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This methodology note stands superseded. Refer to ICRA's website www.icra.in to view the updated methodology note on the sector.

Rating Methodology for State Governments

This rating methodology updates and supersedes ICRA's earlier methodology note for rating state governments, published in August 2015. While this revised version incorporates a few modifications, ICRA's overall approach to rating state governments remains materially similar.

Overview

Over the past two decades, ICRA has assigned ratings to the debt programmes of several state-level entities. Some of these are standalone ratings, while several are supported by various credit enhancements along with a structured payment mechanism, including a substantial sub-set that are based primarily on financial guarantees extended by the respective state governments. The ratings of instruments supported by guarantees from state governments fundamentally represent ICRA's assessment of the strength of the respective states' finances, as well as the quality of the supporting structured payment mechanisms. This rating methodology provides a reference tool for investors and issuers to understand ICRA's approach in assessing the credit quality of state governments. Given below are the key rating drivers:

- ***Extent of Reliance of State Governments on Transfers from the Union Government***
- ***Economic Strength***
- ***Flexibility in Revenues and Expenses***
- ***Financial Position, Leverage Levels and Liquidity***
- ***Reform Efforts***
- ***Quality of Reporting and Monitoring***

1. Extent of Reliance of State Governments on Transfers from the Union Government

ICRA's methodology for evaluating the credit profiles of state governments starts with the fundamental premise that the local currency debt obligations of the Government of India (GoI) carry the highest ratings on ICRA's rating scale. The GoI enjoys unparalleled financial flexibility to meet its debt obligations. Such flexibility arises from the GoI's ability to monetise deficits if required, and its access to several taxes and revenue streams. Since state governments' do not enjoy any such flexibility, and given the GoI's supervisory authority over the states, the ratings of state governments' are rankings of credit risk below the sovereign rating. A state government's credit strength is effectively constrained by the contours of the federal structure as laid down in the Constitution of India. Moreover, the state governments require the permission of the GoI regarding both the magnitude and timing of certain types of borrowings that they can undertake as per Article 293(3) of the Constitution of India.

The sharing of revenues and responsibilities as set out in the Constitution, results in a vertical imbalance between the Union and the state governments: the states have traditionally had a less-than-proportionate share of the taxing powers in comparison with their responsibilities. The Centre – State fiscal relations are undergoing a shift following the recent implementation of the Goods and Services Tax (GST), a destination based tax on consumption of goods and services, from July 1, 2017 onwards[1]. With this, the state governments have the concurrent power to levy tax on services on a common base, which may help reduce the vertical imbalance going forward.

The prevailing vertical imbalance between the Union and the state governments is sought to be compensated through a variety of fiscal transfers. For instance, substantial funds are transferred by the GoI to the state governments, in the form of a share in the Union taxes and duties and various tied and untied grants, in accordance with the recommendations of successive Finance Commissions (FCs). FCs are constituted by the President of India under Article 280 of the Indian Constitution, to provide recommendations to govern various elements of the fiscal relation between the GoI and the various state governments over five-year award periods.

In addition to addressing the vertical imbalance between the Centre and the states, the fiscal transfers based on the recommendations of successive FCs (FC transfers) simultaneously aim to reduce horizontal imbalances among states. While various FCs have incorporated efficiency and performance parameters into their formulae, achieving horizontal equity remains a critical objective. Hence, so far, the lesser-developed states have been receiving a larger share of the transfers from the GoI, which substantially augments their revenues. The extent of fiscal transfers from the GoI and the timing/regularity of these cash flows are factored into ICRA's analysis of any state government's finances. However, in ICRA's view, for any particular state, its financial strength, and, therefore, its credit quality, is a function of its extent of self-reliance in meeting its expenditure through its own tax and non-tax revenues.

The Fourteenth Finance Commission (FFC) recommended a shift in the composition of the Union transfers to the states to higher formula-based tax devolution rather than grants. The FFC recommended an increase in the proportion of the shareable taxes of the GoI to be devolved to the state governments during its award period (FY2016 to FY2020) to 42% from the 32% that prevailed during the award period (FY2011 to FY2015) of the Thirteenth Finance Commission (ThFC). Tax proceeds are an untied source of funds for the state governments, offering them greater autonomy and flexibility to plan expenditures based on their own priorities, which is a positive in ICRA's view.

