



CareEdge Global Government Related Entity Rating Methodology

August 2025

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A. Introduction

Government-Related Entities (GREs) are organisations in which sovereign or sub-sovereign governments hold direct or indirect control or influence. GREs vary in size, sector, may operate in the commercial or political sector and may be structured in multiple forms such as companies, authorities, or other forms. Governments play a pivotal role in guiding these entities, which often serve strategic or public policy objectives.

CareEdge Global IFSC Limited's (CareEdge Global) GRE Rating Methodology for assessing GREs outlines the framework, key factors, & scoring approach used in evaluating their creditworthiness. A central aspect of the methodology is assessing the strength of the linkage between the government and the GRE, as well as the criticality of the GRE. Based on this assessment, the GRE's rating may be notched up or equated with the rating of the government.

This methodology is applied in addition to the sector-specific criteria and any other relevant criteria applicable to the specific case of the entity being rated.

B. Definition and Scope

An entity is classified as a GRE under this methodology if it meets any of the following criteria:

- A National, Regional or Local level Government holds a direct or indirect economic interest or control and can influence the entity's decision-making process.
- The entity has a special public mandate, holds strategic importance, or is registered under a special act, even if the government is not a shareholder.

Entities with multiple government owners are also considered GREs under this methodology, provided a single or primary government owner responsible for extending support can be clearly identified.

C. Extraordinary Support

GREs often receive support from the government, which can be categorised into two types:

1) Regular/Ongoing Support

This refers to consistent assistance that is part of the entity's normal operations and not specifically aimed at preventing default such as any ongoing or budgeted support. Such support is incorporated into the GRE's Standalone Credit Profile (SCP), reflecting its reliability and continuity.

2) Extraordinary Support

This type of support involves a clear expectation of timely government intervention, typically during financial distress or to prevent default. It may be provided through:

- An irregular or temporary cash injection;
- Measures that enhance the GRE's access to financing;
- Contractual protections (guarantees etc.)

Importantly, such interventions can be direct -- by the government itself -- or indirectly through third parties under government influence. The methodology aims to assess the likelihood of Extraordinary Support and applies to all the GREs.

D. Overall Framework

CareEdge Global's evaluation begins with determining whether an entity qualifies as a GRE, as defined above. A key aspect of the evaluation is understanding how indispensable the GRE is to the government and the extent to which it operates or doesn't operate as an extension of the government functions.

To assess this, the methodology is built around two core pillars: **Criticality** and **Integration**, which together provide a comprehensive view of the GRE's importance and its relationship with the government.

1) Criticality

This pillar assesses the GRE's significance based on

- Its role in government public policy or strategic sectors
- The potential impact on the government in case of default
- Its socio-political relevance

2) Integration

This pillar assesses the strength and depth of the GRE's linkage with the government including:

- Degree of government ownership
- Level of operational and financial oversight exercised by the government
- Historical track record of government support
- Public perception of the GRE as a part of the government

The evaluation of these two pillars helps determine the extent of expected Extraordinary Support on a timely basis which guides the decision on whether the GRE's rating should be

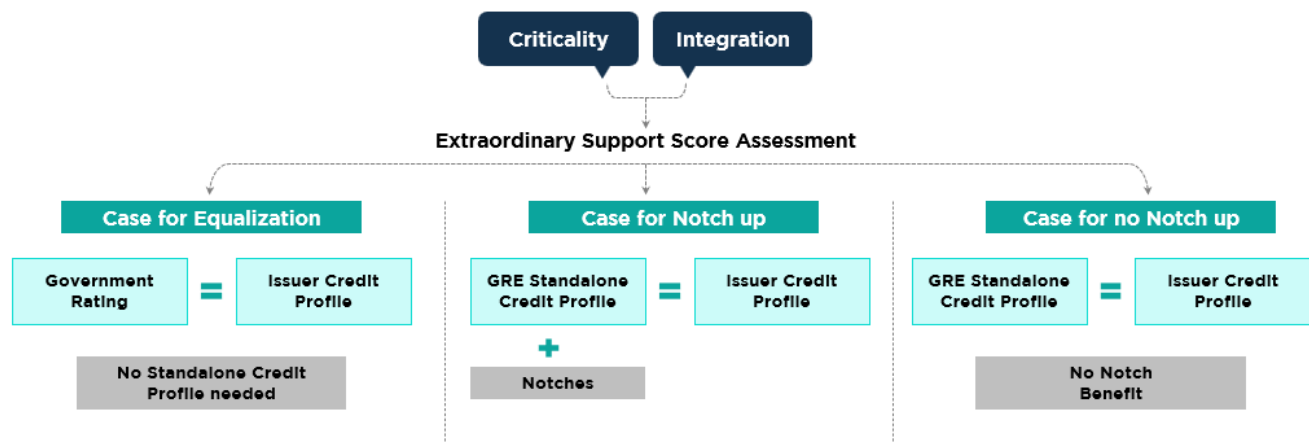
- Equalised with the government rating
- Notched up
- Without any Notch up

Detailed explanations of the Criticality and Integration pillars are provided in Section E.

