Infrastructure Ratings

Expected Loss (EL) rating scale

Infrastructure: Now an evolved space

Evolved concession agreements

Equitable distribution of risks amongst government and private entities. For instance, in HAM roads

- 40% project cost borne by NHAI
- Compensation payment for at least 80% of right of way a prerequisite for appointed date [1]

- Inflation and interest rate adjusted payouts mitigate these risks to a large extent

Government sponsorship

Central Government sponsorship across infra projects improves investor confidence

- Airports Authority of India holds equity stake in privatized airports

- National Highways Authority of India (NHAI) funds 40% of project cost in HAM road projects

Central counterparties

Central counterparties to infra projects ensure cash flow stability and timeliness

- NHAI, SECI, NTPC and PGCIL are some of the key counterparties that have ensured robust performance and growth of the sector

InvITs

Introduction of infrastructure investment trusts (InvITs) has provided avenue for asset recycling

- Raised Rs 2 lakh crore debt so far; expected to play a critical role in success of National Monetisation Pipeline

- Cashflow predictability enhanced with diversified pool of assets

Stronger insolvency resolution regime

Introduction of Insolvency and Bankruptcy Code (IBC) framework has brought in visibility of recovery from stressed projects

Date from which construction progress milestones are measured
NHAI – National Highways Authority of India

SECI – Solar Energy Corporation of India
PGCIL – Power Grid Corporation of India Limited

Expected Loss

Positive developments in infra sector – better captured by EL rating

Improved probability of default (PD) of infra sector driven by:

- Evolved concession agreements

- Presence of central counterparties

- Structural features of InvITs

Lower loss given default (LGD) driven by:

- Faster resolutions because of IBC and Pre-IBC platforms

- Higher demand for infra assets from foreign investors, InvITs

The improvement in PD and LGD for infrastructure assets can be captured through EL rating

Improved PD rating

Lower expected LGD

Captured by EL Rating

Median PD rating of infrastructure assets in CRISIL Ratings' portfolio has improved from 'BBB' in 2017 to 'A+' in 2023

The LGD for stressed infrastructure assets has also shown positive traction and is expected to improve further

EL rating can be used as an additional tool, along with PD rating, to price the risk for infrastructure assets more efficiently

EL rating – the new scale for rating infrastructure assets

Conceptualized with the backing of Ministry of Finance (MoF) in 2016 and recognized by regulators - SEBI, IRDAI and PFRDA

The expected loss rating reflects CRISIL Ratings' opinion on the expected loss that may be incurred over the life of a debt instrument.

The two main components of EL are 1) Probability of default (PD) and Loss given default (LGD)

Expected Loss	=	Probability of default (PD)	X	Loss given default (LGD)

The table below gives the rating symbols, definitions, and the range of EL that each symbol conveys.

Rating	Definition	Indicative EL Ranges
CRISIL EL 1	Instruments rated 'EL 1' are considered to have the lowest expected loss, over the life of the instrument.	<= 1.25%
CRISIL EL 2	Instruments rated 'EL 2' are considered to have very low expected loss, over the life of the instrument.	1.25% < X <= 3.5%
CRISIL EL 3	Instruments rated 'EL 3' are considered to have low expected loss, over the life of the instrument.	3.5% < X <= 7.5%
CRISIL EL 4	Instruments rated 'EL 4' are considered to have moderate expected loss, over the life of the instrument.	7.5% < X <= 15%
CRISIL EL 5	Instruments rated 'EL 5' are considered to have high expected loss, over the life of the instrument.	15% < X <= 25%
CRISIL EL 6	Instruments rated 'EL 6' are considered to have very high expected loss, over the life of the instrument.	25% < X <= 35%
CRISIL EL 7	Instruments rated 'EL 7' are considered to have highest expected loss, over the life of the instrument.	>35%

Reading the CRISIL Ratings EL scale
Rating of "EL1" would mean that over the life of the instrument being rated, the average loss is expected to be less than 1.25% of the total rated quantum

EL rating scale for infrastructure projects

Roads (HAM, Toll, Annuity)