Prior to FY2018, grants from the GoI were classified as Non-Plan grants and Plan grants. The Union Budget for FY2018 has classified grants under four heads, namely, scheme-related transfers, FC grants, other transfers and transfers to North-Eastern states.

Until FY2015, substantial grants were provided to states for implementing 66 Centrally Sponsored Schemes (CSS; predominantly tied end-use). Following the FFC's recommendation of a shift in the composition of Central transfers (tax devolution and total grants from the GoI) to higher tax devolution, the GoI rationalised the structure and funding of the CSS. From FY2016 onwards, the GoI delinked Central assistance to eight schemes and reduced assistance to 27 other schemes, out of the total 66 schemes. Despite the restructuring, grants classified as scheme-related transfers/CSS, comprised over 50% of the total grants in the revised estimates (RE) of FY2017.

FC-recommended grants are the second major source of grants. The grants recommended by the FFC primarily seek to balance the revenue accounts of the states (untied end-use), provide funds for disaster relief (tied end-use) and supplement the revenues of the urban and rural local bodies (tied end-use). The third category of grants, namely, other transfers, mainly comprise special Central assistance to tribal areas, special Central assistance to scheduled castes, assistance for externally-aided projects etc. The balance grants are the transfers to North-Eastern states.

While ICRA does take comfort from the fair level of predictability of the magnitude of Central transfers and the tightly regulated framework within which the states operate, these are not construed as indications of the GoI's support towards debt servicing, unless the borrowings are explicitly counter-guaranteed by the

[1] The GST Act 2016 provides for the levy of a dual GST, concurrently by the Centre (CGST) and the states (SGST) on the same taxable event, namely, the supply of goods and services at the point of supply. In addition, the Centre has the exclusive power to levy GST (IGST) on inter-state transactions of goods and services, as well as imports into India. The proceeds of the IGST are apportioned between the Centre and the state.

sovereign. Hence, ICRA's ratings are largely determined by the relative fiscal and economic positions of the states concerned.

Table 1: Transfers from Union Government to State Governments

RATING FACTORS	SOME ANALYTICAL INDICATORS
	Trends and interstate comparisons of:
Access to transfers & grants or extent of self-reliance	» **(Shared taxes + grants)/revenue receipts** » **(Shared taxes + grants)/revenue expenditure** » **State's share of Union taxes** » **State's share of grants** » **(SOTR + SONTR)/revenue expenditure**

Note: SOTR: State's own tax revenues; SONTR: State's own non-tax revenues

2. Economic Strength

Among the most critical determinants of a state's rating are the size, health and diversity of its economy and prospects for growth. A state's ability to raise revenues, either through taxes or fees for the services that it provides, is critically influenced by the income levels of its people, and hence the economic health of the region. Hence, ICRA evaluates the size and composition of the state economy, the competitiveness of its key sectors, and its vulnerability to external factors. For instance, under the GST regime, states have the concurrent power to levy SGST on taxable services within a state's boundary. This is expected to boost the revenues of those states that have a relatively high concentration of taxable services within their economic structure.

An important aspect is the continuance of the factors currently imparting competitiveness to various sectors of the state's economy and the likely changes in its economic structure in future. ICRA analyses states' economic performance through business cycles, covering different factors affecting or imparting strength to the local economy, like resource endowment (minerals, land-use, water, labour force, etc.), adequacy of economic infrastructure (for instance, extent of irrigation, road density, existence of port infrastructure, air connectivity, proximity to local markets, power supply situation), trends in investments, and new project additions.

ICRA also evaluates the demographic trends, socioeconomic infrastructure, dispersion of wealth and the topography of the state. In ICRA's view, such factors would critically influence the economic output of any state in the long term, and thus also its revenues and credit worthiness.

Table 2: Economic Strength

RATING FACTORS	SOME ANALYTICAL INDICATORS
	Trends and interstate comparisons of:
Size of economic base **Sectoral concentration/diversity** **Competitiveness of key sectors** **Sustainability of economic strength** **Structural shifts anticipated, if any**	» **Real and nominal gross state domestic product (GSDP)** » **Composition and growth rates both of GSDP at aggregate and per-capita levels;** » **Competitive landscape in key contributing segments**
Demographic trends	» **Trends in age-profile, density, dispersion, poverty levels, income levels, literacy and education levels, employment rates etc.**
Natural resources	» **Metals and minerals; water resources; coastline and terrain; land-use pattern**
Socioeconomic infrastructure	» **Availability of infrastructure and trends in investments in infrastructure creation**

3. Flexibility in Revenues and Expenses

ICRA's assessment of a state's fiscal performance entails an analysis of the composition of, and growth trends in, its revenue and expense heads; the likely trends in the near-to-medium term with particular emphasis on potential for growth in revenues and scope to rationalise or reduce unproductive expenses; the trends in the levels of revenue and fiscal balances; and the extent of leverage.

