance.

Other Demographic Factors

Ind-Ra reviews key demographic measures, particularly population trends. Although population growth is usually considered a positive factor, population stability can also be a positive rating consideration, particularly for smaller communities that do not have a wide range of service demands and spending pressures. High-growth areas can pose risks, as capital needs are often great, and providing the appropriate level of social and physical infrastructure and services to match but not exceed growth needs can be difficult. A population decline could have a negative impact on the tax base and therefore on the revenue of the subnational.

Ind-Ra considers the reasons that a particular area attracts or loses population. Demographic structure and projections are also important for assessing future expenditure pressures, particularly in health care, education and infrastructure.

Tax Rate and Base

Comparing the level of taxation, intra- and inter-state can provide an indication of competitiveness, financial flexibility, and/or tax relief pressures. The level of taxation can either encourage or hinder economic development. If the tax burden is already high, an increase may be difficult to implement and have negative effects. Ind-Ra reviews tax rates in comparison with those of similar entities nationally and other entities in the state.

Figure 3

Attributes: Economy

Stronger	• Broad, diverse, and stable economic base • Lack of taxpayer concentration • Consistent, moderate population and employment growth levels • Stability and diversity among major employers • Robust wealth indicators, including personal income per capita • Moderate tax burden relative to area or other similar communities nationally • Good infrastructure and business environment
Midrange	• Fairly diverse economic base • Moderate taxpayer concentration • Stagnant or rapidly growing population • Moderately diverse employment base, with some dominance of a few industries or employers • Sound wealth indicators, including average to above-average personal income per capita
Weaker	• Small limited or concentrated economic base • Taxpayer concentration • Declining or extremely rapidly growing population • Dominance of one or a handful of industries or employers • Unfavourable demographic profile • Below-average wealth indicators

Source: Ind-Ra

Management, Administration and Reforms

Management practices and actions can positively or negatively influence the other major credit factors.

Institutionalised Policies

Ind-Ra views positively implementation and consistent adherence to sound processes and policies for budgeting, debt, and financial operations. Particularly beneficial practices include established rainy-day reserve funds (particularly those with automatic funding sources and limits on use), sinking funds for bullet debt repayments, multi-year revenue and expenditure forecasts, restricting use of non-recurring revenue to non-recurring expenses, sound capital planning, investment policies and practices, and debt affordability guidelines.

Budgeting Practices

Ind-Ra reviews an issuer's budgeting practices, particularly revenue and expenditure estimates, and compares the key assumptions included in an issuer's budgets to actual revenue and expenditure over time. Ind-Ra views conservative estimates favourably and is concerned if an issuer does not appear to be fully incorporating current economic, political, or financial conditions. Regular intra-year budget reviews, which allow an issuer to adjust to budget gaps, are also a positive credit factor.

Political, Taxpayer, and Labour Environment

Ind-Ra expresses no preference for one form of government over another and does not view any type as inherently better for credit quality. However, political stability, and confidence in the political system at the central and subnational level are credit positives. The key credit element is the efficiency with which a subnational government can make service and spending decisions and its ability to adjust and react to changing economic and financial conditions. A history of cooperation between the executive and legislative branches gives Ind-Ra comfort that financial challenges will be handled effectively.

Evidence of taxpayer dissatisfaction, with the level either of taxation or of service provision, is a credit concern, as it may reduce an issuer's flexibility to address budget shortfalls. A negative taxpayer environment could include voter initiatives or legislative attempts to contain the government's legal ability to raise revenue. This concern increases in environments with easy access to the voter initiative process. Similarly, a difficult labour environment can limit budgetary options.

Revenue and Spending Limitations

Establishing and adhering to policy guidelines is considered a credit positive. However, onerous statutory or constitutional operating limitations are potential credit risks. In addition, Ind-Ra recognises that in some instances practical limitations are just as restrictive. An inability to raise revenue or fund programmes to adequate levels due to political or other practical concerns can have long-term implications for an issuer's financial and economic health.