Rating Implications Based on Extraordinary Support Assessment

- A **Strong** Extraordinary Support results in the GRE's Issuer Credit Profile (ICP) being equalised with the government rating (Refer to Section G).
- A **Medium** Extraordinary Support may lead to an uplift from the GRE's SCP which is determined using sector-specific methodologies.
- In such cases, the ICP of the GRE is calculated as the SCP plus a certain number of notches, based on the guidelines in Section J.
- Assessment of the Case for Notch Up is detailed in Section H.
- A **Weak** Extraordinary Support indicates no uplift as explained in Section I.

The following chart illustrates the Evaluation Framework used by CareEdge Global for assessing GREs:



E. Pillar-Wise Rating Factors

1. Criticality

Criticality measures the importance of a GRE based on its role in public policy of the government or the GRE's presence in strategic sectors considered by the government, the severity of impact on the government if it defaults, and the number of employees of the GRE and therefore its political significance.

These factors are essential for assessing the Criticality pillar as they together capture the scope of an entity's importance to the government.

a) Public Policy or Strategic Sector

The Public Policy or Strategic Sector factor evaluates the extent to which a government entity contributes to critical national functions, public services, or strategic priorities.

- Entities operating essential public service or strategic sector—such as infrastructure, energy, or defence—with no viable alternatives, making it irreplaceable in fulfilling a public policy mandate are assessed as of **Very High** in critical importance.

- Entities providing very important services with limited substitution options or involvement in a key sector with few alternatives are assessed as **High**.
- Entities delivering important services where alternatives exist or operating in sectors of lower policy relevance with a few active private players are assessed as **Moderate**.
- Entities in competitive sectors with many substitutes and no significant policy relevance are assessed as **Low**.

b) Implications of Default

The Implications of Default factor assesses the potential consequences to the government and the economy if a government entity were to fail or default.

- When an entity's failure could trigger a systemic collapse or widespread crisis, severely disrupting essential services, financial stability, or national operations, it is assessed as of **Very High** in critical importance.
- A high impact, where the default would disrupt a few sectors, is assessed as **High**.
- A moderate impact, with manageable but noticeable consequences, will be assessed as **Moderate**.
- When the entity's default would have minimal effect and be limited in scope, it will be assessed as **Low**.

Moreover, GREs are assessed on the higher side in this parameter if these entities borrow significantly from foreign multilateral institutions and their default would result in increased borrowing costs for the government.

c) Employment / Political Profile

The Employment / Political Profile factor evaluates the GRE's significance by considering both the size of its workforce and its level of political importance.

- Entities with a very large employee base and critical interactions with multiple key stakeholders—such as regulatory authorities, unions, creditors, multilateral institutions, the general public, and suppliers—reflecting a substantial socio-economic impact and high political sensitivity domestically and internationally, are assessed as of **Very High** in critical importance.
- Entities with a large workforce and strong ties to key stakeholders, denoting significant but not as critical as entities rated at the highest level are assessed as **High**.
- Entities with a moderate employee base and limited engagement with key stakeholders are assessed as **Moderate**, indicating moderate political significance.
- Entities with minimal political relevance and limited stakeholder engagement, along with a small workforce, indicating the low socio-political impact, will be assessed as **Low**.

2. Integration

Integration measures the strength and depth of a GRE's linkage with the government, reflecting how closely aligned and connected the entity is to the government based on the degree of ownership, operational and financial oversight, likelihood of support and past track record, and public perception.

These factors ensure a comprehensive evaluation of an entity's integration with the government.

a) Degree of ownership

The Degree of Ownership factor measures the extent of government ownership and control over a GRE, reflecting its legal and financial ties to the government.

- Entities that are statutory agencies or have special legal status, are government-owned by more than equal to 75%, and have no plans for privatisation in the medium term, indicating strong and stable government ownership, assessed as having **Very High** in integration.
- Entities with 50-75% government ownership and a clear mandate, where some privatisation has occurred or might be considered over the medium term, are still showing substantial government control, assessed as **High**.
- Government's ownership ranges between 26-50%, often accompanied by legal agreements or planned privatisation over the short term, signaling a transitional phase with changing government involvement but still significant ownership as on date, assessed as **Moderate**.
- Entities with less than 26% ownership, weak legal links, or ongoing privatisation leading to a notable reduction in government stake, indicating limited ownership and control, are assessed as **Low**.

b) Operational and Financial Oversight

The Operational and Financial Oversight factor assesses the level of government control and influence over a GRE's day-to-day operations and financial decisions.