3.1 Revenue Composition

The revenue receipts of states comprise states' own tax revenues (SOTR), states' non-tax revenues (SONTR) and Central transfers.

With effect from July 1, 2017, SOTR includes SGST and state levies on those items which are not subsumed under the GST, which has subsumed multiple indirect taxes levied earlier by the Centre[2] and the states. The state taxes which are subsumed under the GST include taxes such as sales tax/VAT, Central sales tax, entertainment tax other than by local bodies, octroi and entry tax, purchase tax, luxury tax and taxes on lottery, betting and gambling. However, the state governments continue to levy taxes on items which are outside the purview of the GST, such as tax on alcoholic liquor for human consumption, stamps and registrations duties, electricity duties and motor vehicle tax. In addition, at present, states have retained the power to levy tax on items on which GST is to be levied at a later date. These items include sale or purchase of crude petroleum, high speed diesel, motor spirit, aviation turbine fuel, natural gas.

Additionally, the GST (Compensation to States) Act, 2017 provides for compensation to the states for five years (beginning FY2018), for losses, if any, because of migration to the GST. Such compensation would be calculated using FY2016 revenues as the base year, with a projected nominal growth rate of 14% for the revenue streams subsumed into GST for each state. ICRA would evaluate the relative revenue growth of various state governments after this five-year transition period is completed.

In addition, the GoI is required to transfer a share of its tax collections comprising direct taxes and CGST to the state governments, in accordance with the recommendations of successive FCs. The GoI also provides the states with tied and untied grants.

ICRA's analysis of states' revenue composition entails an assessment of the sources of revenue, namely SOTR, SONTR and Central transfers, diversity of revenue streams, correlation of key revenue streams with trends in the state economy, and flexibility the state has to increase the rate of tax on various items. Such flexibility has declined with the transition to GST, as a common GST rate is applicable to the same item on a pan-India basis, as decided by the GST Council. Accordingly, the states have the leeway to raise additional tax revenue only on those items, which are not subsumed under the GST.

While high SOTR/GSDP ratios are generally a credit positive, ICRA believes that very high tax rates on a narrow economic base or sustained additional resource mobilisation by states may likely have an adverse impact on the competitiveness of the state concerned in the long term. ICRA views favourably the states' effort to improve revenue collections by streamlining the existing administrative and collections systems and boosting e-governance not only by getting arrears cleared, but also by putting in place systems to reduce leakage and avoidance.

The SONTR comprises interest and dividend income from loans and investments in public sector enterprises (PSEs) and user charges or fees for certain services such as irrigation, health, education etc. The SONTR has so far been a relatively low contributor of revenues for most states. Interest and dividend income from loans and investments in PSEs have historically been low. Moreover, low user charges or fees vis-à-vis the cost of provision levied by states for services such as irrigation, health, education results in a high level of indirect subsidies extended by states to end-users, further depressing this revenue stream. Political considerations do not make it easy for state governments to increase user charges/fees.

[2] Central excise duty, additional duties of excise, additional customs duty, special additional customs duty, service tax, certain cesses and surcharges in so far they relate to supply of goods or services.

Table 3.1: Revenue Structure

RATING FACTORS	SOME ANALYTICAL INDICATORS
	Trends and interstate comparisons of:
SOTR: quality and prospects	» Growth rates » Rate structures » Concentration/diversity » SOTR/GSDP, SOTR buoyancy » Individual tax streams/GSDP, tax buoyancy » Per capita levels of SOTR & individual tax streams
SONTR: quality and prospects	» Performance of PSEs » Growth rates » SONTR/GSDP » User charges and fees » Extent of cost coverage

3.2 Expenditure Structure

In the current financial reporting structure, state expenses are broadly segregated into revenue and capital. A critical aspect of analysing a state's expenditure management is assessing its flexibility to curtail expenses in case of an economic downturn or revenue decline. With this perspective, a higher share of capital expenditure normally indicates greater flexibility for curtailment in the immediate term; however, sustained cut-back of capital investments may likely have an adverse impact on the state's infrastructure and hence economic prospects in the long term. Hence, the quality and extent of the existing infrastructure impacts a state's flexibility to defer capital expenditure. Nevertheless, almost all states require substantial infrastructure funding at present. In this context, ICRA assesses states' policies aimed at creating capital assets, encouraging private investments, and creating a conducive investment climate. The trend in public asset creation is seen in tandem with the returns generated by these assets and the state's policies on user charges.