Figure 4
Attributes: Management, Administration and Reforms

Stronger	• Highly efficient decision-making process, based on financial prudence • Highly efficient delivery mechanism using electronic platform for providing government services/collection of taxes • Institutionalised, prudent financial and debt management policies • Conservative and thorough budgeting process with regular interim reviews, contingency planning, and the ability to make adjustments as needed during the fiscal year • Long-term financial planning process • Good level of transparency and disclosure • Timely financial reporting • Good fiscal marksmanship (actual vis-a-vis budgeted operating revenue, operating expenditure and capital expenditure)
Midrange	• Efficient decision-making process • Moderate delivery mechanism using electronic platform for providing government services/collection of taxesFinancial and debt management policies that may be somewhat less conservative but still reasonable and, if not followed, a process is in place to regain compliance • Realistic budgeting process and some ability to make adjustments during the fiscal year • Good level of transparency but limited public disclosure • Timely financial reporting • Moderate fiscal marksmanship (actual vis-a-vis budgeted operating revenue, operating expenditure and capital expenditure)
Weaker	• Often cumbersome decision-making process; resolution of key issues is problematic • Weak delivery mechanism using electronic platform for providing government services/collection of taxes. Financial and debt management policies not present or not consistently followed, without plans to gain compliance • Optimistic budget assumptions and inflexible budget amendment process that makes midyear adjustments difficult • Weak level of disclosure or reliability of accounts • Financial reporting delayed • Poor fiscal marksmanship (actual vis-a-vis budgeted operating revenue, operating expenditure and capital expenditure)

Source: Ind-Ra

Fiscal Performance

The analysis of an issuer's finances is focused on evaluating the issuer's financial resources and flexibility to support its financial obligations over the short and long term. The analysis begins with a review of the issuer's financial statements, budgets, budget outcomes and accounting policies. A balance sheet disclosing cash balances, intra-government borrowing (among the various related entities of the subnational authority), and assets and liabilities is an ideal starting point. Adherence to regulator prescribed accounting principles is also positive.

Financial Reporting and Accounting

Where established accounting practices and requirements exist, Ind-Ra expects the issuer to be in compliance with them. Additional financial reporting, such as interim revenue reporting throughout the year, is viewed positively.

Budgetary and cash flow presentations are the most commonly available form of financial disclosure for public finance entities.

Revenue Analysis

Ind-Ra reviews revenue sources for volatility, diversity and predictability. In general, a diverse revenue system with a foundation of broad-based taxes is more stable and better able to capture the issuer's economic wealth, resulting in a stronger financial profile. Reliance on economically sensitive revenue may expose the issuer to financial volatility and lead to a credit concern. An issuer's ability to control its own revenue sources, including the power to adjust tax rates, is an important credit positive. For entities that rely heavily on funding from another tier of government, Ind-Ra evaluates the consistency of the funding and how any adjustments would affect the rated issuer.

Ind-Ra also looks at dedicated transfers, if any, that can only be used for specific expenditure, to assess the revenue available for debt servicing in case of stress.

Expenditure Analysis

Ind-Ra reviews trends in expenditure, the issuer's flexibility to make adjustments in spending, (both as part of the annual budget process and during the course of the fiscal year), and the expected stability of each major spending item. For example, an issuer with a high fixed-cost burden or a high committed expenditure (salary, pension, interest payment etc.) will generally have less flexibility to make meaningful spending cuts than one with a low fixed-cost burden or a low committed expenditure. The analysis also considers potential funding pressures. The centralised ability, or mandate, to implement timely spending cuts to maintain balance is a credit strength.

Operating Revenue and Expenditure Trends

Ind-Ra evaluates recurring revenue compared with recurring expenditure. Concerns arise when operating expenditure consistently exceeds operating revenue, as the use of non-recurring revenue is unsustainable and usually leads to depletion of reserves and deeper financial imbalances.

Liquidity

Ind-Ra analyses an issuer's liquidity position, including tax collection schedules, timing of transfers received, the timing of disbursements, and the quality and timing of receivables and payables. Those in the strongest position do not depend on external cash flow borrowing. The liquidity analysis is particularly important in financially strained situations or in those cases where access to the capital or debt markets becomes more difficult.

Fund Balance and Reserve Levels

Ind-Ra views a satisfactory fund balance as an important cushion against potential revenue and expenditure volatility. The amount Ind-Ra considers satisfactory varies depending on such factors as economic or tax base concentration, revenue and/or expenditure volatility, and flexibility to adjust revenue and spending. Established reserves that benefit from automatic funding mechanisms and clear restrictions on use are the strongest credit features, but fund balances that have been maintained consistently over time are also beneficial. Similarly, segregated funds that are available, or could be made available, for general expenditure can contribute to financial flexibility.