Transmission assets

Solar and wind assets

Ware houses

Data centers

Infra companies

Airport, Ports

EL RATING

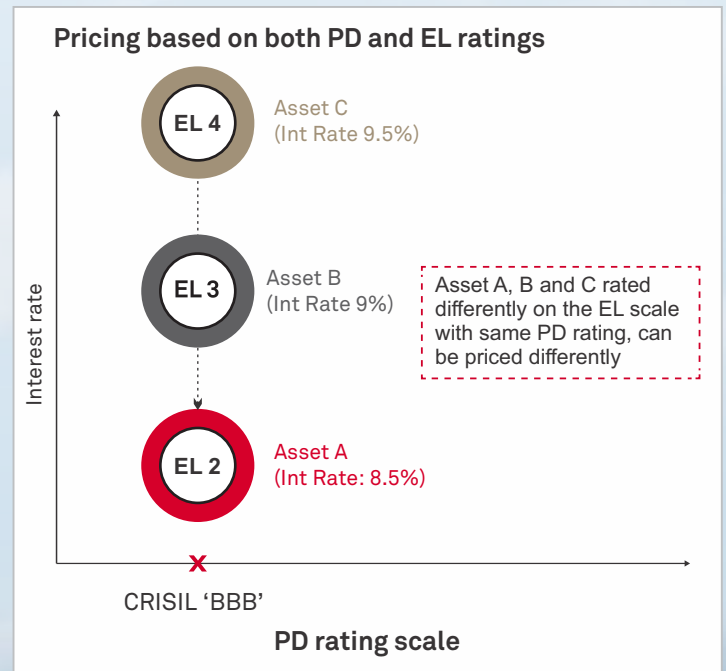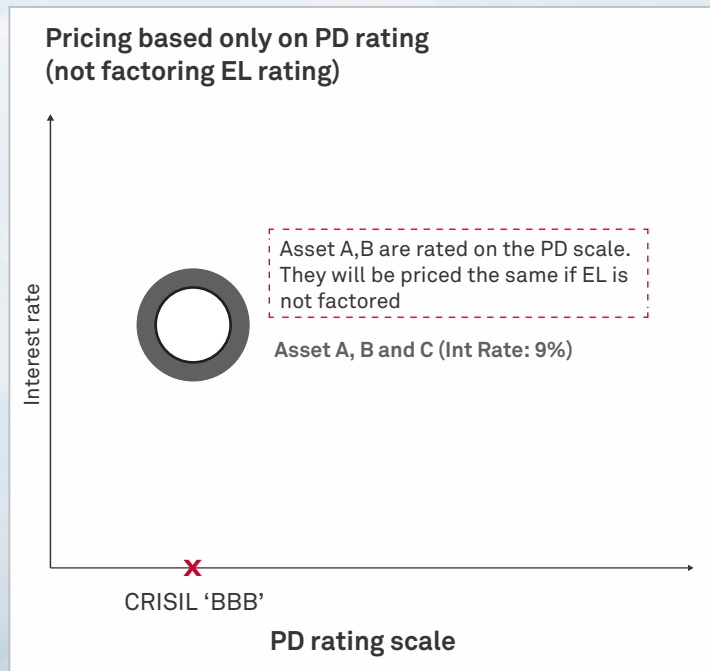**EL rating can be used for infrastructure assets**

Key features of EL rating

- EL rating is provided for an instrument; Expected loss can vary for different instruments of the same issuer

- EL rating can be evaluated for debt instruments of operational as well as under construction assets; and for those issued by SPVs and corporates executing multiple infrastructure projects

- Instrumental in highlighting structural features of infrastructure assets that enable relatively better recovery prospects (lower LGD)

EL rating can help differentiate instruments with similar PD rating

- EL rating can be used to differentiate pricing of debt instruments rated similarly on the PD scale as LGD may vary significantly

- EL rating, when used along with PD rating, conveys additional information about the overall credit worthiness of the issuer.

Pricing based only on PD rating (not factoring EL rating)

Asset A,B are rated on the PD scale. They will be priced the same if EL is not factored

Asset A, B and C (Int Rate: 9%)

Interest rate

CRISIL 'BBB'

PD rating scale

Pricing based on both PD and EL ratings

EL 4 Asset C (Int Rate 9.5%)

EL 3 Asset B (Int Rate 9%)

Asset A, B and C rated differently on the EL scale with same PD rating, can be priced differently

EL 2 Asset A (Int Rate: 8.5%)

Interest rate

CRISIL 'BBB'

PD rating scale

Benefits of EL ratings
to investors and issuers

Banks and financial institutions

- Helps lenders **price the risk** more efficiently
- Enables the lenders to remain **competitive**

Issuers

- Helps raise capital at **competitive cost.**
- Highlights **low risk nature of infra** assets.

Patient capital investors

- Enabling regulations# in place for insurance and pension funds to use EL rating.
- Can provide **access to a wider pool of long-tenure** assets of high quality

Mutual funds

- **Safety net of EL** ensures calibrated risk-taking.
- Helps to **diversify** into infrastructure sector.

Investments in 'A' rated instruments issued by infrastructure companies are recognized as approved investments, provided the instrument has an 'EL 1' rating.
IRDAI circular : Credit Rating – Applicable for Infrastructure Investments dated 5th Jan 2021
PFRDA circular: Investments Guidelines for NPS schemes dated July 20, 2021

CRISIL Ratings expertise in EL ratings

CRISIL Ratings has evaluated EL ratings for ~100 pilot cases

Assessing PD Ratings	LGD Evaluation
Three decades of rating experience	Provided RP ratings for ~150 entities
More than 30,000 companies rated	Rated security receipts (SRs) of over Rs 30,000 crore issued by over 450 trusts
Best in class quality metrics	Evaluated LGD ratings for close to 40 cases

Download
Rating Rationale

Scan the QR code
to view Ratings Criteria

Your
One Stop Solution
for Credit Intelligence