Apart from long-term capital commitments, the most immediate and critical cost concerns for most states are employee costs, various subsidies, support to public sector units, and debt-servicing. ICRA analyses the trends in the salary and pension expenses of states and the extent of linkage between their and Central structures. The analysis also covers states' commitments to grant-in-aid institutions and the status of arrears on payments. Despite steps taken by various states such as curtailing recruitment, abolishing redundant posts, creating low-cost temporary posts, outsourcing activities, and introducing contributory pension schemes, their salary structures remain quite inflexible, and the states' likely pension liabilities, which are not quantified as yet, could be very high.

Several states provide a very high level of explicit subsidies to target beneficiaries in their respective states. While many states have their own welfare schemes, the key subsidies common to a large number of states are related to power and food. The power sector, across states, has been the single largest claimant of subsidies; thus, progress of reforms in this sector is a key factor in ICRA's assessment.

Sustained assistance to inefficient state entities has also been a drain on states' finances. Thus, ICRA also evaluates the progress made by the states concerned in restructuring their state-level enterprises and the possible assistance requirements of such enterprises in future. Also, the framework for and trend in transfers from the state government to local bodies is a key element of ICRA's analysis.

Moreover, the track record of the states available in the public domain, regarding release of various payments to various counterparties, in a timely manner, is considered.

A substantial increase in fiscal transfers in conjunction with the introduction of caps on fiscal deficits under the fiscal responsibility legislations have led to some reduction in the magnitude of fiscal deficits relative to the respective state's GSDP over the past decade. Although interest expenses of the state governments have declined since FY2005, they vary substantially across states.

ICRA continues to assess the likely trends in states' interest costs in the context of their projected funding requirements and the mix of borrowings. Moreover, with an increase in the proportion of untied funds from FY2016 onwards, the quality of total expenditure and fiscal deficits has assumed added importance.

Table 3.2: Expenditure Structure

RATING FACTORS	SOME ANALYTICAL INDICATORS
	Trends and interstate comparisons of:
Expenditure	» **Growth rates** » **Mix** - **Revenue and capital** - **Capital expenditure/total expenditure** - **Sectoral break-up** - **Interest, salaries, pension, subsidies** - **Assignment to local bodies** - **Committed/flexible** » **Payment record**
Appropriation of revenues for large revenue Expenses	» **Revenue expenditure/revenue receipts** » **Interest/revenue receipts** » **Salaries & pension/revenue receipts** » **Subsidies/revenue receipts**
Capital asset creation	» **Capital expenditure/ revenue receipts** » **Capital expenditure and net lending[3]/Total expenditure** » **Capital expenditure and net lending/GSDP** » **Private sector participation; investment climate and policies** » **Returns on investments**

4. Financial Position, Leverage Levels and Liquidity

ICRA's assessment of the trends and outlook for deficits or surpluses hinges on its view on the sustainability of states' efforts to raise revenues on the one hand, and lower expenditure on the other.

ICRA analyses the trends in states' revenue balance, fiscal balance and borrowings, both in absolute terms and in relation with the states' economic output, revenue receipts and SOTR. The analysis also factors in the economic and business cycles affecting states, besides changes in policies.

A balanced or surplus revenue account and a declining or stable level of fiscal deficit is critical for the states to avoid having an unsustainable reliance on debt and conform to the deficit and debt targets imposed by recent FCs, which guide the annual borrowing limits set for the states by the GoI, as well as the states' own fiscal responsibility legislations.

Apart from the levels of deficits and borrowings, ICRA's analysis entails assessment of the mix, maturity profiles and cost of borrowings by states. The annual borrowing limit for state governments is set by the GoI on a gross basis, after adding back principal repayments due in any given year, allowing for refinancing of principal repayments. Nevertheless, an assessment of the maturity profile of states' debt and guarantees is critical to understanding the timing of repayment obligations and the likely liquidity requirements. Bunching-up of repayments may affect the cost at which states are able to refinance their debt.