Figure 5

Attributes: Fiscal Performance

Stronger	• Diverse stable and broad-based sources of operating revenue with substantial flexibility to be increased, if needed • Ample ability to adjust spending, either as part of the budget process or during the fiscal year, without undue impact on service provision • Consistently positive operating margins • Ability to easily adjust capital expenditure and high proportion of capex funded from internal resources • Consistently sound reserve levels, with automatic funding mechanisms and clear restrictions on their use
Midrange	• Somewhat concentrated operating revenue, but in a relatively broad-based, stable source, with some flexibility to be increased, if needed • Some ability to make spending adjustments, although avenues to make reductions may be limited without affecting services, or less timely. • General trend of positive operating margins • Moderate proportion of capex funded from the current balance • Satisfactory reserve levels maintained over time, although some year-to-year fluctuation may be present
Weaker	• Severely limited revenue flexibility particularly in a declining revenue environment • Spending levels heavily dictated by long-term contracts or other agreements that make adjustments difficult, if not impossible • Trend of negative operating margins • Consistent budget deficits and capital expenditure funded essentially from borrowing • Low or severely reduced reserve levels, without a clear path to replenishment

Source: Ind-Ra

Debt, Other Long-Term Liabilities

In evaluating debt and other long-term liabilities, Ind-Ra seeks to determine the extent and nature of the issuer's current liabilities and evaluates the outlook for the future, with a focus on affordability and flexibility.

Debt Ratios and Trends

Debt analysis includes a review of trends in the amount of debt issued and outstanding. Ind-Ra analyses the trend in debt in relation to resources. Sustained increases in debt at a rate above economic growth may overburden a tax base and strain budget resources.

Ind-Ra uses various ratios to measure the direct burden of debt on the issuer's population and tax base. Calculations include all long-term, fixed obligations of the issuer, excluding unfunded pension and other post-employment benefit liabilities, which are considered separately in the context of an issuer's overall long-term liabilities. In general, a low debt burden is a positive credit factor.

Future Capital and Debt Needs

Debt factors are considered within the context of the issuer's infrastructure and developmental needs and capital plans. Current debt levels may be low; however, future capital requirements may significantly increase debt ratios, weakening the issuer's debt profile. Ind-Ra evaluates the impact of expected future debt on the issuer's debt ratios and views favourably a comprehensive and realistic approach to capital planning. The issuer's ability to meet its capital needs where there are restrictions on debt issuance is also a consideration.

Debt Structure

Ind-Ra reviews the types and proportions of debt used and the rate at which it is repaid. The review of outstanding debt also includes an assessment of the uses of borrowed funds, with uses for non-capital purposes considered a credit weakness.

Another consideration is the percentage of fixed-rate debt in the issuer's debt structure. Ind-Ra views high levels of variable-rate debt with concern, as they can expose the issuer to the possibility of unexpected and, in extreme cases, unaffordable future financial debt burdens. Ind-Ra evaluates whether the issuer has a clear understanding of the benefits and risks of entering into these types of transactions and instruments.

Ind-Ra also views high levels of short-term debt as a concern as it increases re-financing risk. Ind-Ra examines an issuer's average life of debt amortisation, taking into account the national environment, the use of debt proceeds and depth of the capital markets. A short ratio i.e., under three years, may be a credit weakness because it may indicate significant refinancing risk. A longer ratio, seven to 10 years or even more, is a credit positive.

Pension and Other Post-Employment Benefit (OPEB) Funding

Ind-Ra reviews pension and OPEB funding as part of the analysis of risk, recognising that pension and retiree health benefits represent a more variable commitment to future payments than debt to the extent that they can be influenced by a variety of actuarial, accounting, investment, or other policy decisions of the sponsoring government.

Ind-Ra analysis focuses on the size of the liability, the funded ratio, measures of affordability, and actuarial and other assumptions influencing the burden. The agency views favourably entities that have well-funded pension plans and consistently fund the annual required contribution. In cases where the unfunded liability is large, Ind-Ra views positively actions or plans to reduce it over time. Concerns arise if the liability level is high or increasing.