- When the government exercises direct and comprehensive control, including approval authority over budgets and operations, supported by robust governance, monitoring, and control mechanisms that ensure clear and active oversight, it is assessed as having **Very High** in integration.
- A high degree of government control—either direct or indirect—with effective governance and monitoring processes where the government influences key decisions, although some operational tasks may be delegated and assessed as **High**.
- Moderate control and influence, typically exerted through indirect means or partial governance frameworks, allowing the GRE a degree of operational independence assessed as **Moderate**.

- Limited government oversight, with minimal control and influence over an entity's operations and finances, is assessed as **Low**.

c) Expectation of timely support and past track record

The Expectation of timely support and past track record factor evaluates the government's history and commitment to providing financial or policy support to a GRE and the likelihood of the same in the future.

- When the GRE benefits from a legally binding or clearly documented government guarantee covering the full or a majority of its debt, or where there is a strong, explicit, and ongoing articulation of government support backed by reliable fiscal commitment, assessed as having **Very High** in integration.
- Entities with a consistent track record of receiving equity infusions, cash injections, or subsidies, supported by strong official statements affirming the government's commitment, indicating a **high** expectation of timely assistance.
- GRE that has received support sporadically or on an ad-hoc basis, suggesting some precedent for aid, but uncertainty about the consistency or extent of future support will receive a **moderate** assessment.
- When there is no record of past financial or policy support and limited expectation of future assistance, it is assessed as **Low**.

d) Public Perception

Public perception of GRE's integration with the government reflects how closely the public, markets, and other key stakeholders view the GRE as part of the government.

- A very strong perception of the GRE as an extension of the government, often reinforced by regular media coverage and public discourse, is assessed as having **Very High** in integration.
- Strong perception, where the GRE is generally seen as government-linked, due to its affiliation with the government or its projects assessed as **High**.
- A moderate perception, with mixed views on whether the entity would receive government support, influenced by limited public visibility, was assessed as **Moderate**.
- A weak perception, where the GRE has minimal public or market expectation of government backing, assessed as **Low**.

F. Modifier

Possible Limitation of Support

Legal or policy restrictions, such as competition rules or requirements for parliamentary approval, can delay, limit, or prohibit extraordinary government support to the GRE. Additionally, adverse government interference—like imposing special taxes, asset stripping, or forced mergers—can divert

GRE resources away from its core functions, weakening its financial strength and operational independence.

If such legal, policy, or intervention-related barriers are present, a deduction is applied to the Extraordinary Support assessment to reflect the reduced likelihood, timeliness, and effectiveness of government support.

G. Case for Equalisation of GRE with Government

Equalisation of GRE with the Government which is represented as follows:

Level	Parameter	Extraordinary Support	Notching guideline
Strong	An entity is a non-severable arm of government	Very High	Equalize

In certain cases, even in cases where the Extraordinary Support is not Very High, we may consider a) Equalization if there is a clearly documented government guarantee covering timely and full support for the company's debt service obligations; b) There is very high criticality of the GRE to the government necessitating full support and the strength of such support is deemed sufficiently robust or almost certain.

Under these circumstances, it is highly likely that the government would intervene timely to prevent any distress or default by the GRE.

H. Case for Notch Up

Notch Up to GRE is represented as follows:

Level	Parameter	Extraordinary Support	Notching guideline
Medium	Have legal and financial linkages with some extent of operational autonomy	High	Possibility of uplift notches

I. Case for No Notch up

No benefit of Notch Up to GRE is represented as follows:

Level	Parameter	Extraordinary Support	Notching guideline
Weak	Have very low legal and financial linkages with the government	Low	No notch uplift

J. Final Rating

If Extraordinary Support is assessed as High, the ICP of the GRE is the SCP of the GRE plus a certain number of notches of uplift. The number of notches of uplift is dependent on the extent of Extraordinary Support. However, if the Extraordinary Support is Low, then no notch-up benefit will be provided.

K. Capping of GRE rating

We do not envisage GRE ICP to be greater than the government rating. This is because of GRE's integration to the government.

However, in exceptional cases, the GRE ICP may be greater than the government rating if all the following conditions are met:

- i. GRE's SCP is higher than the government rating.
- ii. GRE's sources of income are different from the government; typically, GREs with significant foreign operations resulting in foreign currency income and foreign currency assets.
- iii. The government is not likely to divert the GRE resources away from the core operations of the GRE.

In all other cases, the GRE ICP is capped at the government rating.

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CIN-U66190GJ2024PLC151103

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