[3] Gross loans and advances extend to state level entities less recovery

Following the recommendation of the Twelfth Finance Commission (TwFC), external assistance from multilateral agencies is being passed on to the states on a back-to-back basis through the Centre since 2005-06, making it subject to the risk of foreign exchange fluctuation. Nevertheless, the proportion of external debt within state governments' aggregate debt stock is limited at present. In May 2017, the GoI approved policy guidelines to permit financially-sound state government entities in states that meet certain fiscal criteria[4], to avail direct external assistance from bilateral agencies for implementing vital and viable infrastructure projects. Under the new policy, the concerned state government will act as a guarantor to the loan being taken directly by the state government entity, while the GoI provides a counter-guarantee. Accordingly, the external funding would not be counted as a part of the state's annual borrowing limit specified by the GoI. While the extension of guarantees to state entities for availing direct external funding would not raise the state's indebtedness as per the policy guidelines, but ICRA factors in the above in its assessment of a state's overall leverage level.

In addition to borrowings, ICRA analyses states' contingent liabilities to assess the overall leverage levels of states. This analysis is based on a consolidation of off-budget liabilities, including guarantees extended (with or without budgetary provisions) to lenders and suppliers, non-guaranteed liabilities of financially dependent and strategically important state-level entities, and losses accumulated in the books of the state-level entities.

While analysing contingent liabilities, ICRA favourably considers the presence of robust databases and the regular tracking of likely invocation of obligations, as well as maintenance, if any, of sinking funds[5]. The emphasis on monitoring follows directly from the fact that inefficient systems have in the past resulted in the delayed servicing of a number of guaranteed borrowings in certain states. In addition, there have been instances of guarantees not being invoked on account of the considerable bargaining power wielded by state governments over the lenders. Therefore, the states' willingness to meet contractual debt and guarantee obligations, as assessed from their track record in this regard, is an important factor in ICRA's credit analysis.

A state's ability to forecast and manage cash flows plays a critical role in ensuring timely debt servicing. Various revenue streams tend to follow different inflow patterns over the course of each fiscal year. For instance, the GoI typically transfers around 7% of its budget estimate (BE) of tax devolution to the state governments on a monthly basis from the start of each fiscal year. In order to synchronise the taxes devolved to the state government with the GoI's actual tax collections, adjustments are meant to be undertaken on a quarterly basis, from FY2017 onwards. However, the timing of grants from the GoI to each state government is somewhat less predictable. Over the past decade, some state governments have built up substantial investments in Treasury bills, which help tide over liquidity mismatches.

Assuming a certain level of reliability of systems for tracking contractual liabilities, an "easy" response to liquidity strain is to delay payments to contractors and employees. Moreover, short-term mismatches are usually (though not always) met by utilising the ways and means advances (WMA) and overdrafts (OD) provided by the Reserve Bank of India to the states. Recurring instances of delayed contracted payments and sustained utilisation of WMA and OD are, in ICRA's view, indicators of a liquidity strain, or inappropriate cash flow management—both pointing to inferior credit quality.

[4] To be considered eligible, a state government must have a debt-to-GSDP ratio of less than or equal to 25% in T-1 and a fiscal deficit of less than 3% of GSDP in T-1 and in the budget estimates of T, where T is the year in which the external borrowing is being undertaken. In addition, the extension of a guarantee by a state government would be contingent on the availability of space as per the fiscal responsibility legislation of the state extending the guarantee. Moreover, only those state government entities that are financially sound, have an average annual revenue of at least Rs. 1,000 crore, a positive net worth and an average annual profit of at least Rs. 500 crore, each for the past three years, would be eligible for such borrowing. Also, the external financing would be permitted only for those major projects that have an estimated cost of at least Rs. 5,000 crore and generate regular revenues that are sufficient to cover the entire debt servicing of the external loan. Moreover, the revenues from such projects would be escrowed to service the debt.

[5] Such as Guarantee Redemption Fund, the balances of which are intended to be utilised for meeting the payment obligations arising out of the guarantees extended by the respective State Government. Additionally, some States have created Consolidated Sinking Funds, which provide cushions for amortisation of the market borrowings of State Governments.