Indirect Risks and Contingent Liabilities

In some states, a large part of the overall subnational risk has been decentralised through the creation of public sector entities that have taken on debt. These entities may largely be funded by transfers from the issuer. In assessing issuer's debt obligations, Ind-Ra therefore not only examines liabilities directly incurred and payable by the issuer but also outstanding debt for which the issuer may in future have an obligation. Such obligations are monitored but typically excluded from debt calculations that include the direct debt of the issuer either through bank loans or debt issuance. They are, however, included in Ind-Ra total tax-supported debt calculations. The latter would include the direct risk of the issuer and the debt of non-self-supporting public sector entities, as well as unfunded pension obligations.

Figure 6

Attributes: Debt and Other Long-Term Liabilities

Stronger	• Low overall debt levels as measured by debt to current revenue • Low debt service burden • Modest future capital and debt needs, with comprehensive long-term capital planning; • Predominantly fixed-rate, amortising debt • Limited indirect risk and strong liquidity • Public sector entities (PSEs) funded largely from third party fees; low level of outstanding guarantees to PSEs • Professional debt management office • Substantial available liquidity, without requiring external short-term borrowing
Midrange	• Moderate overall debt levels as measured by debt per current revenue • Affordable debt burden • Manageable future capital and debt needs with identified funding sources; attention to long-term capital planning • Mostly fixed-rate, amortizing debt • Some loss making PSEs • Sound available liquidity
Weaker	• Above-average to high overall debt levels as measured by debt to current revenue • High debt burden • Large future capital and debt needs without identified funding sources; limited attention to long-term capital planning leading to deferred maintenance • Elevated levels of short-term debt • Highly indebted public sector which require on-going transfers or capital injections • Low liquidity levels; reliance on short-term borrowing to meet routine obligations

Source: Ind-Ra

Annexure – 1

Figure 7

Key Developmental/Fiscal/Credit Ratios

Ratio	Calculation	Significance
Social and physical infrastructure		
Social infrastructure	Literacy rate, death rate, birth rate, infant mortality, poverty, Human Development Index	The level of social infrastructure defines the burden on the issuer's budget
Physical infrastructure	Per capita generation of electricity, access to safe drinking water, percentage of rural electrification, motor vehicles per 100,000 population, road length per 100 sq. km of area, tele-density	The level of physical infrastructure defines the burden on the issuer's budget
Economy – structure and performance		
	Average annual GDP growth, share of agriculture industry and services in the economy, growth volatility, per capita income ratio, proportion to national income	The economic structure and growth is a key driver of entity's own revenues. A favourable economic structure and higher GDP growth mean lower dependence on share in national tax or grants/subsidies.
Management, and administration and reforms		
	Introduction of state-level value-added tax, Unbundling of power utility, FRBM act, defined contribution based pension scheme, sinking fund, guarantee redemption fund, electronic platform for providing government services	Strong management and reforms measures undertaken by an entity ensures success of policy interventions and adoption of best practice in fiscal management
Fiscal performance		
	Revenue receipt growth, proportion of own revenue in total revenue, non-tax revenue to total revenue, own revenue buoyancy, state's own tax revenue/GSDP, revenue expenditure growth, Proportion of development expenditure in revenue expenditure, proportion of selected committed expenditure in revenue expenditure, capital expenditure growth, revenue balance/GSDP, operating balance/operating revenue, fiscal balance/GSDP, Primary balance/GSDP, ways and means advances utilisation ratio	The fiscal performance captured by the trends in variety of fiscal ratios defines the fiscal strength/weakness of the entity. It also allows the assessment of the entity's ability to carry out its stated economic and policy objectives in the short/medium term and in turn entity's developmental prospect.
Debt, other long-term liabilities	Debt/GSDP debt, debt servicing/ operating balance, PSU debt and guarantees outstanding (loan and principal) given to PSU	Debt is a crucial aspect in evaluating credit risk. Fundamentally, economies may have good economic and fiscal foundations but high debt could undermine this solid base, leading to stress on debt-servicing obligations

Source: Ind-Ra

ALL CREDIT RATINGS ASSIGNED BY INDIA RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: HTTP://WWW.INDIARATINGS.CO.IN/UNDERSTANDINGCREDITRATINGS.JSP IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEBSITE WWW.INDIARATINGS.CO.IN. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. INDIA RATINGS' CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE.

Copyright © 2018 by Fitch, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004.Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings, Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings can be affected by future events or conditions that were not anticipated at the time a rating was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion is based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at anytime for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.