Table 4: Financial Position, Borrowings and Liquidity

RATING FACTORS	SOME ANALYTICAL INDICATORS
	Trends and interstate comparisons of:
Fiscal imbalances	» **Revenue balance/GSDP, fiscal balance[6]/GSDP, change in debt stock/GSDP** » **Revenue balance/fiscal balance**
Borrowings & other liabilities	» **Sources, cost, maturity profiles** » **Debt[7]/revenue receipts, D + G/revenue receipts** » **Debt/SOTR, D + G/SOTR** » **Debt/GSDP, D + G/GSDP**
Liquidity	» **Payment record (lenders; employees)** » **WMA & OD utilisation levels** » **Fiscal Deficit/change in debt stock**

Note: D+G: Debt + Guarantees

5. Reform Efforts

Over the past two decades, the commitment to and success of reforms has varied considerably across states. ICRA broadly classifies reforms as policy-oriented, institutional and administrative. The objective of reforms is essentially to advance the human development indices, add to economic wealth, and improve the fiscal position of the state concerned. ICRA closely tracks the efforts made by states to identify areas needing reforms, besides examining the reform map drawn up and the extent of success achieved. For instance, in the case of power sector reforms, most reform plans involve financial restructuring, tariff rationalisation, and subsidy reduction (in the tariff structure), apart from improvement in the quality and reliability of supply.

ICRA's assessment entails an evaluation of:

- » existing inefficiencies and accumulated liabilities in the system
- » targets and road map for improvement
- » extent of progress against the targets and timelines set
- » impact of the reforms on the state's finances—achieved, targeted, and likely

ICRA's assessment of states' reform efforts gets manifested in its projections and forecasts for the states concerned, and thus becomes a critical parameter for credit rating. Moreover, the ability and willingness of incumbent governments to balance political and electoral compulsions against fiscal prudence is a critical factor influencing the health of state finances.

6. Quality of Reporting and Monitoring

While the level of transparency and disclosure of state finances, plans and policies has improved over the past decade, the lack of timeliness of reporting remains an impediment to analysis.

The accuracy of the states' budget remains relatively low, as is evident from the variance observed among the BE, RE and actuals. Of great concern is the material variance between the RE and accounts for a number of states. Given that the accounts figures are available nearly a year after the close of the fiscal year, ICRA is forced to base its assessment for any year on the RE (marking them up or down in

[6] Revenue Balance: Revenue receipts less revenue expenditure; Fiscal Balance: Revenue Balance less net capital expenditure and net lending
[7] Internal Debt; Loans from the Centre; Provident Fund etc.

qualitative terms on the basis of discussions with the states concerned as well as its own analysis of accuracy of the state's estimate based on past trends).

In addition, the cash-based accounting method constrains ICRA's ability to analyse some critical variables. For instance, a consolidated figure for current liabilities is usually not available, and ICRA relies on discussions to form an opinion on this. Similarly, the defined benefit system for pension payments for older employees and the absence of actuarial assessment of future liabilities imply that a very significant liability cannot be quantified at this juncture by most states.

Also, even though there is fair standardisation of accounting practices, and the reports of the Comptroller and Auditor General do highlight aberrant entries, the existing systems allow for double entries that distort comparison, for instance, the contra-entries for interest income or lottery flows. Therefore, various adjustments are made by ICRA to aid its analysis.

A significant gap in information is the absence of reliable centralised data on the extent, the repayment terms, and the assessed need for funding support of contingent liabilities (including details of guarantees and letters of comfort) of certain state governments. In the absence of these, ICRA uses its discussions with various Government officials and state entities to fill in the gaps in information.

Summing Up

ICRA's credit ratings are a symbolic representation of its current opinion on the relative credit risk associated with the state government being rated. ICRA's rating of a state government involves a detailed assessment of factors such as the composition of revenues, extent of reliance on states' own revenues, growth of various components of revenues, composition and growth of revenue and capital expenditure, revenue and fiscal balances and the level of debt outstanding and guarantees extended by a state government. ICRA also evaluates the economic strength, demographic trends and the socioeconomic infrastructure of a state as they have an important bearing on the long-term economic output of the state. Moreover, ICRA considers the reform efforts and quality of reporting and monitoring, while assessing the credit quality of a state government. This methodology broadly highlights the quantitative and qualitative risk factors that are likely to influence the rating outcomes. It should not be treated as an exhaustive discussion of all the factors considered while assigning a credit rating but a broad framework to help stakeholders understand the approach to the same.

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